

Chapter 10

Agriculture

The Outcome for Agriculture

10.1 Chapter 2 of the Agreement sets out the tariff elimination schedule for agricultural products and Chapter 3 (Agriculture) establishes a Committee on Agriculture, institutional provisions and safeguard measures. Procedures for the elimination of tariffs and the establishment of duty-free tariff rate quotas on some agricultural products, are set out in the Tariff Schedules.

10.2 In the United States' Tariff, five main categories will be established: existing zero tariff, immediate tariff elimination, and elimination of tariffs in equal annual instalments over 4, 10 and 18 years. A few products are covered by additional staging categories (e.g. beef, avocados and wine).

10.3 No provision is included for changes to tariffs on sugar or sugar products, nor for a change to the above-quota duty rate for dairy products. For dairy, there is an increase in the volume of the duty-free quota available. Agricultural tariffs will be eliminated during the phasing period, except for these two industries.

10.4 Most Australian tariff rates on agricultural products are already zero. The remainder will be eliminated immediately the Agreement enters into force.

10.5 Tariff Rate Quotas applied by the United States will apply to beef, dairy, tobacco cotton, peanuts and avocados. The Agreement provides for the quota limits to be progressively increased during the tariff phasing period.

10.6 For beef, in year 1 the duty rate within the quota will be reduced to Free and in subsequent years the quota level will be progressively increased. From years 9-18 the above-quota duty rate will be progressively reduced to zero.

10.7 A safeguard arrangement will apply to beef imports exceeding 110% of the additional AUSFTA quota during the 18-year tariff elimination period. After that, the level of duty-free imports will be unlimited but a price based safeguard will apply. This mechanism can only apply to imports exceeding the year 18 quota level, plus an additional 420 tonnes per year from year 19. However, unlike the WTO agreements on safeguards, AUSFTA does not require that there be a causal link between the surge in imports and the injury.

10.8 There has been some concern expressed over the need for an 18 year phase-in period for beef, and also extension of safeguards beyond that time. It has been broadly recognised that the immediate removal of the tariff and increased quota over the 18 year period is of significant benefit to the development of the beef

industry. In any event, quotas thus far have seldom been met. The phase in period will allow the beef industry time to build up its capacity to supply.

10.9 The National Farmers Federation, while expressing some disappointment about the deal on agriculture, stated that they do recognise that there are some benefits for agricultural producers. The Federation indicated that it would therefore support the Agreement:

...our position is as follows. NFF is disappointed with aspects of the USFTA, and NFF expectations were clearly not met in a range of areas, particularly with regard to the outcome on sugar and beef. However, on balance, as the market access benefits for several agricultural industries are significant and:

(a) NFF does not believe the US FTA undermines Australia's quarantine system,

(b) NFF does not believe negotiated outcomes in chapters outside agriculture negatively impact on Australian farmers and

(c) NFF has seen no evidence at this time that the US FTA undermines Australia's ability to gain a favourable outcome in the WTO negotiations,

NFF supports the US FTA and believes all political parties should support the agreement through the Australian parliamentary system.¹

10.10 Beef and Livestock Australia was also concerned about some aspects of the Agreement, while indicating that the industry was satisfied overall with the outcome:

I do not think it is any secret that we are disappointed in some aspects of the agreement. We are disappointed at the long time frame to transition. We are disappointed that safeguards apply ad infinitum, beyond the 18 years of transition. But having noted that, on balance it provides us with increased access to that market worth a considerable amount to the Australian industry. So despite being disappointed in some aspects of the agreement—and I have never been involved in an agreement where I have not been disappointed in some aspects—we support the agreement.²

10.11 Australian Meat Holdings expressed similar views:

Our company's position is that we are in support of the agreement as it specifically relates to the meat industry. We do not wish to comment on the agreement in its broader sense, but we are supportive of it as it pertains to the meat industry. It delivers some immediate benefits to us in so much as the US\$4.4c a kilogram on the 378,214 metric tonnes under the WTO quota drops off as of day one. The quantum of the additional tonnage under the FTA of 70,000 metric tonnes puts us at a figure that this industry has traditionally never achieved. Given that there are some concerns about the

