

SPC ARDMONA



**SUBMISSION TO THE
AUSTRALIAN PRODUCTIVITY COMMISSION
SAFEGUARDS INQUIRY FOR THE
AUSTRALIAN MULTI SERVE FRUIT INDUSTRY**

Date: July 2013

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ATTACHMENTS

1. Question & Answers – Productivity Commission Issues Paper
2. XXXXXXXX
3. XXXXXXXX
4. XXXXXXXX
5. XXXXXXXX
6. XXXXXXXX
7. XXXXXXXX

1. EXECUTIVE SUMMARY

SPC Ardmona (SPCA) herewith requests the application of a provisional safeguard tariff of at least 45% to be applied to specified Multi serve fruit products for 200 days consistent with the WTO Safeguards Agreement followed by a full safeguard tariff at the same level phased out over three years while SPCA undertakes an adjustment plan that aims to enable the industry to be competitive against imports without the tariff. A higher level of tariff could easily be justified to ensure the safeguard measure has a full impact in remedying damage

The Multi serve fruit industry in which SPCA is now the sole Australian processor of retail products has been hit by a “perfect storm” in recent times.

Firstly there was a rise in the Australian dollar to record levels which fuelled imports to record levels. Exchange rate movements are international factors affecting the industry that are inherently unpredictable.

Secondly SPCA submits that some of the Multi serve fruit products have been even further cheapened by being dumped in Australia. The Anti-Dumping Commission has agreed that SPCA has a prima facie case for Multi serve peaches from South Africa and has agreed to investigate this, a process that is currently underway.

Thirdly, the major supermarket chains, which traditionally claimed publicly that they supported Australian produce, moved strongly from 2010 to import products cheapened by the exchange rate appreciation and, unknowingly to them cheapened also by dumping, for their strategy of developing private label products. These products took market share from SPCA, reducing sales volumes and increasing unit costs of production, and simultaneously reduced net sales revenues, as SPCA was forced to provide promotional payments in a desperate attempt to maintain its shelf space and market share and prevent even further market share losses.

Driven by these developments, imports have risen in both absolute and relative terms in recent years, causing serious damage to SPCA, who is the only significant processor in the industry.

Other factors such as seasonal conditions were far less significant for the industry. SPCA's costs of production were mainly affected by the reduction in sales volumes and revenues caused by imports, not by higher raw material costs. Imports as a consequence are the key driver of the damage that has taken place and threatens to take place to the industry.

As a result of the imports, SPCA's profitability has diminished. A continuation of recent import trends threatens to overwhelm the industry. There are critical circumstances facing the industry, with decisions having to be made now at the farm and plant levels.

At the farm level, trees are a long-term crop and as a result of the damage caused by imports, some trees will be removed which would not need to be removed if a safeguard tariff at an appropriate level is in place. These trees will not be replaced once they have been removed. An urgent decision on safeguards is required to prevent this long-term damage to productive capacity.

In addition, fruit growers are facing the critical decision on whether to spray their trees. This is occurring at a time when their financial position has been undermined by depressed prices and volumes demanded by SPCA, itself damaged by the impact of imports. Unless farmers spray their trees in the coming weeks, or pull out their trees altogether, there is a major risk

of severe insect infestation and biosecurity damage taking place not only in the fruit tree-crop sector but across horticultural production more broadly in the region.

At the plant level, SPCA is facing a critical decision on whether to continue its operations.

The damage will be irreversible, as farmers leaving the industry will be unlikely to undertake the long term investment required again, and no one will invest on SPCA's scale again in this industry.

Closure of SPCA's facilities is in prospect unless provisional safeguards provide a "breathing space", followed by full safeguards measures accompanied by an adjustment plan. This is precisely the purpose of the WTO Safeguards Agreement.

NON CONFIDENTIAL

2. INTRODUCTION

The way in which the WTO Safeguards Agreement has been implemented in Australia (via Government Gazette notice establishing general principles for inquiries and the nature of references to the Productivity Commission) conflates and confuses the process for dealing with two types of safeguards allowed for under the WTO Safeguards Agreement – provisional safeguards and safeguards measures.

It does this in two ways:

1. It requires the Productivity Commission (PC) to undertake an Inquiry for both provisional and safeguard measures, whereas the Agreement only requires an Inquiry for safeguard measures proper. The Agreement allows an executive decision to be made by a competent authority, which is a Minister in Australia's case.
2. It requires a report not on the outcomes of an Inquiry into provisional safeguards but instead requires an "accelerated report" on the full safeguards Inquiry. Effectively a request for the Australian Government to provide provisional safeguard measures faces the challenge of effectively having to persuade the PC as to the justification for full safeguards.

By contrast, the WTO Agreement clearly views provisional safeguards as a temporary measure to be subject to a preliminary determination to deal with a situation of urgency and to avoid permanent damage, which does not require an inquiry and can be granted by a responsible Minister, whilst an inquiry is underway to determine the justification for safeguard measures of a longer-term nature.

This policy decision results in the undermining of the efficacy of provisional safeguards as a legitimate trade measure by Government which is not consistent with the WTO Agreement, and it has the effect of imposing an additional and onerous burden on those requesting the Australian Government to apply provisional safeguards which is not required in the WTO Agreement. The key feature of provisional safeguards is that they are required to keep the patient alive while fuller investigations are undertaken.

This submission therefore begins with an analysis of the difference between provisional and full safeguards. It then sets out the case for the application of provisional safeguards reflecting this analysis, including the basis for calculating the requested provisional tariff measure.

Then it addresses the questions identified by the PC in its Issues Paper which the Commission states must be satisfied for safeguards measures (without distinguishing between provisional and safeguards measures). This section is being provided because of the conflated requirements for the two types of measures discussed above. SPCA reserves the right to provide additional information in respect of safeguards measures in a subsequent submission.

A confidential version of this submission containing confidential company information and a non-confidential version suitable for public dissemination are provided.

3. THE DISTINCTION BETWEEN PROVISIONAL AND SAFEGUARDS MEASURES

Different requirements for provisional and safeguards measures

The WTO Safeguards Agreement states in Article 6 concerning “Provisional Safeguard Measures”: “In critical circumstances where delay would cause damage which it would be difficult to repair, a Member may take a provisional safeguard measure pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury.”

There are a number of key requirements inherent in this provision, namely:

1. That there are critical circumstances
2. Where delay would cause damage difficult to repair
3. A preliminary determination is required
4. There is clear evidence
5. That imports have caused or are threatening to cause serious injury.

These are the only requirements that must be met.

Provisional safeguards and safeguards measures are different in four distinct and fundamental ways:

- Provisional safeguards are “provisional”. They are not final. They are meant to be put in place in critical circumstances pending a decision on final safeguard measures. This provision suggests that something else can or should take place before a final measure is applied. Not surprisingly this leads to the second key difference.
- The determination is preliminary – a whole range of factors can be identified and information gathered to be taken into account in a final determination but not necessarily in a preliminary one. It is a judgment call as whether enough evidence has been collected to satisfy the conclusion reached in the emergency circumstances.
- And that is why the process is different too – and that’s why no formal inquiry required as per Article 3, which states that “A Member may apply a safeguard measure (note not a provisional safeguard measure) only following an investigation by the competent authorities of that Member pursuant to procedures previously established and made public in consonance with Article X of GATT 1994. This notably refers to safeguards as distinct from provisional safeguards.
- The measure in provisional safeguards in itself is different. Only tariffs can be applied for provisional measures, and the duration and conditions of full safeguards differ from provisional safeguards e.g. the period for which they can be applied, the need to prove adjustment, and to progressively liberalise safeguards measures as opposed to provisional safeguards.

Additional Requirements Asserted by the PC

The PC Issues paper identifies a number of requirements which it states must be taken into account in determining a case for safeguards, based on WTO Case law. It makes no distinction as to whether these are requirements for provisional or safeguards measures, and hence implies without justification that these must be applied in the case of provisional safeguards also.

Two such instances in particular are:

- Requirement for unforeseen developments.
- Requirement for imports to have been “recent enough, sudden enough, sharp enough and significant enough”.

Unforeseen developments

The Issues paper states that case law since the inception of the WTO in 1994 has affirmed that the original GATT Article XIX and the WTO Agreement on Safeguards comprise a ‘package’ of requirements — that is, that the Agreement on Safeguards does not supplant GATT Article XIX, but clarifies and reinforces it. Consequently, the requirements of both must be met.

While the Agreement on Safeguards is silent on the matter, Article XIX provides that WTO members may only take emergency safeguard action if, as a result of unforeseen developments and the effect of obligations incurred by a WTO member, imports cause or threaten serious injury.

Case law has interpreted this to mean that a requirement for the imposition of safeguard action is that the trading developments could not reasonably have been foreseen or expected by negotiators when the obligations under the GATT (1994) were incurred.

The Issues Paper then implies that the following questions have to be satisfied for provisional safeguards to be possible – i.e. “what are the unforeseen developments that have led to increased imports of processed fruit products? When did they occur? Why could they not have been foreseen?”

The first point that must be made as a general principle is that there is no stated basis of this assertion as to precedence – that is, why this case law necessarily constitutes a binding precedent that must be followed in all subsequent cases. Any precedent or series of precedents, to be applicable, must be relevant to the circumstances of the case being heard. It is not clear whether this applies here. Moreover in any event precedent is not sacrosanct if there is justification under the agreement for a different course of action that can subsequently be defended and prosecuted.

Even if one does accept the precedence of the case law as cited in the Issues Paper, negotiators could not possibly have foreseen in 1994 the extraordinary events in the Australian processed fruit industry and economy (i.e. Australia becoming effectively a reserve currency, the mining boom and the printing of money on a gigantic scale by overseas Central Banks which served to raise the Australian currency to record levels some two decades later,).

Moreover if the basis of "unforeseen" under GATT 1994 is that the trading developments could not reasonably have been foreseen or expected by negotiators when the obligations

under the GATT (1994) were incurred, then one would anticipate that is the question that the Issues Paper would ask, in contrast to the different and broader question of “*What are the unforeseen developments that have led to increased imports of processed fruit products? When did they occur? Why could they not have been foreseen?*”

Recent enough

The Issues paper cites a WTO Appellate Body decision in an Argentinean footwear case to assert that imports have to have been “recent enough, sudden enough, sharp enough and significant enough”.

The same comments apply here with respect to the issue of precedence as is identified above in relation to unforeseen developments. It is not indicated in the Issues Paper whether the case cited applies in the circumstances of SPCA’s application.

Indeed each of the terms “recent, sudden” etc. is open to multiple interpretations and definitions - for example, the term “recent”. In the WTO *US — Line Pipe case*, the Panel found that the word “recent” implies a “retrospective analysis”; but that it does not imply an analysis of the conditions immediately preceding the authority’s decision nor does it imply that the analysis must focus exclusively on conditions at the very end of the period of investigation. The case goes on to say that “The word ‘recent’ — which was used by the Appellate Body in interpreting the phrase ‘is being imported’ — is defined as ‘not long past; that happened, appeared, began to exist, or existed lately’.

In other words, the word ‘recent’ implies some form of retrospective analysis. It does not imply an analysis of the conditions immediately preceding the authority’s decision. Nor does it imply that the analysis must focus exclusively on conditions at the very end of the period of investigation.

Despite the above features of the Issues paper’s treatment of safeguards with which SPCA disagrees, SPCA’s submission addresses the questions raised in the Issues Paper in the relevant section dealing with Questions and Answers. SPCA however reserves the right to address the specific requirements of provisional as distinct from safeguards measures in the body of this submission, in accordance with the requirements of the WTO Safeguards Agreement.

4. THE CASE FOR PROVISIONAL SAFEGUARDS

4.1 Introduction

SPCA's request is for tariffs of at least 45% to be applied to the following products for 200 days consistent with the WTO Safeguards Agreement.

Definition of goods:

SPC Ardmona products are prepared or preserved fruit products either whole (peeled or unpeeled), or in pieces (including halves, slices, diced), with or without added sugar or other sweetening matter or spirit, prepared or preserved in container sizes from 300g up to and including 1.5kg. ('domestic prepared or preserved peach products'). The term 'multi-serve' is used in the trade to distinguish products which can serve multiple times from the one can or pack, as opposed to 'single-serve' products which usually provide one serve

SPC Ardmona produces prepared or preserved fruit products in the form of slices, halves, diced, whole, quartered fruit.

- SPC Ardmona's prepared or preserved fruit products are currently packed into cans and in rigid plastics.
- Imported goods currently competing with domestic products are also in cans and in rigid plastics. However similar products can be packaged in other containers such as glass, pouches, tetra packs. These products would be similar to SPC Ardmona's products as they would have similar functional and commercial likeness. Packaging does not alter the essential characteristics of the product.
- Technical specifications of SPC Ardmona products and back of pack information of the imported products indicate that the SPC Ardmona's products and imported products are comparable.

The multi-serve prepared fruit products produced by SPC Ardmona are identical to, or very closely resemble, the imported multi-serve prepared fruit products imported into Australia. The basis for this is that:

- The products have similar composition and ingredients
- The products are directly substitutable
- The products compete directly in the same markets
- The products have the same end-uses.

Physical likeness:

- The imported products and domestic products are available in the same size packaging range. The majority of the products are available in 400g, 800 g and 1kg size packaging.
- The key ingredient in the imported prepared or preserved fruit and SPC Ardmona's prepared or preserved products is fruit and the preserving liquids are also similar (such as juice, syrup, water)

- Both imported products and SPC Ardmona's products are available in the same cuts.

Commercial likeness:

- Both imported products and SPC Ardmona's prepared or preserved fruit are available on supermarket's shelves and compete with each other.
- Consumers switch between SPC Ardmona's products and imported products. The key purchase criterion driving the purchase decision is price.

Functional likeness:

- Both imported products and SPC Ardmona's products are used by consumers in similar occasions and for similar meal types.

The WTO Agreement says in Article 6 that "In critical circumstances where delay would cause damage which would be difficult to repair a [WTO] Member may take a provisional safeguard measure pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury".

There are therefore two key criteria for provisional safeguards:

- That circumstances are critical and delay would cause damage difficult to repair; and
- A preliminary determination can be made that there is clear evidence of increased imports having caused or threatening to cause serious injury.

4.2 Critical circumstances where delay will cause damage difficult to repair

4.2.1 Information on SPCA and its role in the processing industry

SPC Ardmona is an Australian company that produces processed fruit and vegetable products at a canning factory in Shepparton, Victoria. It was formed in 2002 by the merger of the former Shepparton Preserving Company and Ardmona Foods Limited. The Shepparton Preserving Company traces its history to 1917. Ardmona Foods Limited was established as a food co-operative in 1921. The two companies merged in 2002 to become SPC Ardmona Limited. SPC Ardmona was acquired by Coca-Cola Amatil in 2005. SPC Ardmona owns iconic Australian food brands SPC, Goulburn Valley, Ardmona, IXL and Taylors.

