



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

CONTINUATION INQUIRY 488

**INQUIRY INTO THE CONTINUATION OF ANTI-DUMPING
MEASURES APPLYING TO PREPARED OR PRESERVED
TOMATOES**

EXPORTED FROM ITALY

VISIT REPORT - AUSTRALIAN INDUSTRY

SPC ARDMONA OPERATIONS LIMITED

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

November 2018

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ABBREVIATIONS

the Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
ABF	Australian Border Force
the Commission	the Anti-Dumping Commission
the Commissioner	the Commissioner of the Anti-Dumping Commission
CTMS	cost to make and sell
the goods	the goods the subject of the measures
IDD	interim dumping duty
injury analysis period	from 1 July 2013
inquiry period	1 July 2017 to 30 June 2018
NIP	non-injurious price
SPCA	SPC Ardmona Operations Limited
USP	unsuppressed selling price

1 BACKGROUND

On 23 April 2018, a notice¹ was published on the Anti-Dumping Commission (the Commission) website, in accordance with subsection 269ZHB(1) of the *Customs Act 1901* (the Act),² inviting certain persons to apply to the Commissioner of the Anti-Dumping Commission (the Commissioner) for a continuation of anti-dumping measures applying to certain prepared or preserved tomatoes (the goods) exported to Australia from Italy.

On 22 June 2018, SPC Ardmona Operations Limited (SPCA), an Australian producer of prepared or preserved tomatoes, lodged an application for the continuation of the measures, which was within the applicable legislative timeframes.³

Following consideration of the application, a continuation inquiry was initiated and a public notice⁴ was published on 16 July 2018 in respect of the goods exported to Australia from Italy.

The inquiry period is 1 July 2017 to 30 June 2018 (inquiry period).

¹ Anti-Dumping Notice (ADN) No. 2018/64 refers

² References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

³ In accordance with subsection 269ZHB(1)(b).

⁴ ADN No. 2018/106.

2 THE AUSTRALIAN INDUSTRY AND LIKE GOODS

2.1 The goods

The goods the subject of the anti-dumping measures (the goods) are:

Tomatoes, whether 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. The goods excluded from this definition are pastes, purees, sauces, pasta sauces, juices and sundried tomatoes.

The goods are currently classified to subheading 2002.10.00 (statistical code 60) in Schedule 3 of the *Customs Tariff Act 1995*.

2.2 The Australian industry

During the original investigation and at the time of the most recent review of the relevant variable factors, SPCA was the sole manufacturer of prepared or preserved tomatoes under 1.14 litres in Australia.

The Commission is aware that there is another Australian supplier of an Australian-made private-label tinned tomatoes product.⁵ The Commission is separately examining the arrangements for the production and supply of that product. However, SPCA remains the largest manufacturer of prepared or preserved tomatoes under 1.14 litres in Australia.

2.3 Model matching criteria

For the purpose of model matching, the verification team considers that it is appropriate to model match based on:

- tomato type (i.e. ordinary tomatoes, organic tomatoes);
- the processing applied to the tomato (i.e. peeled, chopped); and
- net can size (i.e. 400 grams or 800 grams).

2.4 Preliminary assessment

The verification team is satisfied that there are like goods wholly manufactured in Australia by SPCA, and that there is therefore an Australian industry producing like goods.

⁵ 'Woolworths dumps SPC Ardmona tomatoes', <https://www.smh.com.au/business/companies/woolworths-dumps-spc-ardmona-tomatoes-20161108-gskmbd.html>

3 VERIFICATION OF SALES

3.1 Verification of sales data to financial statements

The verification team verified the completeness and relevance of SPCA's sales listing by reconciling it to management reports and audited financial statements in accordance with ADN No. 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team did not find any issues with the verification of the sales listing to management reports and audited financial statements.

3.2 Verification of sales data to source documents

The verification team verified the accuracy of SPCA's sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team did not find any issues with the verification of the sales listing to source documents.

3.3 Related party customers

The verification team identified sales made by SPCA to related parties. The verification team has reviewed these sales and found the volumes to be immaterial.

3.4 Imports by applicant

SPCA advised that it did not import tomato products during the inquiry period. The Commission examined the Australian Border Force (ABF) import database and confirmed that no products matching the goods description were imported by SPCA during the inquiry period.