1 *Transcript of Evidence*, 5 May 2004, p.129 (Corish, NFF)

2 *Transcript of Evidence*, 16 June 2004, p.20 (Barnard, Meat and Livestock Australia)

availability on the supply-side to generate sufficient livestock to deliver that tonnage going forward, we think it is a very appropriate amount of tonnage to be awarded.³

10.12 In its submission, the Cattle Council of Australia highlighted the fact that the quota outcome was far from the negotiating position it had set before the government going into the negotiations.

The outcome on beef from the AUSFTA negotiations was substantially different from the negotiating objectives of the CCA. In short, an increase in quota of 70,000 tonnes over 18 years was negotiated. This negotiating outcome can only be described as disappointing. Critically, the increase is not sufficient for Australia to avoid quota restrictions in the US market in many years.⁴

10.13 A number of dairy products will be subject to quota; some of which already have an agreed WTO quota. An additional quota volume will be allocated for each product and the in-quota duty rate reduced to zero immediately. The additional quota amounts will then be increased by 3-6% per year, after year 1. The duty rates on all non-quota dairy products will be reduced to zero over the 18-year tariff phasing period; as will the quota and duty on Goya cheese.

10.14 The dairy industry was quite positive about the outcome for its members and indicated that it saw the possibility of considerable export growth. At the same time the industry noted that the priority is a satisfactory outcome in the Doha Round of the WTO:

The new access offers Australian manufacturers a unique opportunity to grow demand for dairy in the United States, with innovative customer tailored products, before our competitors can secure increased access via either regional agreements or multilaterally through the WTO.

Following are the impacts of the proposed agreement on the dairy industry. The value of dairy exports to the United States in year 1 is estimated to grow by at least \$50 million to \$60 million. The five per cent growth in access each year means that access will double in about 16 years.

The size of these access gains needs to be put in perspective from a US dairy industry viewpoint. In year 1, it is equivalent to about \$169 million litres of milk in a US domestic market of \$75billion litres of milk equivalent. This is about 0.23 per cent of the domestic market in the United States.

We see this as a stepping stone to Doha. It is important to note that the proposed FTA is only a stepping stone to the industry's most important trade objective: fundamental reform of world dairy product trading arrangements through the Doha development round negotiations.

3 *Transcript of Evidence*, 22 June 2004, p.14 (Keir, Australian Meat Holdings)

4 *Submission 406*, p3 (Cattle Council of Australia)

...In conclusion, the agreement is not a panacea for the challenges currently facing the dairy industry but will give both dairy farmers and manufacturers renewed confidence in the underlying strength and future prospects for their industry.⁵

10.15 New quotas will apply to tobacco, cotton, peanuts and avocados. For tobacco, cotton and peanuts, the year 1 quota will be increased by 3% per year and the outside-quota tariff will be eliminated over 18 years. Avocados will have two seasonal quotas from year 2. A base quota of 1500 tonnes will apply between 1 February and 15 September, and a further amount of 2500 tonnes may enter duty-free between 16 September and 31 January. The outside-quota tariff will be eliminated over 18 years.

10.16 A price-based safeguard will apply to a limited number of horticulture products listed in Section A of Annex3-A. It will take effect if the FOB price of Australian products is lower than the specified trigger price for that product. The trigger price is the average of the prices applying in the two lowest years of the previous five years. The safeguard will be assessed for each shipment individually. After the 18 year tariff elimination period, these products will be duty free and the safeguard will no longer apply.

10.17 The horticultural sector was generally positive about the outcome, although recognising that there were some areas of difficulty:

What came out of it for horticulture? On the positive side, as we stand at the moment, 98 per cent of Australian fresh exports into the United States face tariffs. Under the agreement as struck so far, 99 per cent would actually be tariff free immediately and the remaining tariffs will be eliminated over a transition period, and that does go out to 18 years in some cases. But at the end of the period, for horticulture it is actually a free trade agreement, albeit having to wait for 18 years in some cases for that to occur.