SPC Ardmona, located in Victoria's Goulburn Valley, is one of the largest food processors in Australia and its continued operation is critical for the region. SPC Ardmona has 840 full-time-equivalent staff and its economic activity indirectly supports more than 2,700 additional jobs in the Goulburn Valley¹. SPCA directly injects about \$63 million into the local economy through salaries and wages and provides apprenticeships, training programs, work experience programs and graduate student programs to young people in the region.

SPC Ardmona sources most of its raw product from local fruit and vegetable growers and other suppliers in the region so the entire regional supply chain depends on SPCA remaining competitive and financially viable. In recent years SPCA utilised the products

¹ Source: REMPLAN (2012), based on data sourced from the Australian Bureau of Statistics (ABS), 2001 & 2006 census data.

from more than 200 contract growers and suppliers of semi-processed fruit and vegetable products. SPC Ardmona buys 150,000 tonnes of fruit and vegetables worth \$32 million each year from contract growers who, along with suppliers employ about 1,868 workers in the region.

SPC Ardmona obtains raw materials for its retail processed fruit products from growers in the region.

4.2.2 Profitability performance

Profitability of the SPCA Multi serve fruit category has been impacted in recent years due to imports.

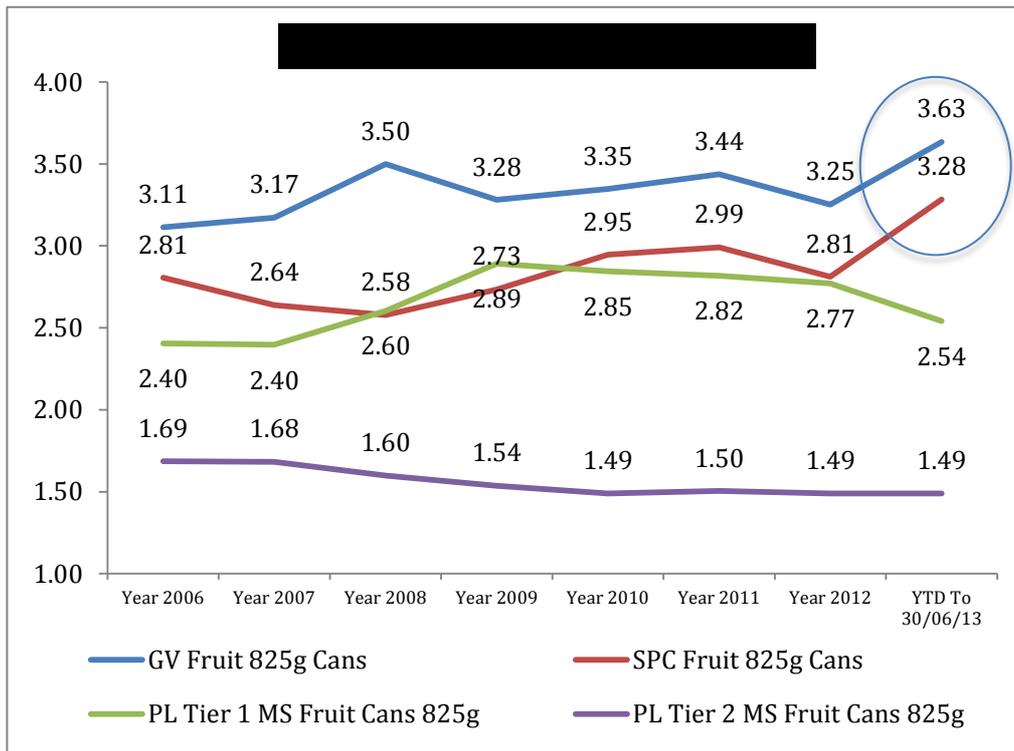
The rise in market share of imported canned multi serve fruits, has caused, and threatens to continue to cause, serious injury to the domestic canned multi serve fruit industry.

In 2009 market share of the imported canned multi serve fruit in supermarkets was 25% and by 2012 this share had risen to 41% by 2012. As the volume of imported canned multi serve fruit products increased by 41% from 2009 to 2012, sales of domestically, manufactured canned multi serve fruit fell by 28% from 2009 to 2012.

This led to:

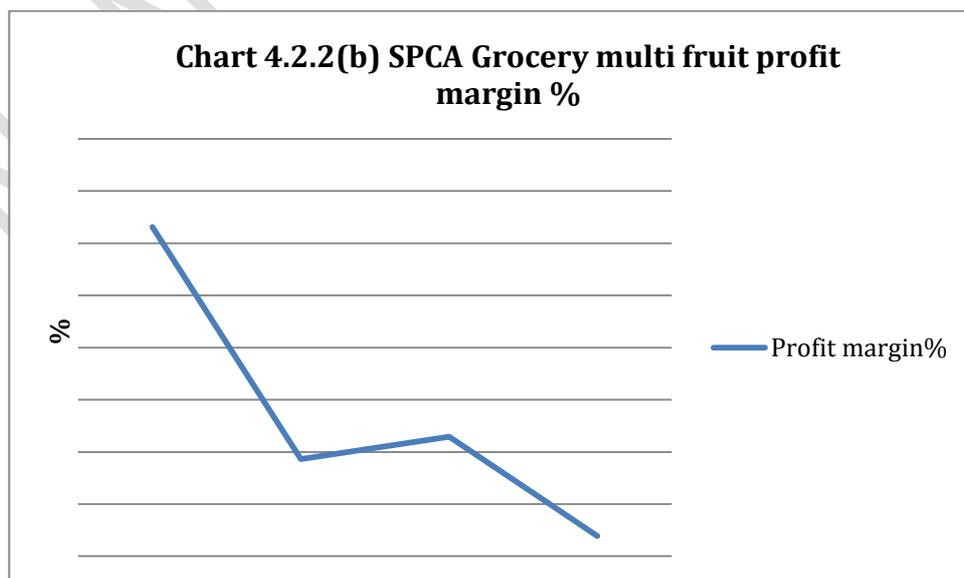
- Loss of critical economies of scale for SPCA and resultant increase in cost of goods of 19% from 2010 to 2013. This will be materially worsen in 2014 unless safeguard action is taken.
- Loss of its relative market share in the canned multi serve category.
- Retail sell price of the imported products has also been declining since 2010 as is indicated in chart 4.2.2(a)
- Imported products are available at significantly lower prices than the Australian SPCA's products; this in turn meant that SPCA had to compete for sales by discounting its prices and increasing promotional spend. SPCA's discounts and rebates for SPCA Canned Multi Serve fruit as a percentage of Gross sales revenue increased from 2009 to 2012 (Canned Peaches 36% in 2009 to 41% in 2012, Canned Pears 37% in 2009 to 46% in 2012).

Chart 4.2.2 (a) ESB \$/Kg



Over the last few months supermarkets have established new criteria requiring minimum 20% discount on the shelf price and funding of these promotions in order to obtain position in their catalogues. As SPCA is making significant losses already on these products we have not been able to comply with these criteria. Hence the increase in SPCA prices in 2013. The above factors have led to decline in SPCA's Multi serve fruit profit margins from XX% in 2010 to XX% in 2013 YTD. (Refer Chart 4.2.2(b))

Multi serve fruit products account for a significant amount of capital employed in the SPCA business and a decline in profitability is significant to the business.



4.2.3 Continuation of the current situation is simply not sustainable.

The current level of profitability is unsustainable for the business. Continued loss of market share will have an irreparable impact on brand loyalty to 'Goulburn Valley' and 'SPC' eventually in their brand value.

Given a continuation of import pressure, earnings will deteriorate further.

The current and prospective returns to the business do not justify additional capital investments which are required to make the operations competitive.

4.2.4 Impacts of adverse decision (direct and flow-on)

If the flood of imports is not contained, the viability of SPCA's fruit processing operations will come under threat.

This will have flow on impacts to the SPCA business as a whole, and to SPCA's suppliers.

At the farm level, trees are a long-term crop and as a result of the damage caused by imports, some trees will be removed which would not need to be removed if a safeguard tariff at an appropriate level is in place. These trees will not be replaced once they have been removed. An urgent decision on safeguards is required to prevent this long-term damage to productive capacity.

In addition fruit growers in particular are facing the critical decision on whether to spray their trees. This is occurring at a time when their financial position has been undermined by depressed prices and volumes demanded by SPCA, itself damaged by the impact of imports. Unless farmers spray their trees in the coming weeks, or pull out their trees altogether, there is a major risk of severe insect infestation and biosecurity damage taking place not only in the fruit tree-crop sector but across horticultural production more broadly in the region. SPCA is facing a critical decision on whether to continue its operations

4.2.5 Permanence of the outcomes

SPCA's parent company, Coca-Cola Amatil, has indicated that it will not be able to support further major investment unless SPCA can generate adequate returns.

Coca Cola Amatil has invested \$170m in SPCA since 2005. It has been a leading innovator in product and process development not only in respect of the processed fruit and vegetable industry but also the Australian processed food industry as a whole. As recently as January 2012 SPCA announced a major upgrade of its plant in the Goulburn Valley.

4.3. Preliminary determination of increased imports having caused or threatening serious damage

As discussed in the Introduction, a *preliminary* determination is required for provisional safeguards. The information and analysis required to satisfy a *preliminary* determination is not going to be as extensive as that required for a final determination.

SPCA's case for provisional safeguards is based on the company having been hit by a "perfect storm" caused by:

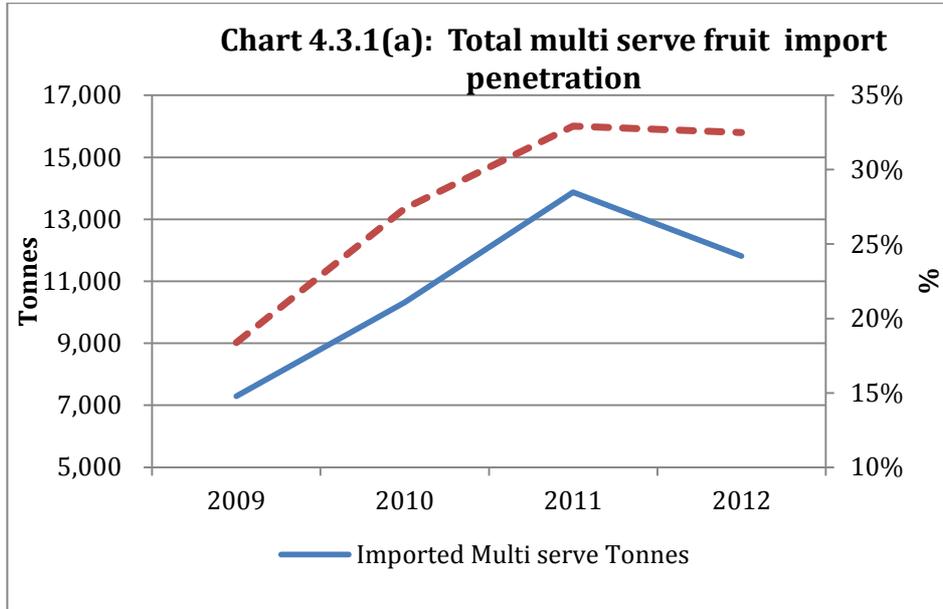
- 4.3.1** Imports have increased strongly
- 4.3.2** Imports caused the damage
- 4.3.3** Imports were cheapened by unexpected increase in high exchange rate
- 4.3.4** The further cheapening of imported products through dumping

4.3.5 The supermarkets used those cheap imports to advance their private label product strategies

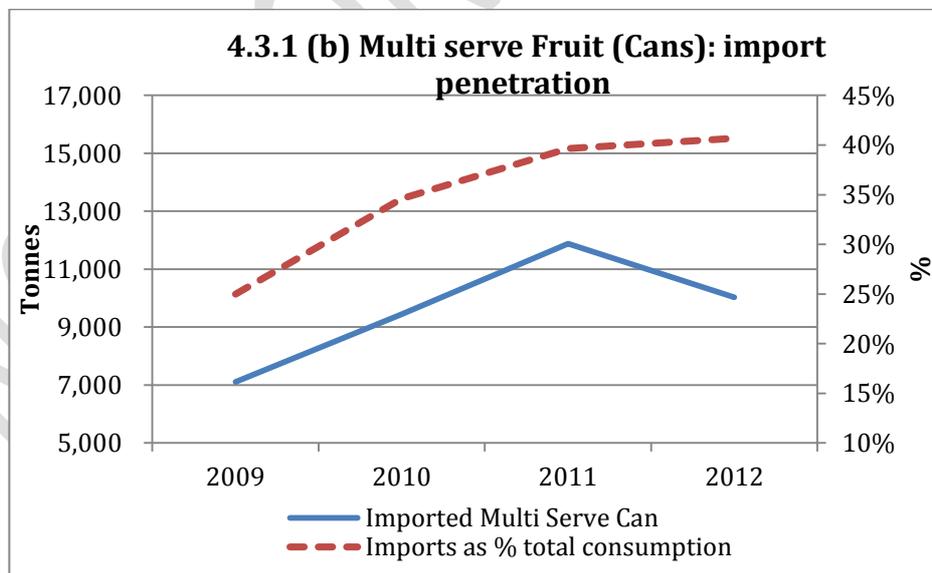
4.3.6 Imports threaten to cause further serious injury.

4.3.1 Imports have increased strongly.

Imports of total multi serve fruit have increased in absolute terms over the period from 2009 to 2011 and in relative terms in 2011 to 2012. This is indicated in charts 4.3.1(a) and 4.3.1(b) below.



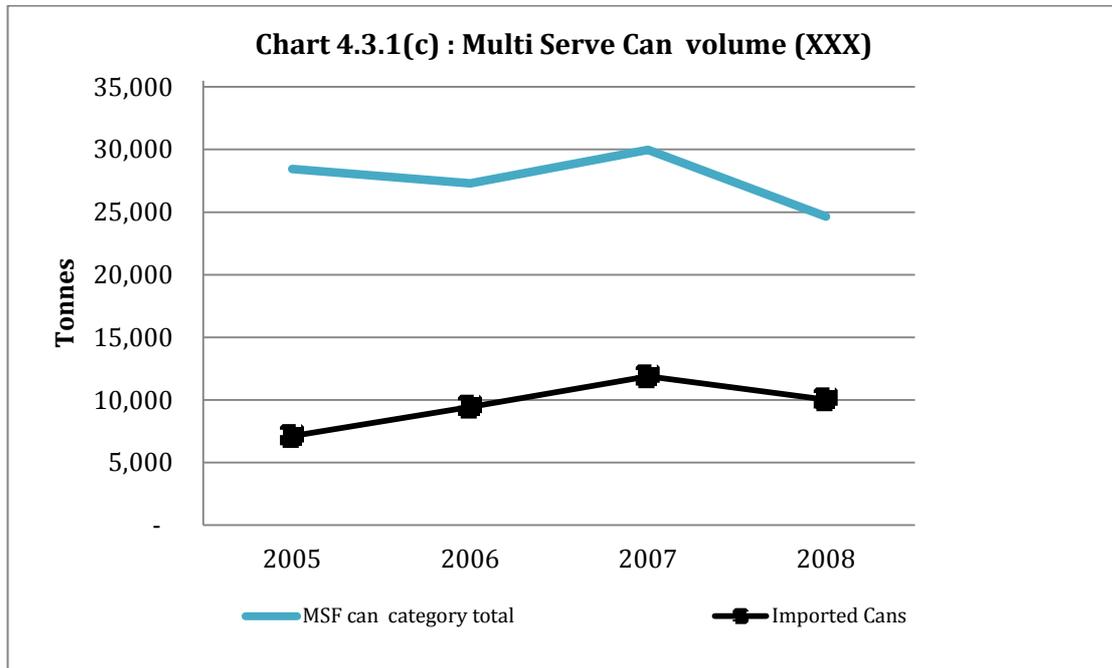
Source: Aztec data and SPCA information



Source: Aztec data and SPCA information

Absolute terms

Chart 4.3.1(c) highlights the rise in sales of canned multi serve fruit imports in absolute terms.