3.5 Export sales

SPCA advised that it did not make export sales of tomato products during the inquiry period.

3.6 Sales – conclusion

The verification team considers that SPCA's sales listing is a reasonably complete, relevant and accurate reflection of the sales of the goods during the period from 1 July 2017 to 30 June 2018.

Accordingly, the verification team considers SPCA's sales data is suitable for analysing the economic performance of its tomatoes operations during the inquiry period.

4 VERIFICATION OF COST TO MAKE AND SELL

4.1 Verification of costs to financial statements

The verification team verified the completeness and relevance of SPCA's cost data by reconciling it to management reports and audited financial statements in accordance with ADN No. 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team identified an issue with the treatment of manufacturing overheads.

4.1.1 Treatment of manufacturing overheads

SPCA has changed its accounting treatment of manufacturing overheads from 1 January 2018. Due to this affecting half of the inquiry period, SPCA revised its manufacturing overheads from 1 January to 30 June 2018 to reflect their historical treatment and enable a consistent comparison. The *Appendix A6* spreadsheet has been revised to reflect this and can be seen at **Confidential Appendix 1**.

4.2 Verification of costs to source documents

The verification team verified the accuracy of SPCA's cost data by reconciling it to source documents in accordance with ADN No. 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team did not find any issues with the verification of the costs data to source documents.

4.3 Related party suppliers

The verification team did not identify any suppliers that might be related to SPCA.

4.4 Costs to make and sell – conclusion

The verification team considers that SPCA's cost to make and sell (CTMS) data in the revised *Appendix A6* is a reasonably complete, relevant and accurate reflection of the actual costs to manufacture and sell tomatoes during the inquiry period.

The verification team compared the verified costs for the inquiry period with the costs provided in the *Appendix A6* for the period 1 July 2013 to 30 June 2017 on a bi-annual basis and is satisfied these costs are suitable for analysing the economic performance of SPCA's tomatoes operations during the period from 1 July 2013 (injury analysis period).

5 ECONOMIC CONDITION OF SPCA

5.1 Commencement of measures and inquiry period

On 16 April 2014, anti-dumping measures in the form of interim dumping duties (IDD) were imposed on prepared or preserved tomatoes exported from Italy (except by Feger Di Gerardo Ferraioli S.p.A. and La Doria S.p.A.).

On 5 May 2017, 16 February 2018 and 20 February 2018, IDD rates and calculation methods were varied following a review of measures⁶ and a concurrent Anti-Dumping Review Panel review.⁷

The verification team has examined the Australian market and the economic condition of SPCA (the largest member of the Australian industry) during the injury analysis period for the purposes of the following analysis.

5.2 Approach to analysis

The analysis detailed in this chapter is based on verified financial information submitted by SPCA. The verification team has also relied on importation data obtained from the Australian Border Force (ABF) database.

The verification team's preliminary assessment of the Australian market and the economic condition of the Australian industry is outlined in **Confidential Appendix 2**.

5.3 General market conditions

The Australian market for prepared or preserved tomatoes is supplied by SPCA, another Australian supplier, goods subject to measures from the subject country, goods not subject to measures from the subject country and other countries.

The main market for the goods is the retail sector through supermarket chains.

5.4 Volume trend

The following analysis is based on data provided by SPCA as well as data obtained from the ABF database.

5.4.1 Sales volume

The following graph illustrates SPCA's sales volumes for prepared or preserved tomatoes in the Australian market.

⁶ [Anti-Dumping Commission Report Nos. 349 and 354](#) refers.

⁷ Anti-Dumping Review Panel [Report No. 56](#) refers.

