



# **Inquiry into the Free Trade Agreement between the Government of Australia and the Government of the Republic of Korea**

**Joint Standing Committee on Treaties**

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**NSW Farmers' Association  
Level 6, Chandos Street  
St Leonards NSW 2065**

Ph: (02) 9478 1000  
Fax: (02) 8282 4500  
Email: [cullc@nswfarmers.org.au](mailto:cullc@nswfarmers.org.au)

## **NSW Farmers' Association Background**

The NSW Farmers' Association (NSW Farmers) is Australia's largest State farmer organisation representing the interests of its farmer members – ranging from broad acre, livestock, wool and grain producers, to more specialised producers in the horticulture, dairy, egg, poultry, pork, oyster and goat industries.



## *Submission to Inquiry into Korea-Australia Free Trade Agreement*

### **Introduction**

NSW Farmers welcomes this opportunity to provide feedback on the inquiry into the Korea-Australia Free Trade Agreement (KAFTA). The signing of KAFTA in April 2014 is a significant achievement. The economic opportunities provided by KAFTA are substantial for many of our nation's major agricultural industries.

The dairy industry can look forward to substantial gains through the gradual elimination of tariffs on butter and cheese. Sheepmeat producers will benefit from the progressive elimination of a 22.5 percent tariff on their products, providing our producers with an exciting advantage in what is an already fast growing market. Furthermore, beef producers will see reductions of tariffs on their goods from 40 percent to zero across a 15 year period, allowing unfettered access to a large beef consuming nation.<sup>1</sup>

NSW Farmers notes that KAFTA is expected to increase GDP by \$5 billion and add 15,000 jobs to the economy across the implementation period.<sup>2</sup> Given the broad scale economic benefits that are likely to extend from this agreement, NSW Farmers would like to offer our congratulations to the Federal Government for bringing this substantial and complex agreement to a conclusion.

Having achieved an end to negotiations, it is now imperative that Australia ratify this agreement as quickly as possible. Ratification by Australia within the calendar year will ensure that the process of tariff reductions on Australian exports is begun as quickly as possible. It will ensure that the Australian Government and Parliament has done all that is required to deliver the maximum possible benefit from KAFTA to Australian farmers.

### **Tariff Reduction Process**

The greatest issue before the Australian Government and Parliament regarding KAFTA is how quickly they can act in order to allow Australian farmers to access the promised benefits.

NSW Farmers understands that the first round of tariff cuts from KAFTA will be implemented immediately once the agreement is ratified in both Korea and Australia. Successive cuts will then take place on 1 January of the proceeding years.

If the agreement in 2014, the first round of tariff cuts would be implemented in 2014, with a second round of cuts delivered on 1 January 2015.

Achieving the first round of cuts in 2014 is essential for ensuring that Australian products remain as competitive as possible against other international products in the Korean marketplace.

### **Tariff Differentials: Australian vs. U.S. Beef**

The example of the beef industry demonstrates the strong financial and competitive imperative to bring KAFTA into force in 2014 and secure the first round of tariff cuts on Australian exports in late 2014.

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<sup>1</sup> Department of Foreign Affairs and Trade (2014) *Korea-Australia Free Trade Agreement Quick Guide: Key Agricultural Products*, DFAT: available from <http://www.dfat.gov.au/fta/kafta/guides/quick-guide-key-agricultural-products-outcomes.html>. Accessed 6 June 2014.

<sup>2</sup> Mr. Andrew Robb (2013) *Ministerial Statement: Korea Australia Free Trade Agreement*, House of Representatives Hansard; Tuesday 13 May, p. 2.



### *Submission to Inquiry into Korea-Australia Free Trade Agreement*

Korea is the third largest export market for Australian beef and improving market access there will be vital to maintaining our market share and competitiveness.<sup>3</sup> Therefore, one of the most important elements of KAFTA for Australian farmers is the provision for tariff reductions on Australian beef. Under the agreement, tariffs on Australian beef exports into Korea will be reduced from 40 percent to zero across 15 years.

While this tariff reduction is extremely important and is welcome news to Australian beef, it comes two years after the U.S. secured an identical tariff reduction schedule for its beef products through the Korea-U.S. Free Trade Agreement (KORUS). Beginning at 40 percent in 2012, tariffs on U.S. beef entering Korea are currently at 32 percent. This gives U.S. beef a relative advantage of 8 percent over Australian beef.

This 8 percent differential will continue until 2026 if KAFTA is not ratified in this calendar year. Such a large differential is enough to give U.S. beef a meaningful and significant edge over Australian beef in the Korean marketplace. If no action is taken to reduce the differential, it will result in lower exports of Australian beef, lower returns to Australian producers and lower economic growth for the Australian economy.

Therefore, narrowing this tariff differential across the 15 year Korea-Australia FTA (KAFTA) tariff phase out period is essential in order to maintain Australia's relative competitiveness with U.S. beef. Entry into force of KAFTA in calendar 2014 will see the tariff levied on Australian beef cut to 37.3 percent, reducing the beef tariff differential between Australian and U.S. producers from 8 percent to 5.3 percent. The relative tariff differential between U.S. and Australian beef products will then not be greater than 5.4 percent for the remainder of the 15 year tariff elimination period (see Table 1).

#### **Recommendation**

If KAFTA does not enter into force until 2015, then at best there will be an 8 percent differential in the tariffs levied on Australian and U.S. beef across the KAFTA tariff elimination period. If KAFTA comes into force in 2014, then the relative difference will be no greater than 5.4 percent.

While notionally very small, achieving this reduction would make an enormous difference to the competitiveness of Australian beef products in Korea across the 15 year tariff elimination period. The flow on effects would help to sustain profitability and growth in the Australian beef industry, the vitality of rural Australia and the growth of the Australian economy as a whole.

NSW Farmers urges the Joint Standing Committee on Treaties to do everything in its power to ensure that KAFTA enters into force within the 2014 calendar year. This will deliver the first cuts to tariffs on Australian exports in late 2014, ensuring that everything has been done to maximise the relative competitiveness of Australian goods in the Korean market.

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<sup>3</sup> Meat and Livestock Australia (2013) *Fast Facts 2013 – Australia's beef industry*, MLA: available from <http://www.mla.com.au/Cattle-sheep-and-goat-industries/Industry-overview/Cattle>. Accessed 6 June 2014.



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**Table 1: KAFTA vs. KORUS beef tariff elimination schedule<sup>4</sup>**

Year	KORUS beef tariff (%)	Tariff differential if KAFTA begins 2014 (%)	Tariff differential if KAFTA begins 2015 (%)
2011	40	0	0
2012	37.3	2.7	2.7
2013	34.7	5.3	5.3
2014	32	5.3	8
2015	29.4	5.3	8
2016	26.7	5.3	8
2017	24	5.4	8.1
2018	21.4	5.3	8
2019	18.7	5.3	8
2020	16.1	5.3	8
2021	13.5	5.2	7.9
2022	10.7	5.4	8.1
2023	8.1	5.4	8.1
2024	5.4	5.3	8
2025	2.8	5.3	8
2026	0	5.4	8.1
2027	0	2.8	5.5
2028	0	0	2.8
2029	0	0	0

<sup>4</sup> Adapted from: Uchida, R. (2013) Red Meat Market Report Korea: Korean beef market 2013 update and outlook. Meat and Livestock Australia: Sydney. Available from: <http://www.mla.com.au/Prices-and-markets/Overseas-markets/Korea>. Accessed 6 June 2014.