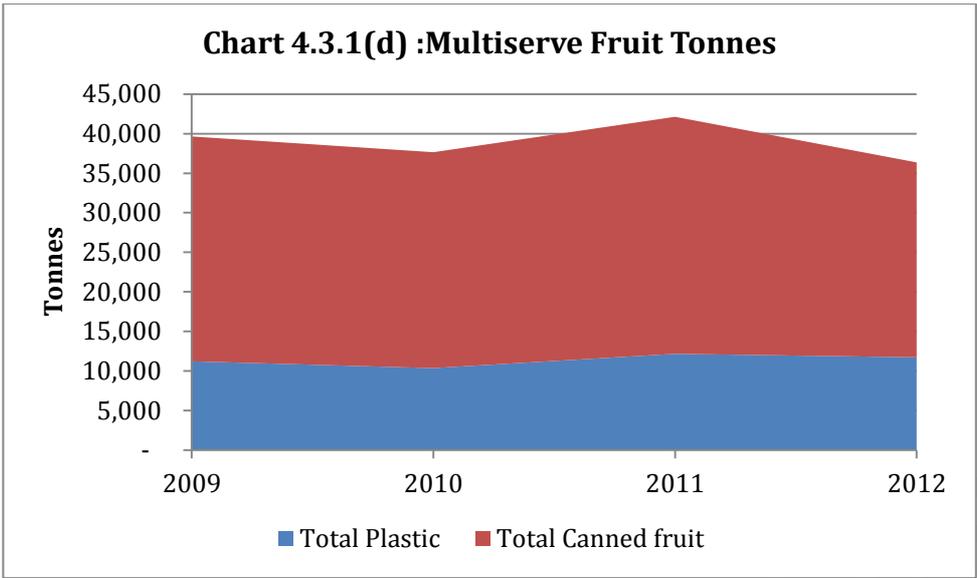


Source: Aztec data and SPCA information

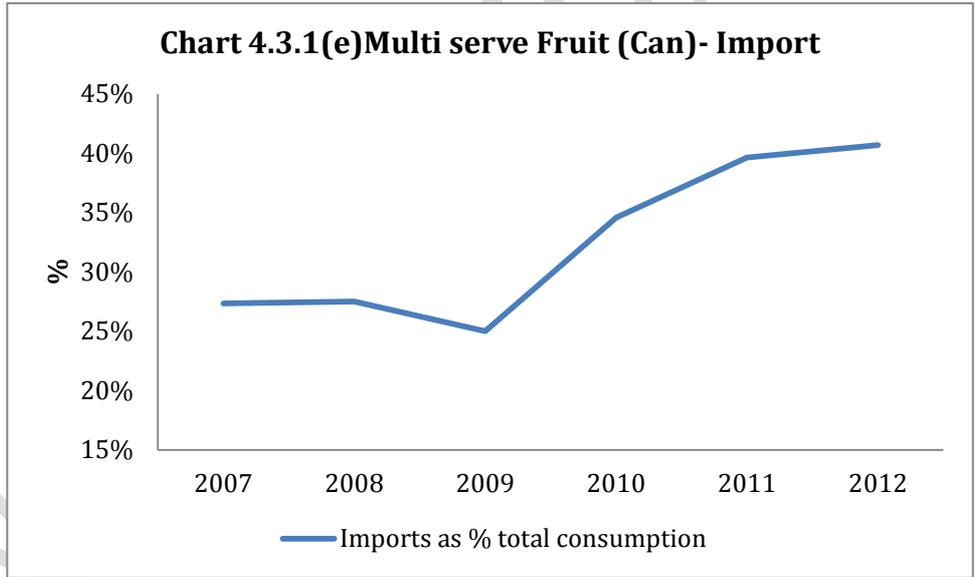
Imported canned multi serve fruit have risen from 7,108 tonnes estimated in 2009 to 10,029 tonnes in 2012.

Relative terms

Total multi serve fruit volumes sold through major retailers have been declining at CAGR of -2.8% per annum over past 3 years. Total retail sales volume of Multi serve fruit category was 39,469 tonnes in 2009 and 36,371 tonnes in 2012. 68% of the volume in 2012 was sold in 'can' packaging format.

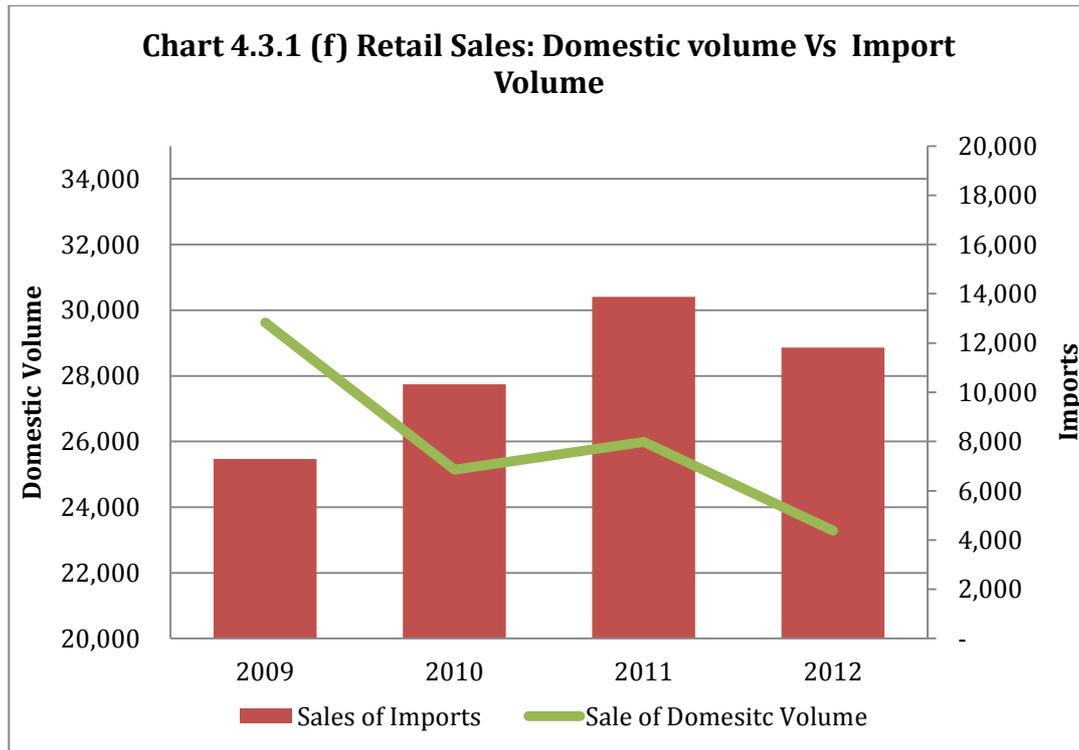


This increase in volume was sudden as estimated share of imports in the years prior to 2007-2009 averaged around 27%. Over the last 3 years this share has risen to 41% of the total canned multi serve fruit volume sold supermarkets. This is indicated in chart 4.3.1(e) below



Source: Aztec scan data and SPCA information

Chart 4.3.1 (f) shows that as the imports penetrated the market, sales of domestically produced products reduced.



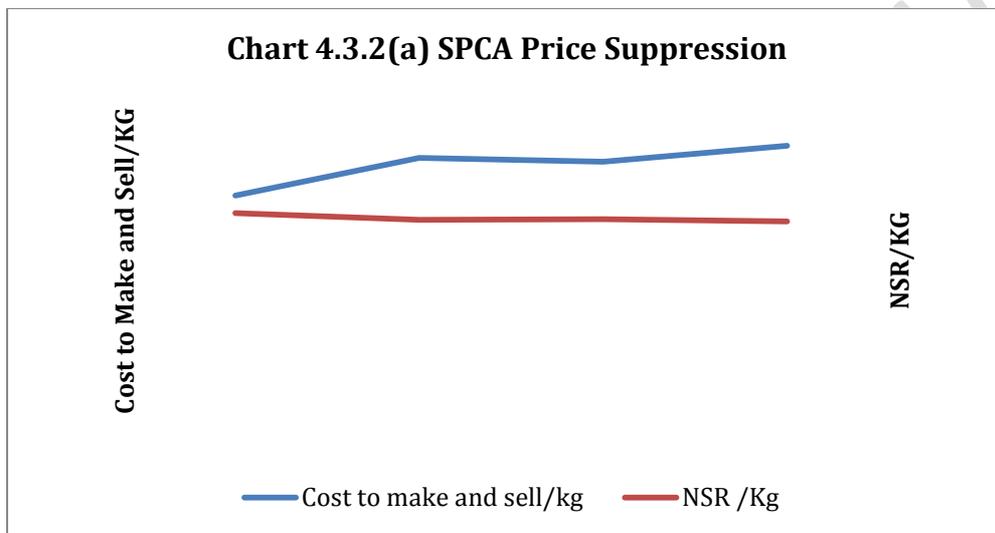
Source: Aztec scan data and SPCA information

4.3.2. Imports caused the damage

The rise in imports has caused serious damage.

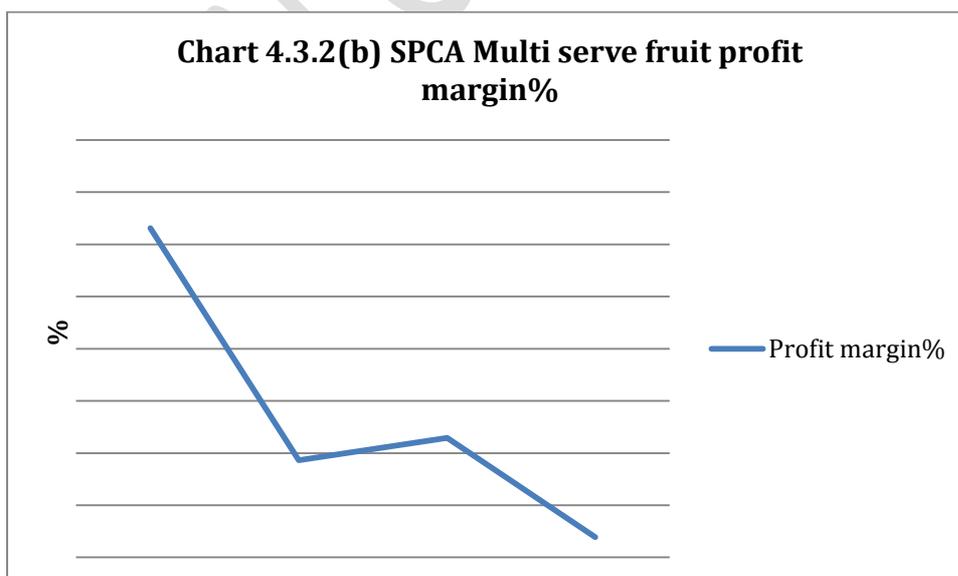
The decline in sales volumes caused by the imported canned Multi serve fruit has resulted in SPCA experiencing higher costs to make and sell during the period from 2010 to 2013 with average cost to make and sell increasing by 19%. This was due to loss of critical economies of scale which in turn lead to poor overhead recovery. Cost impact in 2014 will materially worsen if safeguard action is not taken to contain the flood of imports.

The increased price competition from imports has prevented SPCA from raising prices to a level required to recover its increased costs to make and sell and increased promotions and discounting to retain volume in the market, resulting in price suppression, which in turn has eroded profits and profitability.



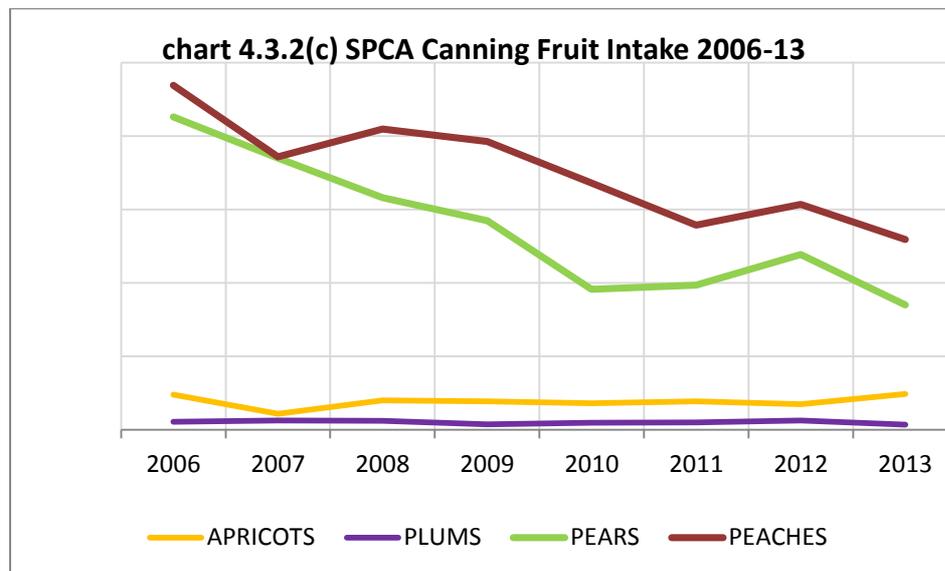
Source: SPCA analysis

SPCA's profitability of Multi serve fruit has declined from XX% in 2010 to XX% in 2013 (year to date April)

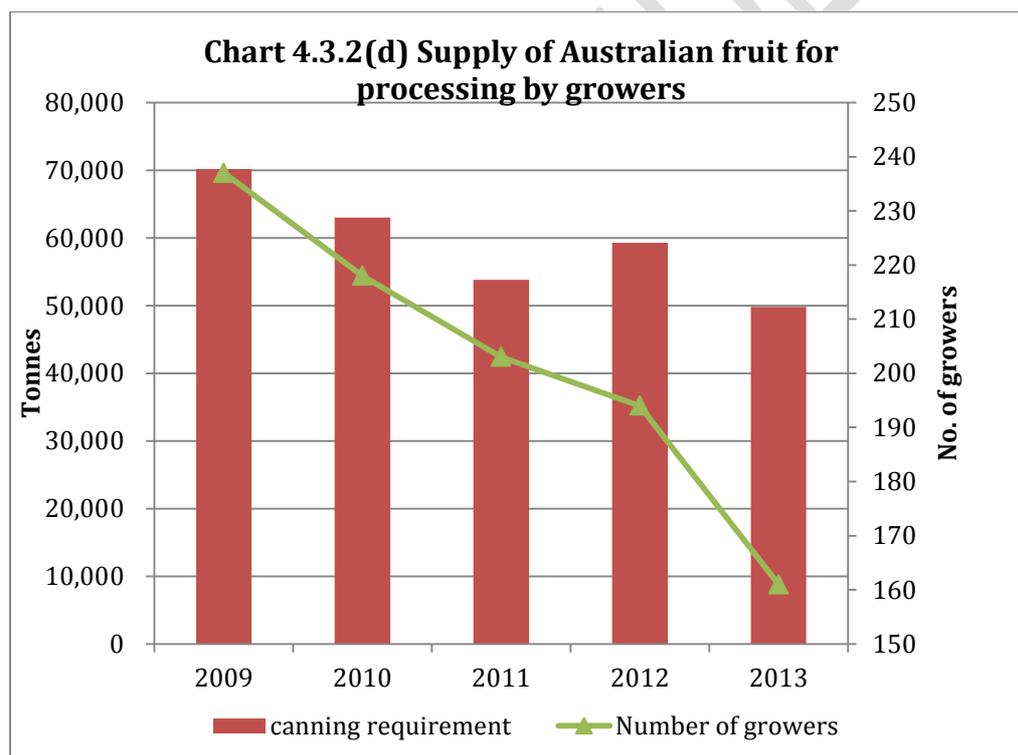


Source: SPCA analysis

Demand for raw tonnes of fruit has declined from 2009 and is forecast to decline further if the trend continues. (refer chart 4.3.2c)



SPCA's reduced demand impacts upstream growers. Due to the flow on impact of imports, the number of growers has been declining in the industry.