PUBLIC RECORD

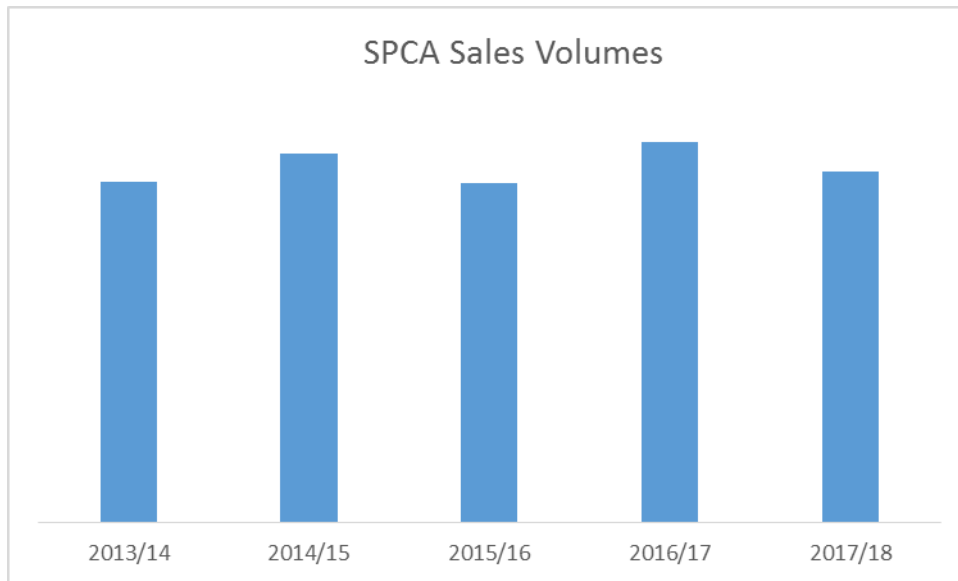


Figure 1 – SPCA's domestic sales volume of prepared or preserved tomatoes

5.4.2 Market share

The following graph illustrates shares held in the Australian market:

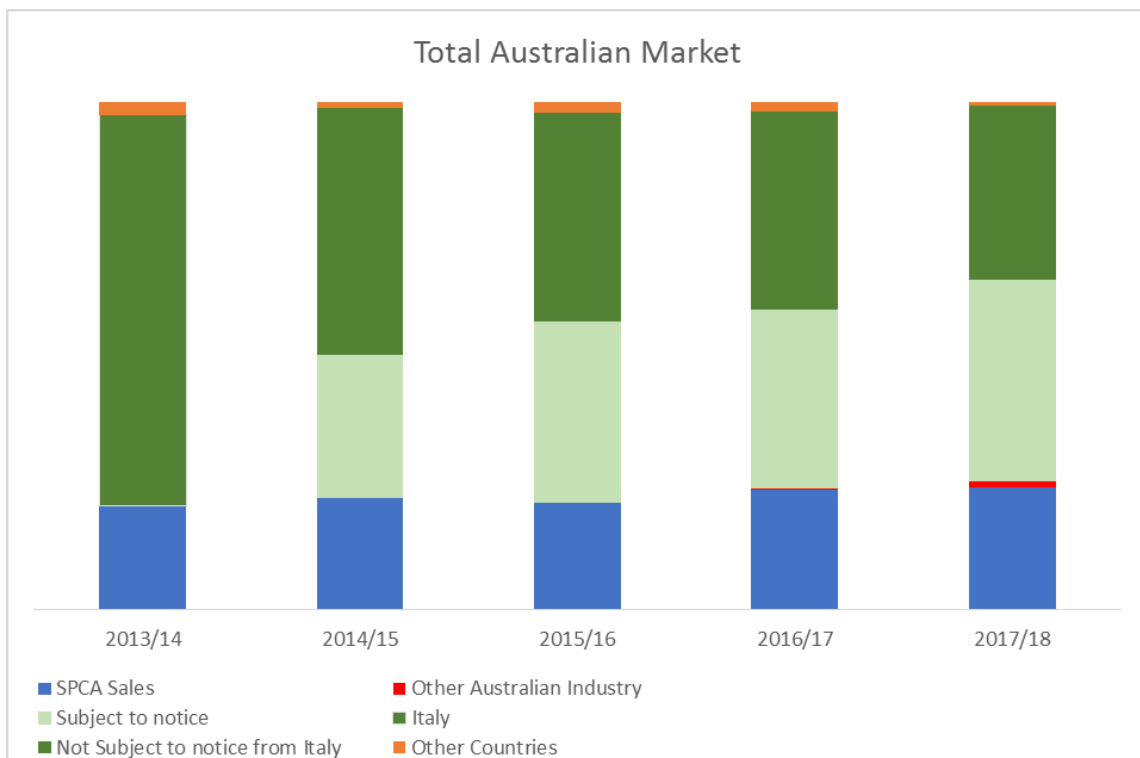


Figure 2 – Australian market share

5.5 Price effects

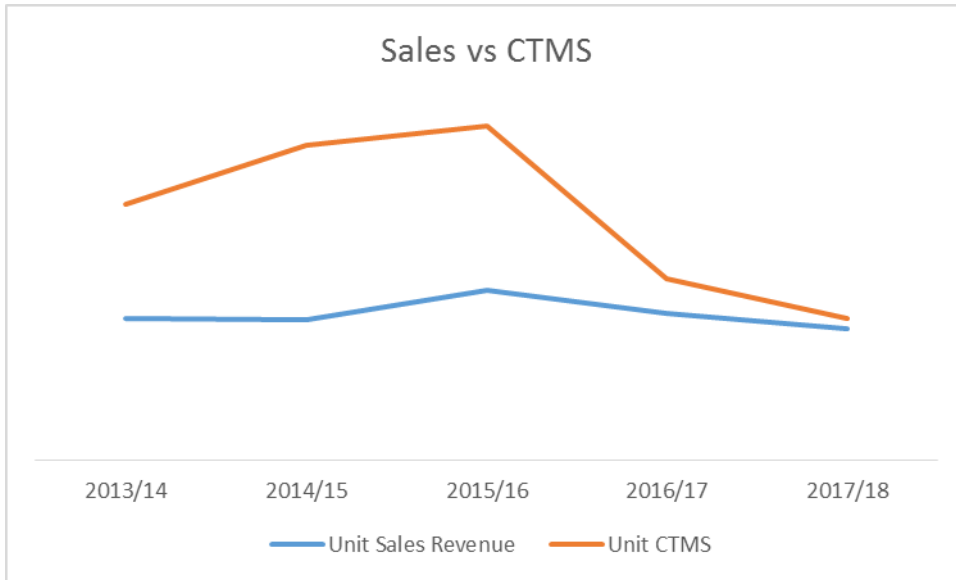


Figure 3 – SPCA’s unit net revenue and cost

As can be observed above, SPCA’s unit revenue is stable, however its CTMS has decreased significantly from 2016-17. The verification team observed that the decrease in unit CTMS coincides with a significant decline in indirect expenses during the latter part of the injury analysis period.

5.6 Profit and profitability

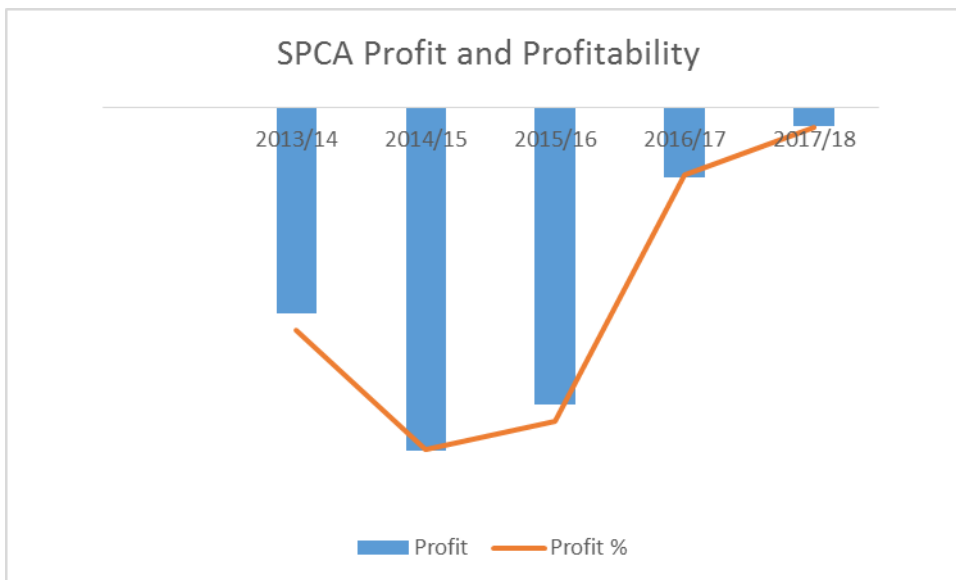


Figure 4 – SPCA’s profit and profitability

As can be seen above, SPCA has improved its profitability on prepared or preserved tomatoes in 2016-17 and 2017-18. Notwithstanding this improvement, SPCA achieved per unit losses on its sales of the goods during the injury analysis period.