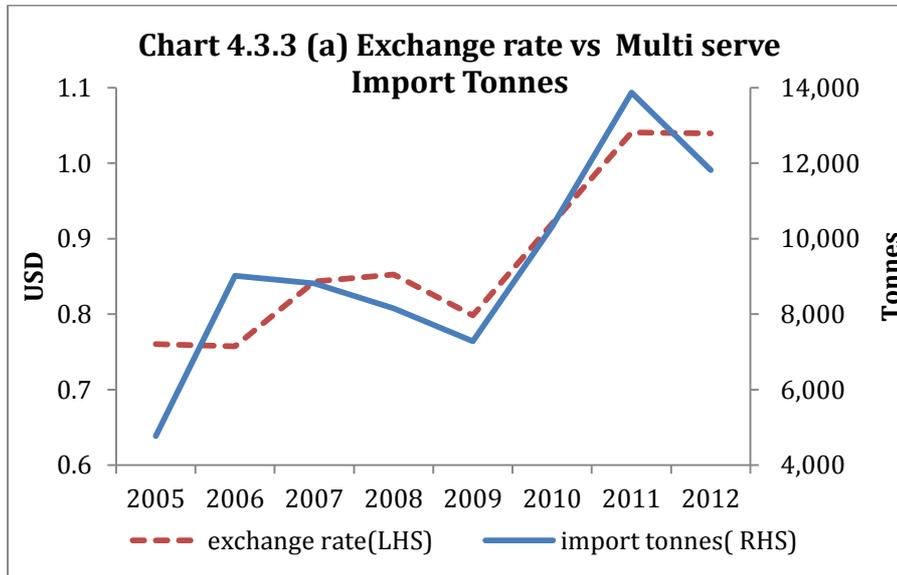
The decline in the number of growers and volume of production has been a long term trend. However there has been acceleration in the economic damage caused to the industry as a result in the acceleration in imports and the damage caused to SPCA's profitability in recent years.

The losses suffered by SPCA as a result of the imports have meant there is no capacity for SPCA to raise investment capital for the operations or for innovation.

This would mean SPCA re-evaluating its position as the only Australian manufacturer of canned fruit.

4.3.3 Imports were cheapened by unexpected increase in high exchange rate.

The chart 4.3.3(a) illustrates the relationship. The rise in the exchange rate is inherently unpredictable and the rise in the exchange rate to record levels in recent years was unforeseen.



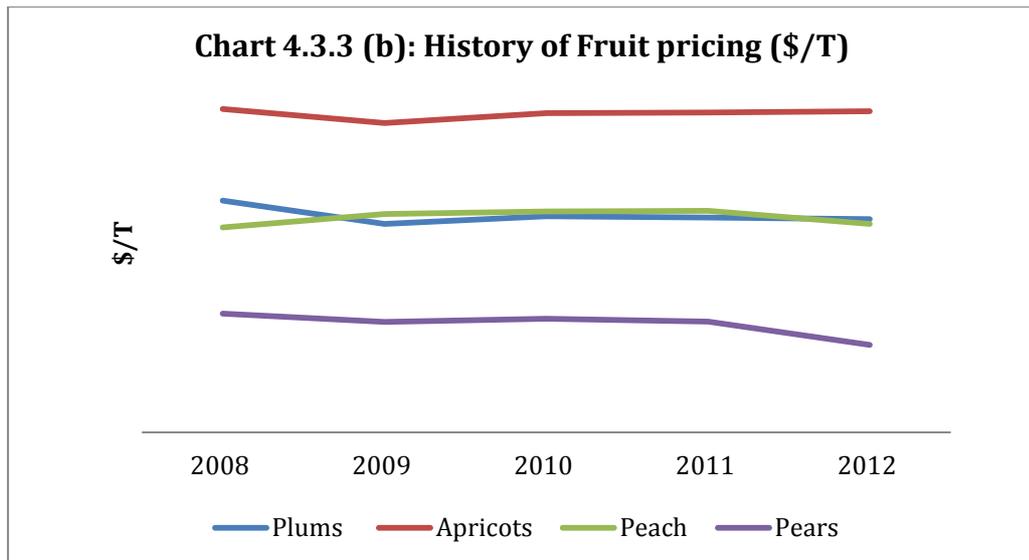
Source: Aztec data and SPCA information

The PC itself has previously acknowledged that exchange rate movements are an international factor that may contribute to damage (Pigmeat Safeguards Inquiry Report 2008).

Recent development in exchange rate with Australia becoming effectively a reserve currency, the mining boom and the printing of money on a gigantic scale by overseas Central Banks which served to raise the Australian currency to record levels are unexpected and unforeseen circumstances.

Other factors such as natural events of drought and floods have contributed to past injury but have not revealed over the full period of import increase, which is therefore the key driver. Imports have continued to rise despite the return of normal conditions.

The price of raw fruit has been either constant or declining since 2008 and therefore is not the cause of the injury as indicated in the chart 4.3.3(b)



It should also be noted that imports do not have to be the sole cause of damage to the industry. A determination of serious injury under the WTO Safeguards Agreement cannot be made unless there is objective evidence of the existence of a causal link between increased imports of the product concerned and serious injury. Further, when factors other than increased imports are causing injury to the domestic industry at the same time, such injury must not be attributed to increased imports.

As the WTO points out however, *“The criterion of a causal link falls short, however, of proposals made during the Uruguay Round that would have required imports to be the “principal cause” of injury”*².

4.3.4 Further cheapening of imported products through dumping

SPCA considers that the products that are the subject of this submission have also been dumped in Australia. The Anti-Dumping Commission has instigated investigations into SPCA’s claims.

4.3.5 The supermarkets used those cheap imports to advance their private label product strategies

The major supermarket chains, which traditionally claimed publicly that they supported Australian produce, moved strongly from 2010 to import products cheapened by the exchange rate appreciation and, unknowingly to them cheapened also by dumping, for their strategy of developing private label products.

² World Trade Organisation, Safeguard Measures: Technical Information, *Technical Information on Safeguard Measures*
http://www.wto.org/english/tratop_e/safeg_e/safeg_info_e.htm

Aggressive pricing strategies used since 2010 for imported private label products

Chart 4.3.5(a) below indicates the aggressive pricing strategies from 2010 by Supermarket X and Supermarket X respectively.

PL tier 2: XXXXX 825g

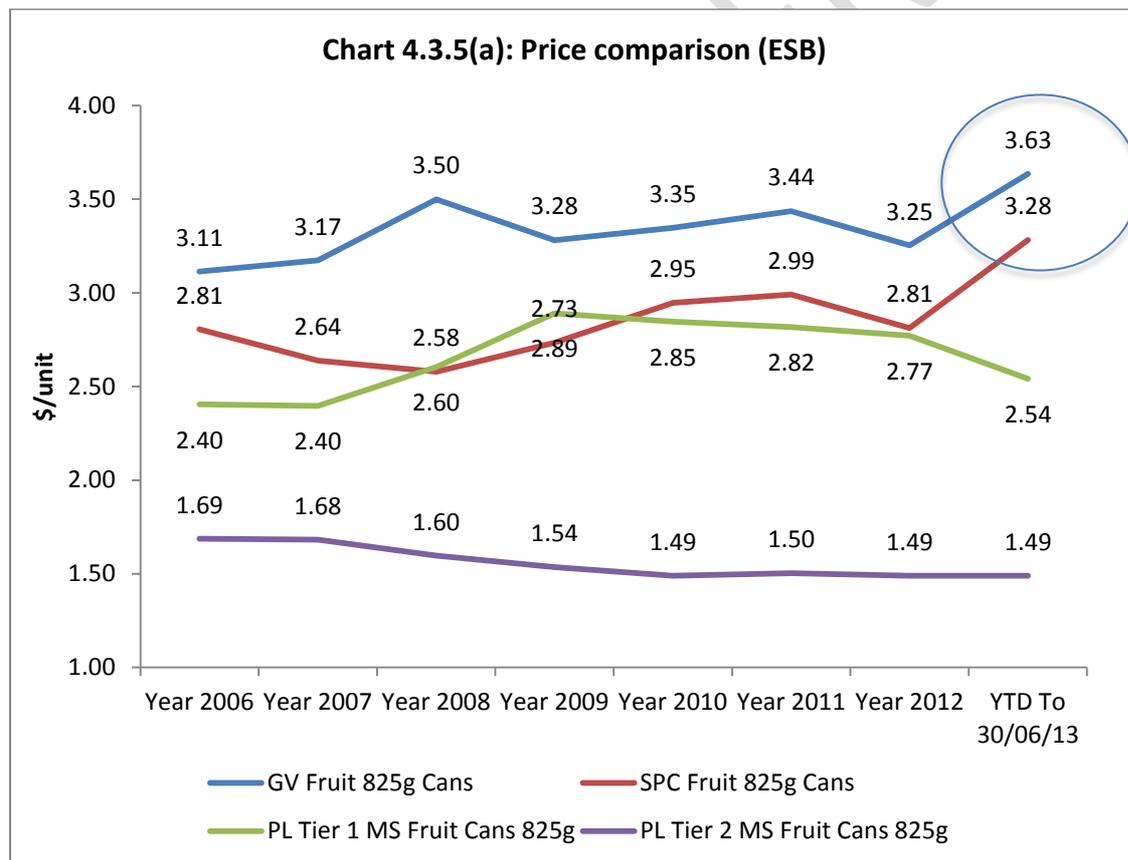
PL tier 1: XXXXX 825g

As can be seen from the chart 4.3.5(a), prices of the private label brands have been declining thereby increasing the price gap between SPCA products and imported products.

The higher price of SPCA products in 2013 are due to reduced promotions in 2013.

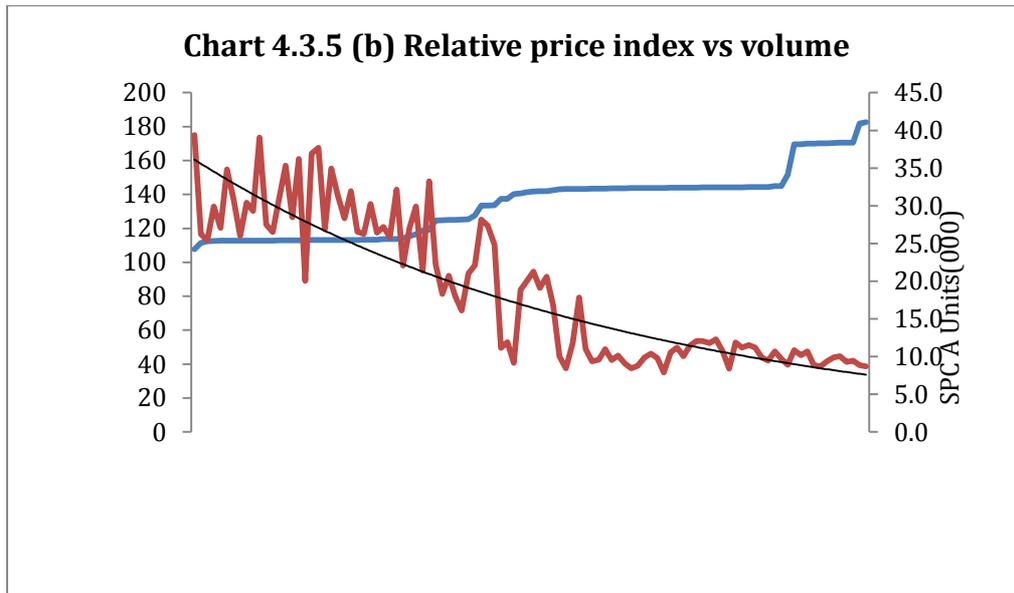
Over the last few months supermarkets have established new criteria requiring minimum 20% discount on the shelf price and funding of these promotions in order to obtain position in their catalogues.

As SPCA is making significant losses already on these products we have not been able to comply with these criteria. Hence the rise in SPCA prices in 2013.



Source: Aztec scan data

As is demonstrated in the example below, as the price difference between imported product and SPCA product has had an impact on the volume.

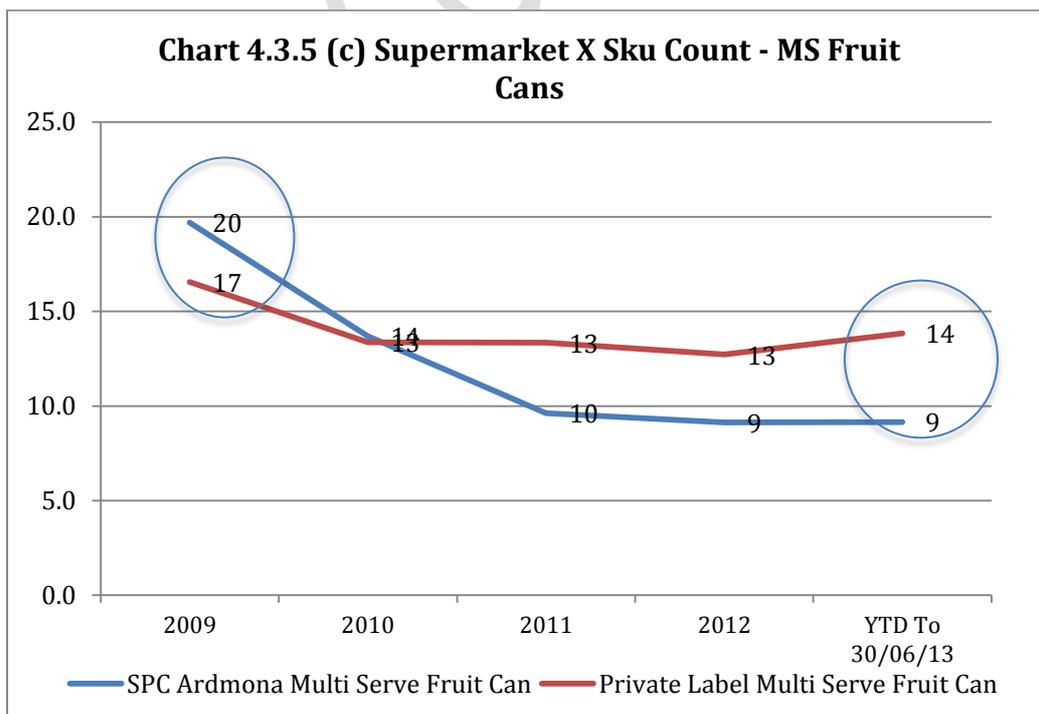


Reduced depth of distribution for SPCA portfolio

Effective SKUs is measured as the sum of % distribution points across all SKUs divided by 100. (Thereby providing a comparative depth of distribution).

As is indicated in Chart 4.3.5(c) and Chart 4.3.5(d), the number of effective skus in the market reduced from 2009 due to deletions.

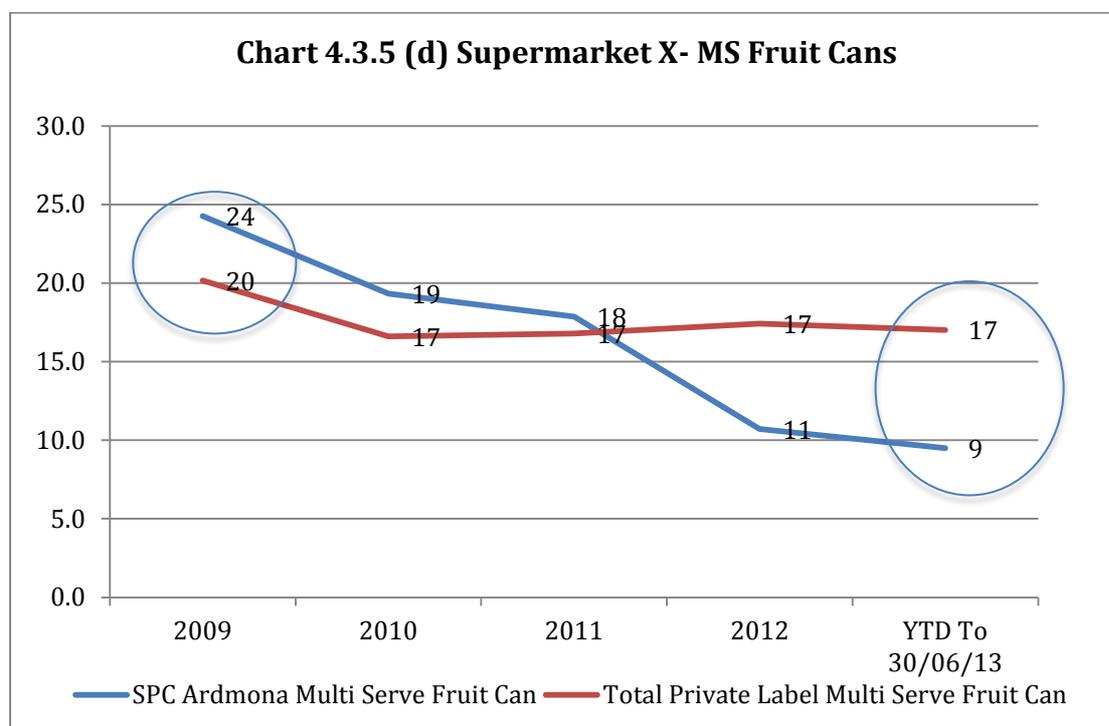
Chart 4.3.5(c) indicates decreased number of skus in Supermarket X . In 2009, SPCA had 18% more skus than private label. By 2013 year to date, private label has 56% more skus than SPCA in Supermarket X multi serve fruit category.



Source: Aztec

scan data

Chart 4.3.5(d) indicates decreased number of skus in Supermarket X. In 2009 SPCA had 20% more skus than private label and in 2013 private label has 89% more skus than SPCA.



Further evidence on supermarket strategies for private label is shown in Attachment 2

4.3.6 Imports threaten to cause further serious damage

A continuation of current conditions is not sustainable for SPCA's operations.

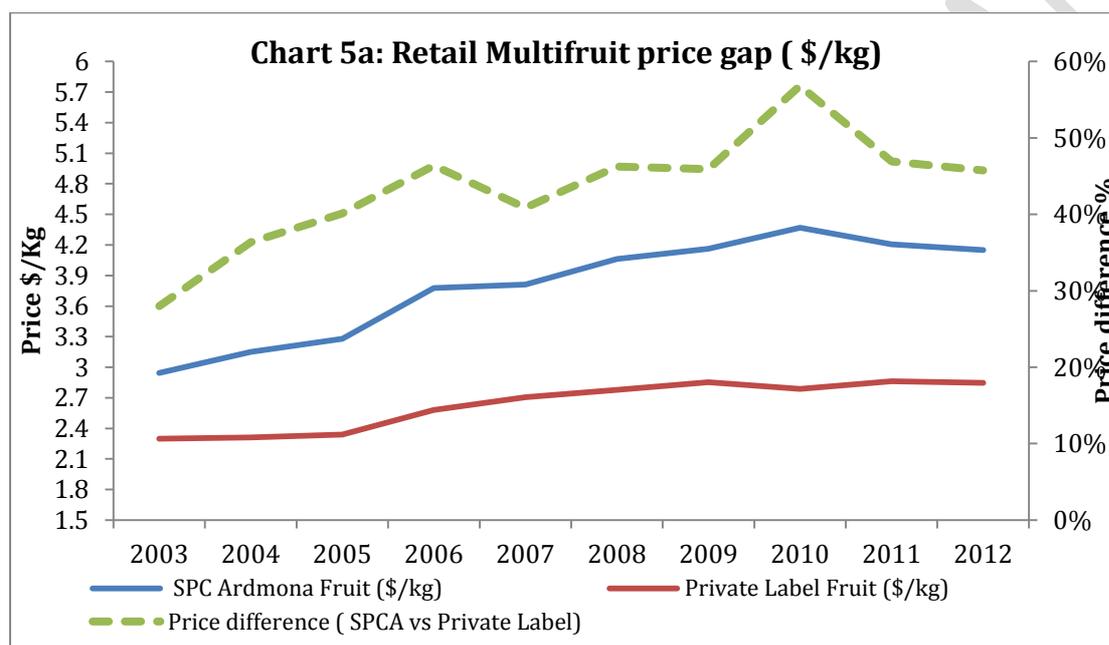
- The fall in the exchange rate in the past month is insufficient to address damage as it is our understanding that the retailers work to a long-term plan and have locked in benefits from the recent high dollar until 2015. An immediate safeguard tariff is the only way to contain the impact of cheap foreign imports
- SPCA has to make critical capital investment decisions now and current profitability does not support continued investment.
- Import penetration has continued strongly into 2013.

5. SPCA'S REQUESTED MEASURE

Other than the general requirement that safeguard measures be applied only to the extent necessary to remedy or prevent serious injury and to facilitate adjustment, the Agreement provides no guidance as to how the level of a safeguard measure in the form of an increase in the tariff above the bound rate should be set.

By raising the import price of competing products to the extent that the reduced volume of imports in the marketplace can then be fulfilled by increased domestic production. In doing so the measure will reduce the threat of injury caused to the domestic multi serve fruit industry.

The difference in price between imported and SPCA brand products is shown in Chart 5a.



Source: SPCA analysis from Aztec

A tariff set at minimum 45% would erase the average difference in price between imported and SPCA multi serve fruit products. It should be noted that this price gap is significantly higher at 60% in 2013 for total Multi serve fruit category and is around 130% for canned multi serve fruit category. A higher level of tariff could easily be justified to ensure the safeguard measure has a full impact in remedying damage

If maintained for a full year, one could assume that imports might be fully replaced by the effects of at least 45% tariff that an additional 11,800 tonnes of demand would become available to the Australian industry for processing. An increase in demand of this magnitude would provide for economies of scale to be realized in the Australian industry and lead to substantially lower production costs.

The imposition of a 45% emergency tariff should be continued under full safeguards but should be phased out over three years while SPCA undertakes an adjustment plan that aims to enable the industry to be competitive against imports without the tariff.

ATTACHMENT 1

Questions and Answers – Productivity Commission Issues Paper

Introduction

This attachment addresses the questions identified by the Productivity Commission in its Issues Paper as being key to the satisfaction of safeguards requirements under Australian procedures for applying safeguards. The Commission does not distinguish these questions by whether they apply to provisional or safeguards measures, and hence can be presumed to apply to safeguards measures. As is pointed out in the section of this Submission dealing with provisional and safeguards measures, this distinction needs to be made and recognised.

Question 1: Defining the industry: who are producers of ‘like’ or ‘directly competitive’ goods?

Imported multi serve fruit are the like goods

Imported products are prepared or preserved fruit products either whole (peeled or unpeeled) or in pieces (including halves, slices, diced), with or without added sugar or other sweetening matter or spirit, prepared or preserved in individual container sizes from 300g up to and including 1.5kg. (Imported ‘prepared or preserved peaches’)

- Prepared or preserved fruit (halves, slices and pieces) are packed in various preserving liquid mediums such as juice, syrups, water etc. with different concentration.
- These can be in sizes and in containers ranging from 300g to 1.5kg
- The imported goods could be packaged in different containers such as cans, glass jars, pouches, plastics or Tetra packs.

Imported products are prepared or preserved fruit which are suitable for purchase from retailers by individual consumers (“Imported prepared or preserved peach products”). These are often referred to as ‘Multi serve fruit’ products as well.

The following fruit products do not form part of this application:

- Individually packed prepared or preserved fruit products of less than 300g which are sold for snacking purposes.
- Sizes greater than 1.5kg which are more common in the food service channel.
- Multiple packs of individual prepared or preserved fruit products that are individually less than 300g but aggregate to greater than 300g.

The imported multi-serve prepared fruit products can be labelled with a generic, a house brand/private label for the retailer or a proprietary label. The imported prepared or preserved fruit products which are the subject of this application cover all imported prepared or preserved fruit products regardless of how they are labelled.

SPCA products are prepared or preserved fruit products either whole or in pieces (including halves, slices, diced), with or without added sugar or other sweetening matter or spirit, prepared or preserved in container sizes from 300g up to and including 1.5kg. ('domestic prepared or preserved peach products')

SPCA produces prepared or preserved fruit products in the form of slices, halves, diced, whole, quarter fruit.

- SPCA's prepared or preserved fruit products are currently packed into cans and in rigid plastics.
- Imported goods currently competing with domestic products are also in cans and in rigid plastics. However similar products can be packaged in other containers such as glass, pouches, tetra packs. These products would be similar to SPCA's products as they would have similar functional and commercial likeness. Packaging does not alter the essential characteristics of the product.
- Technical specifications of SPCA products and back of pack information of the imported products indicate that the SPCA's products and imported products are comparable.

The multi-serve prepared fruit products produced by SPCA are identical to, or very closely resemble, the imported multi-serve prepared fruit products imported into Australia. The basis for this is that:

- The products have similar composition and ingredients
- The products are directly substitutable
- The products compete directly in the same markets
- The products have the same end-uses.

Physical likeness:

- The imported products and domestic products are available in the same size packaging range. The majority of the products are available in 400g, 800g and 1kg size packaging.
- The key ingredient in the imported prepared or preserved fruit and SPCA's prepared or preserved products is fruit and the preserving liquids are also similar (such as juice, syrup, water)
- Both imported products and SPCA's products are available in same cuts.

Commercial likeness:

- Both imported products and SPCA's prepared or preserved fruit are available on supermarket's shelves and compete with each other.
- Consumers switch between SPCA's products and imported products. The key purchase criteria driving the purchase decision is price.

Functional likeness:

- Both imported and SPCA's products are used by consumers in similar occasions and for similar meal types.

Directly competitive products

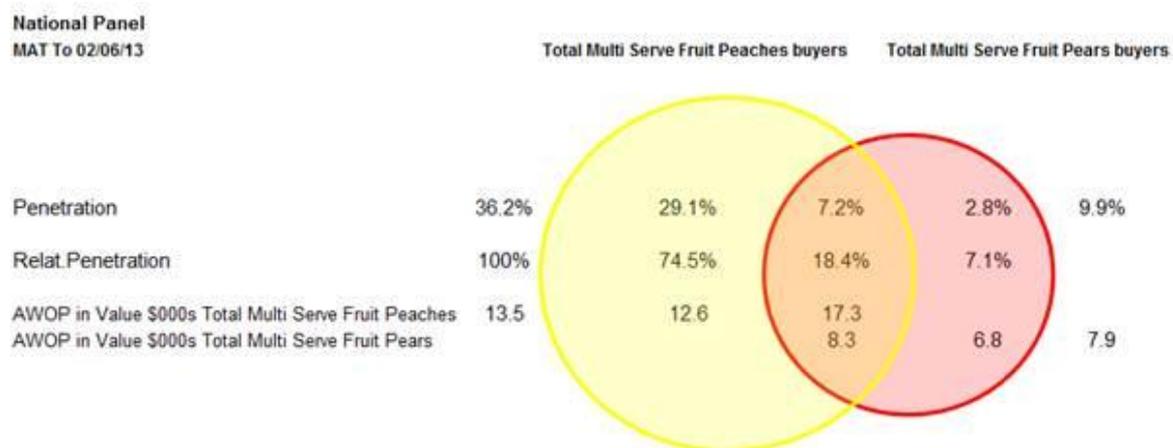
Multi serve fruit purchased from supermarkets is used primarily for consumption in dessert and breakfast

Other processed fruit products like frozen fruit, fruit puree and dried fruit are used differently to multi serve fruit and are not directly competitive products.

Multi serve fruit can also be used for cooking, whereas fresh fruit are predominantly used for fresh consumption. Therefore fresh fruit is not a directly competitive product.

Are any of the products across the tariff classes listed in the terms of reference like or directly competitive with each other? For example, are imports of prepared or preserved peaches affecting the same domestic industry as imports of prepared or preserved pears?