5.7 Other economic factors

SPCA provided information in respect of other economic factors during the injury analysis period (**Confidential Appendix 3**).

Below is a summary of other economic factors for the goods:

- asset values have decreased significantly during 2016; and
- capital investment has decreased significantly during 2016.

5.8 Factors other than dumping

SPCA changed its accounting treatment of manufacturing overheads from 1 January 2018. Due to this, a comparison of the profitability of the goods could not be completed without amending the manufacturing overheads in line with the previous accounting treatment.

Additionally, SPCA had incurred a selling, general and administration expense between 2013 and 2016. As a result of this, it is the verification team's view that SPCA was less profitable during those years.

5.9 Conclusion

The verification team is of the view that, over the injury analysis period, SPCA has shown a trend towards a decrease in the margin between unit revenue and unit CTMS which has led to an improvement in the profitability of the goods. Notwithstanding this improvement, SPCA achieved per unit losses on its sales of the goods during the injury analysis period.

6 IMPACT OF THE EXPIRY OF ANTI-DUMPING MEASURES

Under the terms of subsection 269ZHF(2), in order to recommend that the Minister for Industry, Science and Technology take steps to secure the continuation of the anti-dumping measures, the Commissioner must be satisfied that the expiration of measures would lead, or would be likely to lead, to a continuation of, or a recurrence of:

- dumping; and
- the material injury that the anti-dumping measure is intended to prevent.

Accordingly, the verification team sought SPCA's views on these matters. SPCA was of the view that should the measures expire this would lead to a continuation, or a recurrence, of dumping and that would cause material injury to the company. SPCA outlined a number of factors and provided evidence to support its claims.

6.1 Continuation or recurrence of dumping

SPCA provided data indicating that the goods are price sensitive. This data outlined that when the goods are on promotion at supermarkets, volumes sold increased substantially.

The verification team has found that only the proprietary labelled goods are promoted at supermarkets, which is as a result of arrangements between the relevant supplier of those goods and the supermarket. Supermarkets have target profit margins for the entire category of the goods, and therefore SPCA is of the view that, to achieve those target margins, the dumping of the goods is necessary to support the promotion of Italian tomato products in Australian supermarkets.

6.2 Continuation or recurrence of material injury

SPCA advised that it continues to compete with the subject goods in tender processes for supermarket private label products. SPCA claims that pricing is a major factor considered in tender submissions, and, in the absence of the anti-dumping measures, exporters of the goods from Italy are likely to be more competitive in future tender processes.

SPCA claims that SPCA-labelled goods compete with imported goods at the retail level, and therefore, pricing of imported goods affects sales volumes and pricing of SPCA labelled goods. SPCA claims that, in the absence of the anti-dumping measures, it would suffer from increased undercutting from the goods exported from Italy and a decrease in the retail price of the goods, affecting SPCA's revenue and profit.

7 UNSUPPRESSED SELLING PRICE

Unsuppressed selling price (USP) and non-injurious price (NIP) issues are examined at an early stage of an inquiry. The Commission generally derives the NIP by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the USP.

As part of the inquiry, the Commission will establish the USP. The USP is generally established by using the following hierarchy:

- Market approach: industry selling price at a time when the Australian market was unaffected by dumping;
- Construction approach: the Australian industry's CTMS, plus a reasonable rate of profit; or
- Selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates the NIP by deducting costs incurred in getting the goods to the Free on Board (FOB) point at export (or another point if appropriate). The deductions normally include overseas freight, duty, insurance, into store costs and amounts for other importer expenses and profit.

The verification team invited SPCA to make a submission on its view on the most appropriate method to calculate the USP.

8 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
Confidential Appendix 1	Revised A6 spreadsheet
Confidential Appendix 2	Market analysis
Confidential Appendix 3	A7 other factors submitted by SPCA