The chart below identifies duplication of Multi Serve Peaches and Pears amongst shoppers. This identifies that the majority of Pear shoppers (73%) also buy peaches and therefore may be likely to substitute however the reverse is not the case.



Which businesses are involved in the production of the like or directly competitive products and what are their contributions to the industry production?

SPCA is the only Australian manufacturer of the products which are the subject of this application.

Question 2: Have imports increased?

What have been the trends in the volume and value of imports of the products under the relevant tariff subheading? Has there been a recent increase in imports?

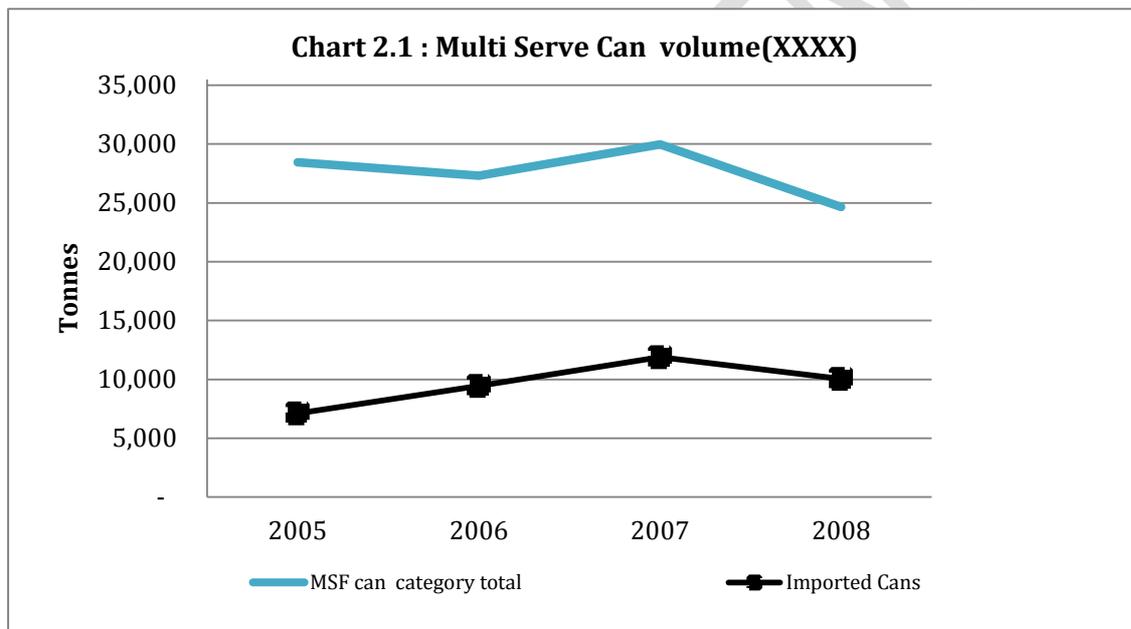
Chart 2.1 below highlights the rise in imports of Multi serve fruit can volume.

As goods subject of this application are a subset of the tariff classification, to analyse volume and value trends, Aztec scan data and internal information has been used.

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As SPCA is the only Australian manufacturer of the goods which are the subject of this application, internal information was used to determine the proportion of domestic volumes (branded and private label). Therefore import volumes were arrived at through the deduction of domestic volumes from total market size calculated above.

It should be noted that the majority of multi serve fruit products are sold through supermarkets. Imported canned multi serve fruit have risen from 7,108 tonnes estimated in 2009 to 10,029 tonnes in 2012.



Source: Aztec scan data and SPCA information

As stated earlier majority of the retail packs are sold through supermarket chains as private label brands.

What is likely to happen to import volumes over the next few months and in the longer term and what would be the key factors affecting these trends?

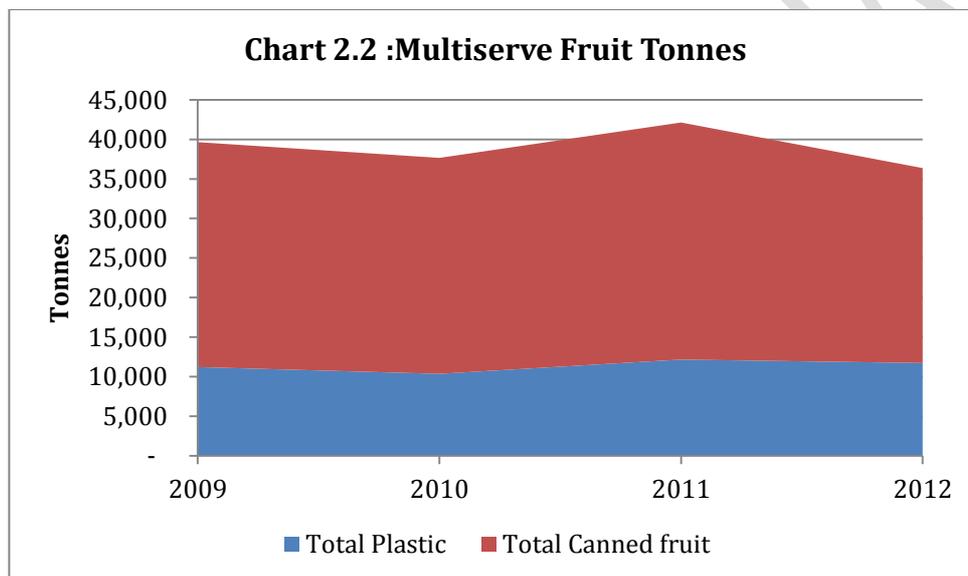
Growth in private label brands is the key corner stone of the supermarket chain's strategy. The imported multi serve fruit is used as house brand/private label brands by the retailers. These are usually purchased under longer term contractual agreements and are likely to continue if nothing changes.

The majority of the imports are from South Africa, China and Greece. Forecasts for production of Multi serve fruit in these countries are forecast to remain high in 2012/13.

If the trend continues cheap imported Multi serve fruit will continue to facilitate the rise in market share and further diminish the presence of domestic brands and domestic economies of scale.

What have been the trends in the volume and value of domestic consumption of the relevant products? How has the share of imports in domestic consumption changed?

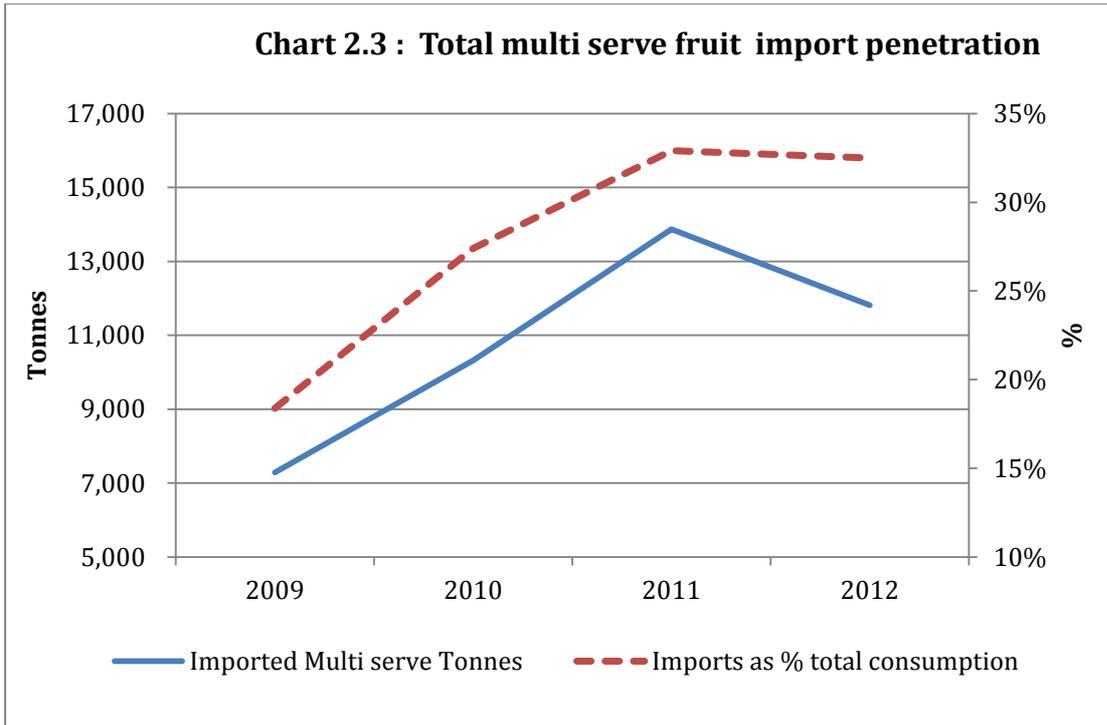
Multi serve fruit volumes sold through major retailers have been declining at CAGR of -2.8% per annum over the past 3 years. Total retail sales volume of Multi serve fruit category was 39,469 tonnes in 2009 and 36,371 tonnes in 2012. 68% of the volume in 2012 was sold in 'can' packaging format.



Source: Aztec scan data and SPCA information

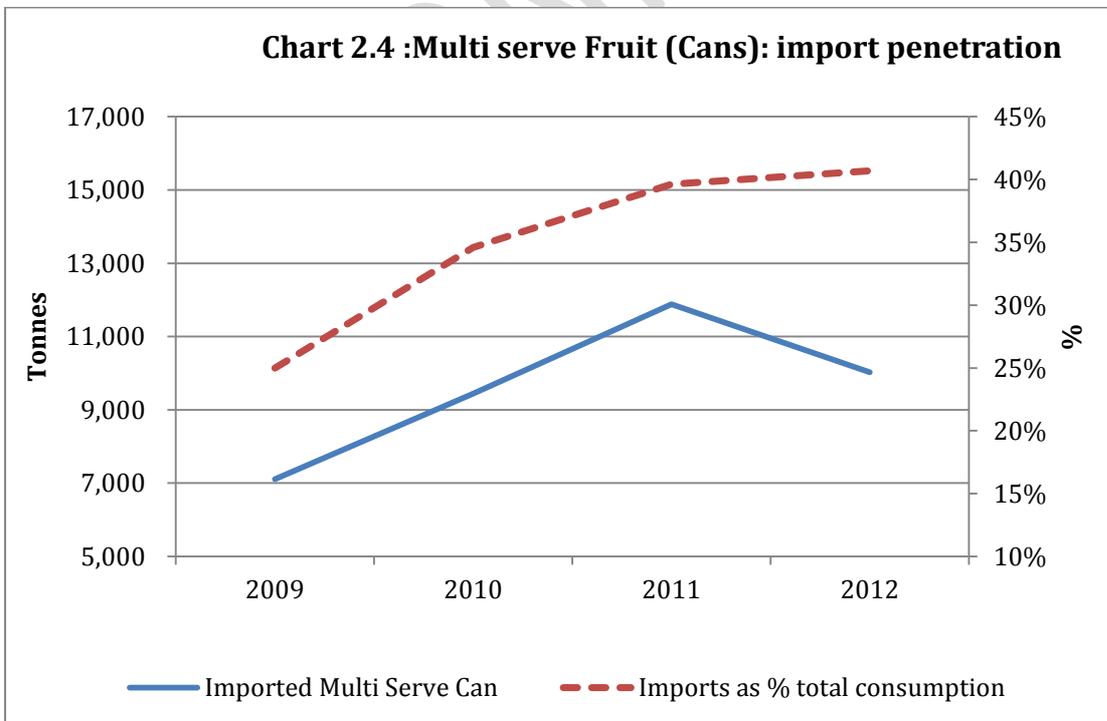
Whilst the Multi serve fruit cans have declined at -4.7% per annum (3 year CAGR), multi serve fruit plastics have been relatively stable during this period with 3 year CAGR of 1.5% per annum.

However volume of the total imported Mutli serve fruit has increased from 7,288 tonnes in 2009 to 11,800 tonnes in 2012 leading to increased import penetration.



Source: Aztec data and SPCA analysis

As can be seen from Chart 2.4 penetration in Multi serve fruit (cans) category is higher at 41% in 2012



Source: Aztec data and SPCA analysis

Has there been a change in the major countries of origin of imports?

Tables below show major exporting countries for each of the fruit variety by year. As ABS data is based on tariff codes, it doesn't distinguish between sizes of the products. Therefore these are an indicator of all imports, including retail pack multi serve fruit products.

Pears	2008	2009	2010	2011	2012
China	37%	45%	36%	56%	61%
South Africa	42%	21%	40%	23%	15%
Swaziland	13%	11%	4%		
Spain		18%	5%		1%
Greece				10%	
NZ				7%	12%
subtotal	92%	95%	85%	96%	89%

Apricots	2008	2009	2010	2011	2012
South Africa	82%	83%	78%	66%	57%
China	15%	14%	21%	33%	41%
subtotal	97%	98%	99%	99%	98%

Peaches	2008	2009	2010	2011	2012
China	30%	31%	26%	27%	25%
Greece	23%	14%	11%	20%	8%
South Africa	41%	41%	51%	36%	58%
Chile				11%	4%
subtotal	93%	87%	88%	95%	95%

Mixtures	2008	2009	2010	2011	2012
China	33%	34%	34%	43%	47%
South Africa	16%	11%	33%	26%	26%
Swaziland	13%	4%	1%		
Thailand	10%	5%	7%	4%	
Spain		10%	1%		
Philippines		9%	4%		
Subtotal	72%	74%	80%	73%	73%

Source: ABS data

Has there been a change in the nature of imports (for example, different type of packaging, product quality, mixture or composition)?

No significant change in the nature of imports.

Question 3: Was the increase in imports the result of unforeseen developments and the result of [WTO] obligations incurred?

What are the unforeseen developments that have led to increased imports of processed fruit products? When did they occur? Why could they not have been foreseen?

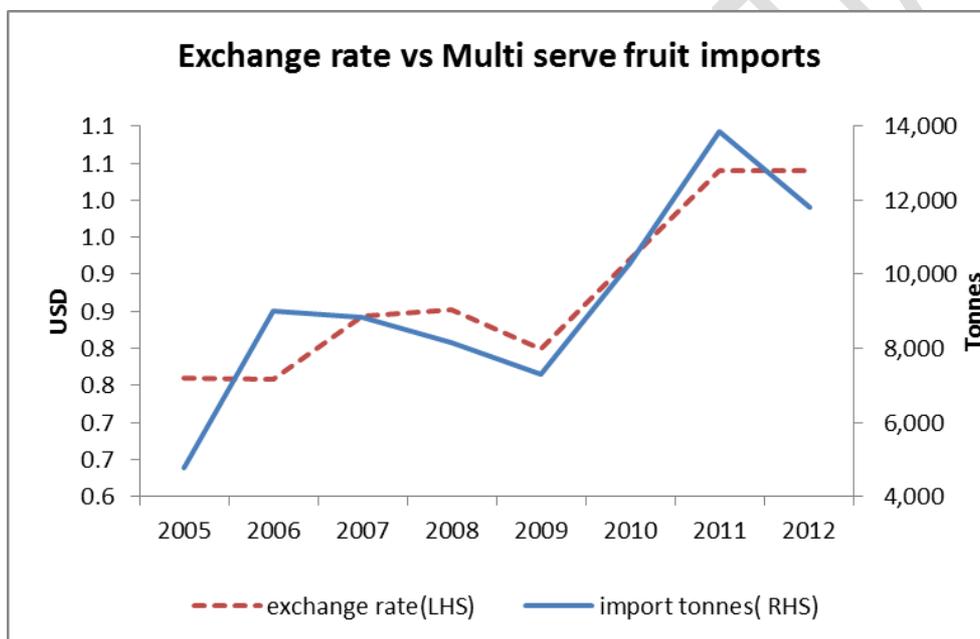
The following unexpected events created a 'perfect storm' for Multi serve fruit industry. Imports were cheapened by an unexpected increase in high exchange rate

- The further cheapening of imported products through dumping
- The supermarkets used cheap imports to advance their private label product strategies

Appreciation of AUD since 2009

These events were wholly unexpected, historic developments - as the Deputy Governor of the RBA has stated, "As is well known, Australia is currently experiencing, on the one hand, a once-in-a-century terms of trade and investment boom and, on the other, a very high exchange rate. These events are, of course, related to one another and are really different sides of the same coin". Recent developments with Australia becoming effectively a reserve currency, the mining boom and the printing of money on a gigantic scale by overseas Central Banks which served to raise the Australian currency to record levels were unforeseen and unexpected circumstances.

Chart 3.1



Source: Aztec data and SPCA information

Potential dumping of imported products

SPCA considers that the products that are the subject of this submission have also been dumped in Australia. The Anti-Dumping Commission has agreed to initiate investigations into SPCA’s claims of Multi serve peaches from South Africa.

Change in supermarket strategies supporting imported private label products

The major supermarket chains, which traditionally claimed publicly that they supported Australian produce, moved strongly from 2010 to import products cheapened by the exchange rate appreciation and, unknowingly to them cheapened also by dumping, for their strategy of developing private label products. This is evident through the following points.

(a) Aggressive pricing strategies from 2010 for imported private label products

PL tier 2: XXXXX

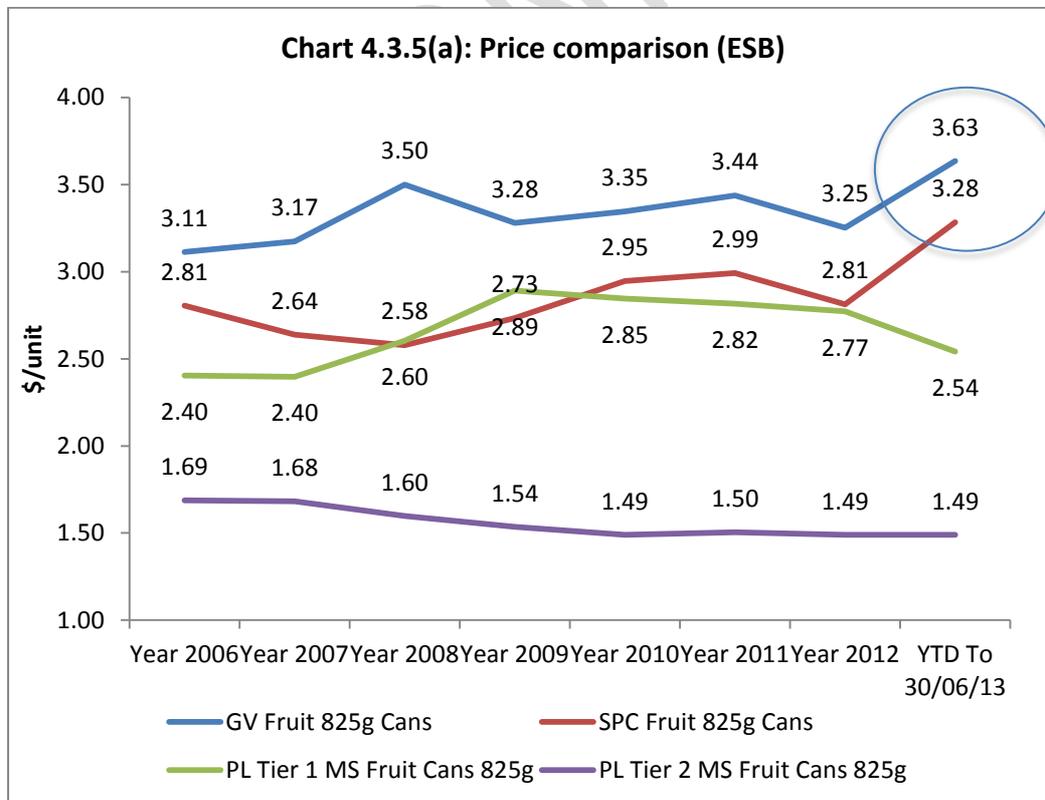
PL tier 1: XXXXX

As can be seen from the chart 3.1(a), prices of the private label brands have been declining thereby increasing the price gap between SPCA products and imported products.

Higher price of SPCA products in 2013 are due to reduced promotions in 2013.

Over the last few months supermarkets have established new criteria requiring minimum 20% discount on the shelf price and funding of these promotions in order to obtain position in their catalogues. As SPCA is making significant losses already on these products we have not been able to comply with these criteria. Hence the increase in SPCA prices in 2013.

Chart 3.1(a)



Source: Aztec scans data

(b) Reduced depth of distribution for SPCA portfolio

Effective SKUs is measured as the sum of % distribution points across all SKUs divided by 100 (thereby providing a comparative depth of distribution).

As is indicated in Chart 3.1(b.1) and Chart 3.1 (b.2), number of SPCA skus in the market reduced from 2009 due to deletions.

Chart 3.1(b.1) indicates decreased number of skus in Supermarket X. In 2009 SPCA had 18% more Skus than private label in Supermarket X, by 2013 there are 56% more private label skus than SPCA

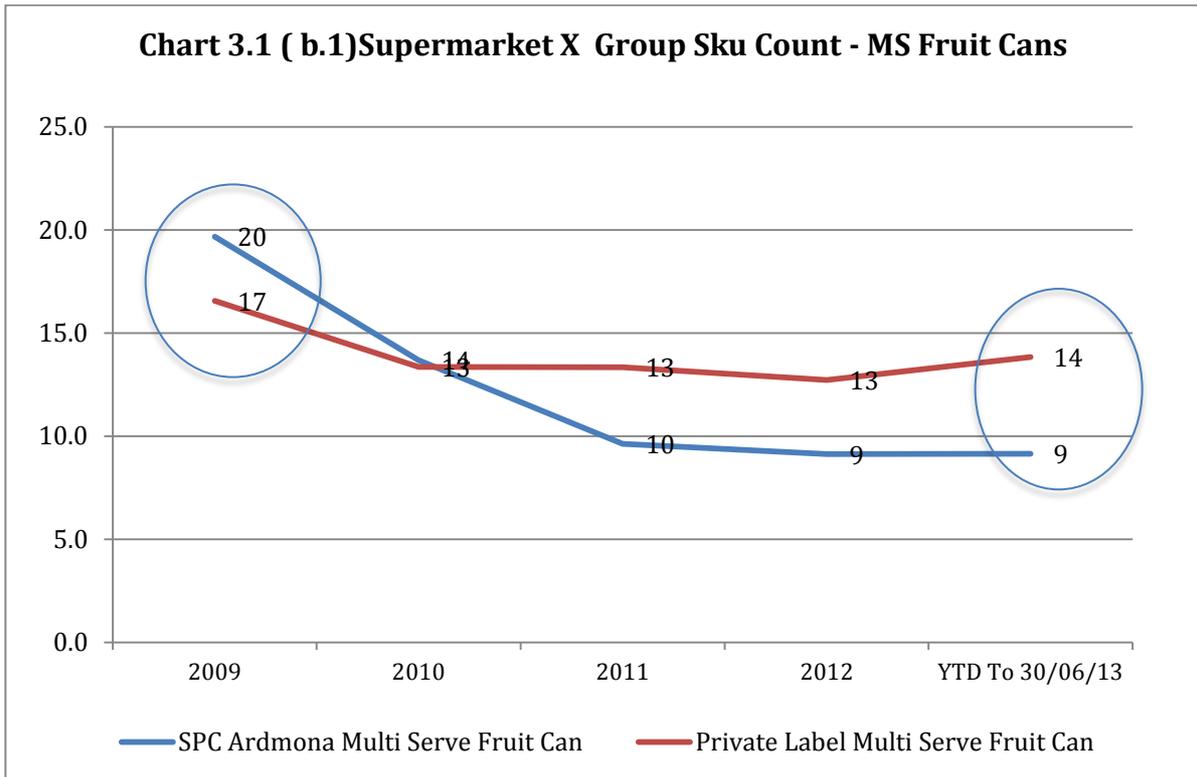
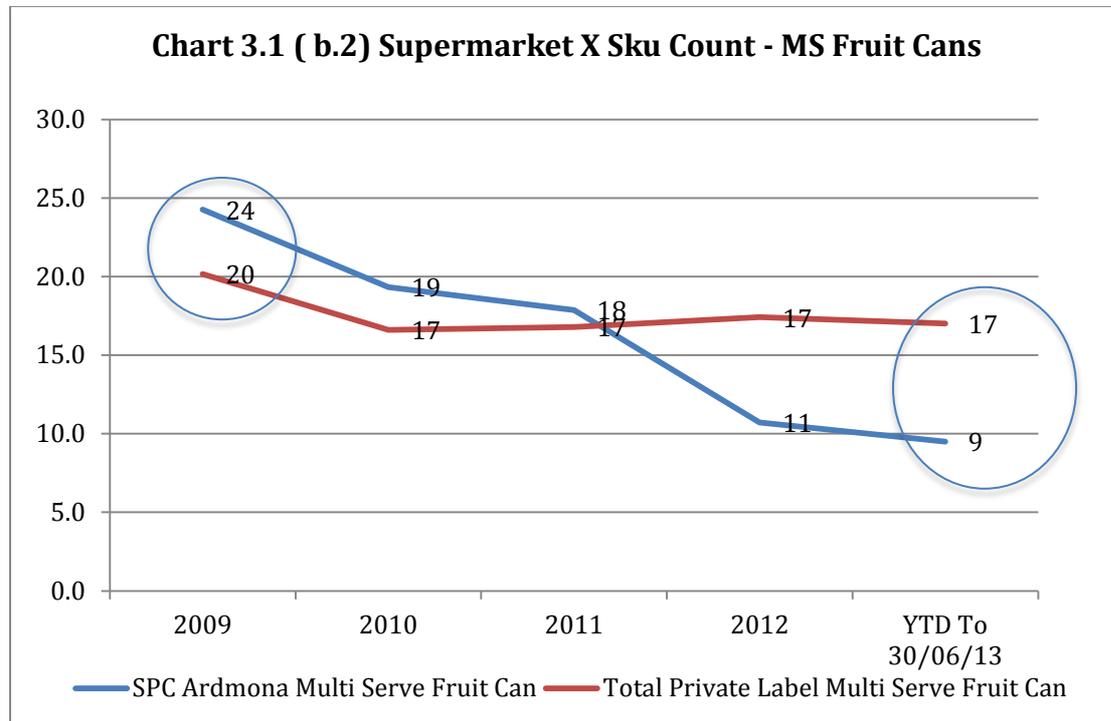


Chart 3.1(b.2) indicates decreased number of skus in Supermarket X. In 2009 SPCA had 20% more skus than private label in Supermarket X, by 2013 there are 89% more private label skus than SPCA.



These unforeseen and unexpected events created the resultant 'perfect storm'.

The PC Issues Paper identifies four criteria for safeguards based on what it asserts to be the precedent provided by an Appellate Body decision in the Argentinian footwear case, namely that imports must be "recent enough, sudden enough, sharp enough and significant enough"

- **Recent:** imports have been rising for some years, and have continued to rise in 2012 and into 2013 in relative terms.
- **Sudden:** exchange rate movements which led to the rise in imports are international developments which are inherently unexpected for industry participants and exchange rate-driven changes in imports have therefore been unexpected and sudden. The rate of change in imports increased in the period under consideration relative to earlier years.
- **Sharp enough:** exchange rate reached record levels and imports have risen sharply in recent years.
- **Significant enough:** rises in imports have been significant in relative or absolute terms.

Question 4: Has the industry suffered, or is it likely to suffer, *serious injury*?

The Commission requests that the industry provide evidence of serious injury, such as the magnitude of:

- *lower sales and/or reduced market share*
- *lower production levels and/or closure of facilities*
- *reduced profitability or losses*
- *reduced capacity utilisation*
- *lower productivity*
- *Lower employment levels.*

*In order to assess whether serious injury is **threatened**, the Commission also seeks information about:*

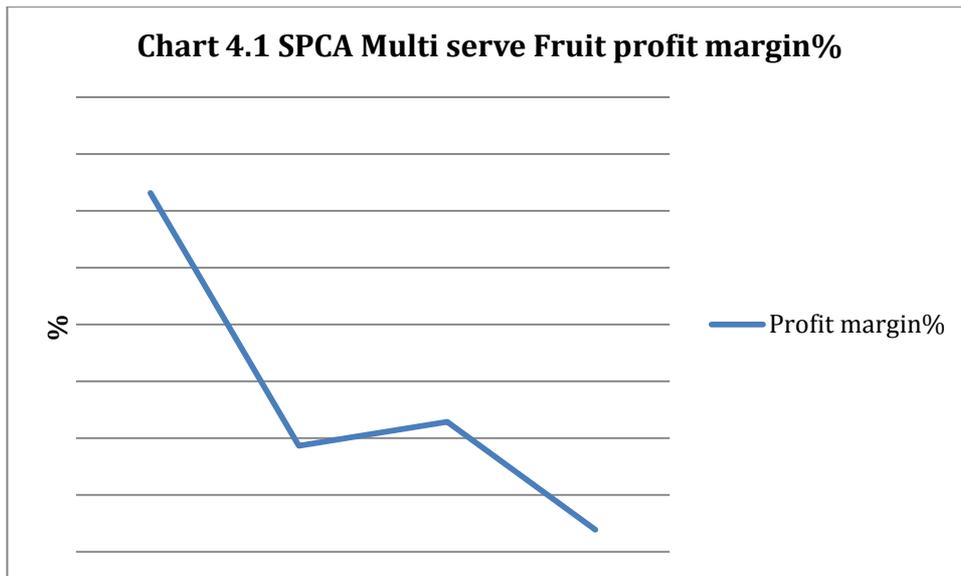
- *likely trends in imports, domestic sales and exports*
- *changes in inventories*
- *likely trends in profits, output and employment*
- *The industry's investment outlook and its ability to raise finance*

In 2009 market share of the imported canned multi serve fruit in supermarkets was 25% and by 2012 this share had risen to 41%. As the volume of imported products increased by 41% from 2009 to 2012, sales of domestically, manufactured canned multi serve fruit fell by 28% from 2009 to 2012.

This led to:

- Loss of critical economies of scale for SPCA and resultant increase in cost of goods.
- Loss of its relative position in the canned multi serve category.
- Retail sell price of the imported products has also been declining since 2009 as is shown previously in chart 3.1(a).
 - Imported products are available at significantly lower prices than the Australian SPCA's products; this in turn meant that SPCA had to compete for sales by discounting its prices and increasing promotional spend.
 - SPCA's discounts and rebates for canned multi serve fruit as a percentage of Gross sales revenue increased from 2009 to 2012 (Canned Peaches 36% in 2009 to 41% in 2012, Canned Pears 37% in 2009 to 46% in 2012).

The above factors have led to decline in SPCA's profit margins from X% in 2010 to -X% in 2013 year to date (April) (refer chart 4.1). Multi serve fruit accounts for a significant amount of capital employed in the SPCA business and a decline in profitability is significant to the business.



As a result of the increased proportion of imported multi serve fruit to total consumption in Australia, the viability of the domestic industry is under threat.

- Demand for raw tonnes of fruit is forecast to decline further and if the trend continues will lead to more growers exiting the industry.
- The losses suffered by SPCA as a result of imports have meant there is no capacity by SPCA to raise investment capital for the operations or for innovation.
- SPCA's multi serve fruit are manufactured in its Shepparton plant. Decline in the volume is leading to underutilisation of the assets and resulting in increased cost of operations.

If the trend continues this will put the viability of the entire SPCA operations under threat and SPCA would have to re-evaluate its position as the only Australian manufacturer of retail sized multi serve fruit products.

Question 5: Do critical circumstances warranting a provisional safeguard determination exist?

Are there any critical circumstances that would warrant a provisional safeguard determination? What is the cost of delay until a definitive safeguard determination is made and what would be the longer term impact on the industry?

A continuation of recent import trends threatens to overwhelm the industry. There are critical circumstances facing the industry, with decisions having to be made now at the farm and plant levels.

At the farm level, trees are a long-term crop and as a result of the damage caused by imports, some trees will be removed which would not need to be removed if a safeguard tariff at an appropriate level is in place. These trees will not be replaced once they have

been removed. An urgent decision on safeguards is required to prevent this long-term damage to productive capacity.

In addition, fruit growers are facing the critical decision on whether to spray their trees. This is occurring at a time when their financial position has been undermined by depressed prices and volumes demanded by SPCA, itself damaged by the impact of imports. Unless farmers spray their trees in the coming weeks, or pull out their trees altogether, there is a major risk of severe insect infestation and biosecurity damage taking place not only in the fruit tree-crop sector but across horticultural production more broadly in the region.

At the plant level, SPCA is facing a critical decision on whether to continue its operations.

The damage will be irreversible, as farmers leaving the industry will be unlikely to undertake the long term investment required again, and no one will invest on SPCA's scale again in this industry.

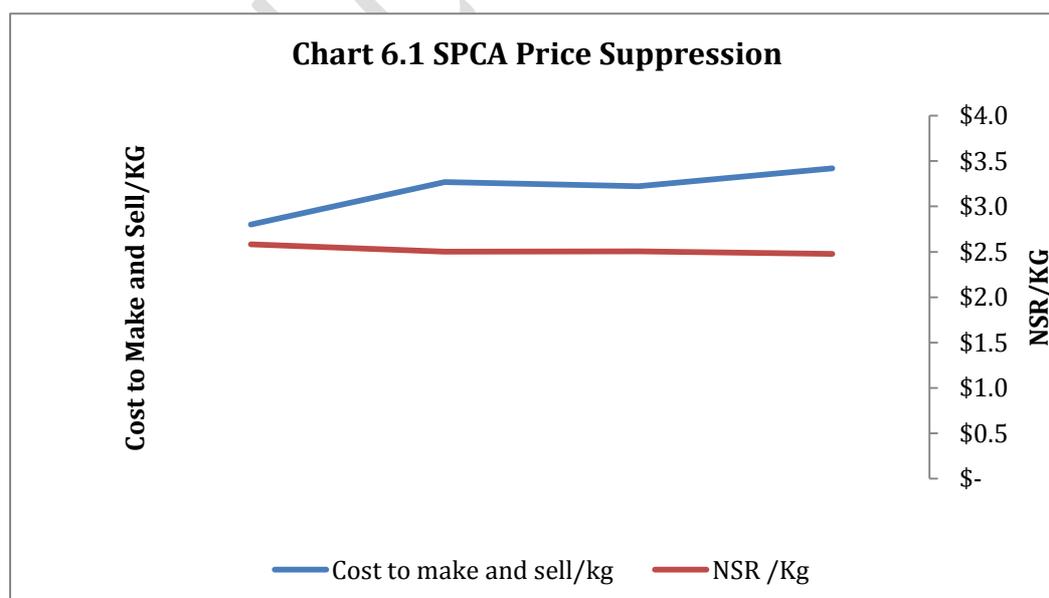
Closure of SPCA's facilities is a prospect unless provisional safeguards provide "breathing space", followed by full safeguards measures accompanied by an adjustment plan. This precisely the purpose of the WTO Safeguards Agreement.

Question 6: Are increased imports *causing* serious injury?

The Commission seeks evidence that increased imports have caused deterioration in the performance of the domestic industry.

- As is evident from chart 2.3 SPCA has lost volume share to imports since 2010.
- This has resulted in
 - Poorer economies of scale for SPCA and therefore increase in unit cost.
 - Depressed net realisation per unit for the SPCA.

This is indicated in chart 6.1 below:



Source: SPCA

Non-attribution of other sources of injury to imports

Performance of the economy generally

Multi serve fruit category is declining marginally. However share of imports have risen in relative terms.

Exchange rate changes

- covered in section Q 3

Weather conditions, such as droughts or flood

- Droughts and floods may have impacted the rise in imports in the past; however conditions have returned to normal and imports are continuing to rise. Domestic supply of fruits for canning are not a constraint.

Changes in consumer preferences, such as a switch to fresh fruit or different types of processed fruit products

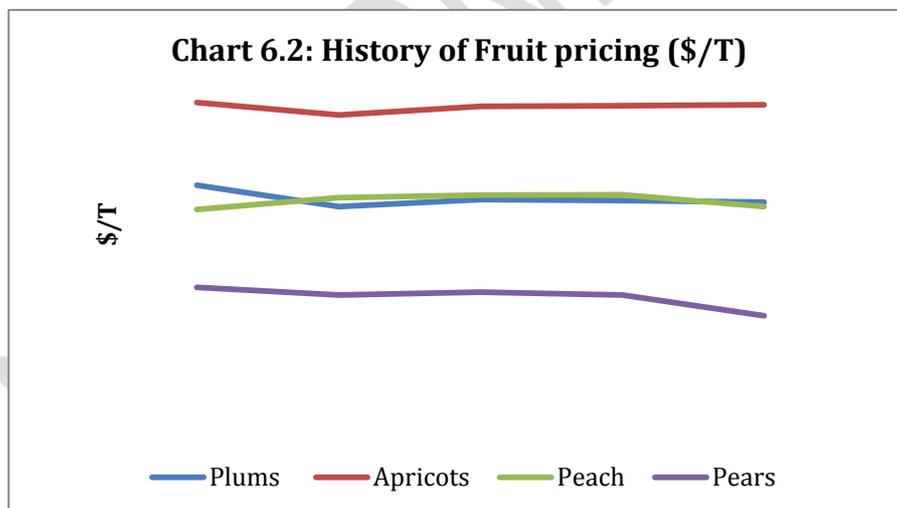
- No evidence of switching evident. Different usage and occasions.

Changes in productivity and product quality

Not Applicable

Costs of inputs including water, fresh fruit, labour and capital

Prices of raw fruit have either decreased or stayed constant over the past few years, post the drought as is shown in the chart 6.2 below.



- other factors affecting the supply of inputs - N/A
- the impact of changes in the prices of substitutes, such as fresh fruits - N/A
- investment/management/marketing strategies within the industry - N/A
- regulation of the industry - N/A
- industry structure and supply chains - N/A

Views and evidence are sought on the impact of these or other factors on the industry's performance.

Question 7: What safeguard measures would remedy serious injury?

What safeguard measures are warranted and at what level should they be set? How would those measures remedy the serious injury? How would they facilitate adjustment?

And Question 7A: What provisional safeguard measures would remedy serious injury?

*What **provisional** safeguard measures are warranted and at what level should they be set? How would those measures remedy the serious injury? How would they facilitate adjustment?*

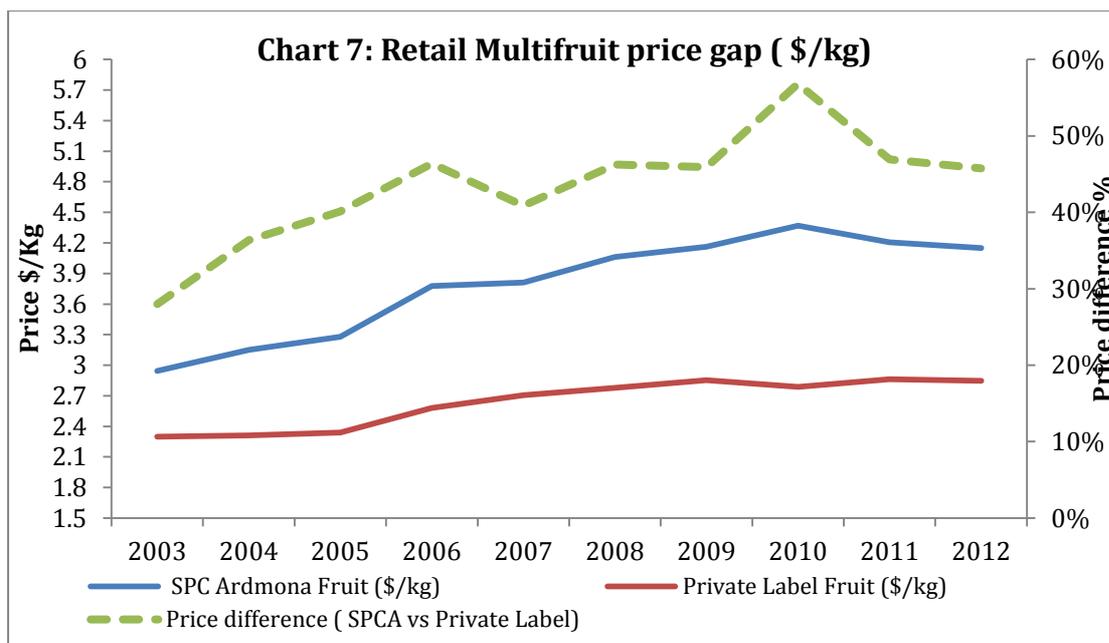
The WTO Safeguards Agreement provides that a member may take a provisional safeguard measure pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury.

The duration of the provisional measure shall not exceed 200 days. Such measures should take the form of tariff increases to be promptly refunded if the subsequent full safeguards investigation does not determine that increased imports have caused or threatened to cause serious injury to a domestic industry.

Other than the general requirement that safeguard measures be applied only to the extent necessary to remedy or prevent serious injury and to facilitate adjustment, the Agreement provides no guidance as to how the level of a safeguard measure in the form of an increase in the tariff above the bound rate should be set.

By raising the import price of competing products to the extent that the reduced volume of imports in the marketplace can then be fulfilled by increased domestic production. In doing so the measure will reduce the threat of injury caused to the domestic canned multi serve fruit industry.

The difference in price between imported and SPCA brand products is shown in Chart 7



A tariff set at a minimum of 45% would erase the average difference in price between imported and SPCA multi serve fruit products. It should be noted that this price gap is significantly higher at 60% in 2013 for total Multi serve fruit category and is around 130% for canned multi serve fruit category. A higher level of tariff could easily be justified to ensure the safeguard measure has a full impact in remedying damage

If maintained for a full year, one could assume that imports might be fully replaced by the effects of at least 45% tariff that is an additional 11,800 tonnes of demand would become available to the Australian industry. An increase in demand of this magnitude would provide for economies of scale to be realized in the Australian industry and lead to substantially lower production costs.

The imposition of at least 45% emergency tariff should be continued under full safeguards but should be phased out over three years while SPCA undertakes an adjustment plan that aims to enable the industry to be competitive against imports without the tariff.

The recommended safeguard tariff would be accompanied by an adjustment plan as outlined in the next section, to ensure SPCA's operations are competitive against imports longer term.

SPCA's Adjustment Plan

The SPC Ardmona Goulburn Valley Packaged Deciduous Fruit Industry Competitiveness and Modernisation Program (Competitiveness and Modernisation Program) is a multimillion dollar undertaking encompassing investment in the SPCA manufacturing facility at Shepparton along with fruit grower development initiatives to create a modern and competitive deciduous packaged fruit and vegetable industry.

The outcome of the program will be a viable SPCA business and fruit grower base for the long term future of packaged deciduous fruit and vegetable industry in the Goulburn Valley.

The far-reaching program will encompass fruit grower developments, new product innovation, process improvements, efficiency and sustainability enhancements.

The program will involve investment at the SPCA Shepparton site with new buildings, new plant and new equipment including state-of-the art packaging machinery and new packaging format technologies. This project will drive change in day-to-day operations within SPCA and the grower supplier base with an aim to increase efficiencies, reduce the cost base of business and support SPCA to become a competitive and environmentally friendly business.

Under the program the current operations at Mooroopna and Kyabram will be consolidated to the upgraded Shepparton site reducing the cost base and driving efficiency savings with the investment in modern and efficient processing and packaging equipment.

Revenue growth will be delivered through new products and pack formats, entering new product categories, creating a diversified and sustainable business both in Australia and Internationally.

The total cost of the project will be \$211 million investment in capital and other significant items including restructuring costs and asset write downs. Within the program there will be \$161 million of investment modernising the manufacturing capability and grower development initiatives.

The Multi serve fruit adjustment plan is part of this broader transformation plan for SPCA.

Question 8: What are the impacts on other parties?

What would be the impact of the imposition of safeguard measures on other affected parties including: consumers; growers and other suppliers; the food service industry; grocery wholesalers and retailers; importers; local exporters; foreign exporters and governments?

In the short term Australian consumers may pay more for processed fruit products which are the subject of safeguards. However as SPCA's proposed adjustment plan is implemented, the price competitiveness of SPCA's product will increase and in the longer term Australian consumers will benefit. In the absence of SPCA's production caused by continuing import penetration, the Australian consumer will be faced with little competition to the supermarket chains' imports for use in private label products. A longer term reduction in the exchange rate will thus see prices to consumers rise.

OTHER ATTACHMENTS (Confidential Version)

2. XXXXX
3. XXXXXX
4. XXXXXX
5. XXXXXX
6. XXXXXX
7. XXXXXX