One single tariff rate quota was negotiated, and that was for avocados. Even though there is a tariff rate quota there, the substance of that TRQ was seen as a substantially positive outcome for the avocado industry. However, there are no exports in avocados until the sanitary and phytosanitary issues, which are outside the free trade agreement, are completed. The other good thing is that we have a bunch of industries that are now seeking access to the United States under the sanitary and phytosanitary arrangements, and all of those fresh products will immediately have zero tariff under the agreement. So there is potential for new products to be exported from Australia to the United States.

The other thing we see as positive is that there is no alteration under these agreements to the quarantine market access arrangements, and determinations will continue to be made strictly on the basis of science. On the down side, there were a set of items, particularly in chapter 20, regarding processed products, currently valued at \$7½ million in trade,

5 *Transcript of Evidence*, 5 May 2004, p.3 (Kerr, Dairy Products Foundation)

which do not achieve immediate market access; in fact, a number of those take 18 years to get tariff elimination. The other negative is that the time period for tariff reduction certainly will take longer than the agreement that was struck previously by the US and Chile. There are also a number of products into Australia that had up to about five per cent tariffs, and those tariffs are taken off immediately. So Australia offered a genuine free trade agreement as an opening case.⁶

10.18 The AUSFTA also declares that the two countries will co-operate on seeking the reform of international agricultural markets in the WTO and in other forums, such as APEC. A Committee on Agriculture will be established and will meet annually.

10.19 Both countries have agreed not to apply export subsidies to agricultural products traded into the other's market. The two countries have agreed to co-operate to remedy the effects of export subsidies applied by third parties.

10.20 The complete exclusion of the sugar industry from the Agreement has provoked considerable discussion. The public debate has resulted in the announcement of a \$444 million compensation package for the industry. This, in turn, has raised the question of whether other industries adversely affected by the Agreement will receive similar assistance packages.

10.21 It has been suggested that Australia's acceptance of the omission of sugar from the FTA will weaken Australia's negotiating position when seeking an ambitious reform package for agricultural products in the WTO.

10.22 This matter was discussed in hearings with the DFAT officials most immediately concerned with WTO negotiations. They have absolutely no concerns about Australia's capacity to continue to play an ongoing leadership role in efforts to improve agricultural trade multilaterally in both the WTO and the Cairns Group.

10.23 According to these senior officials, the Cairns Group continues to operate very effectively. It had a very successful meeting in February 2004 and continues to operate in Geneva, and at ministerial level, with focus on the WTO. Australia continues to put in as much effort as ever, arguably more than ever, to restore some momentum in these negotiations. The officials did not consider that signing AUSFTA would weaken Australia's position in the Group:

I cannot think off the top of my head of any Cairns Group member that is not part of a preferential trade arrangement or negotiating one—most of them are negotiating several. The Cairns Group continues to operate very effectively. It had a very successful meeting in February this year in Costa Rica at which this issue was not raised, either directly or indirectly.⁷

6 *Transcript of Evidence*, 15 June 2004, p. 2 (Webster, Horticulture Australia)

7 *Transcript of Evidence*, 10 May 2004, pp.47-48 (Gosper, DFAT)

10.24 When asked directly whether this Agreement had undermined Australia's multilateralism, the response from a DFAT official was: "I do not believe so." Further asked about the effect on Australia's role as a leading nation in the Cairns Group, the response was:

I do not see that it has detracted in any way from our Cairns Group role.

10.25 In his current annual statement on trade, the Minister emphasised the importance of the Cairns Group and its role in the WTO negotiations:

Australia's longstanding partnership with other agricultural producers in the Cairns Group of 17 agricultural fair traders is a key aspect of our strategy for achieving agricultural reform.

At the Cairns Group's ministerial meeting in Costa Rica in February, ministers issued a strongly worded communiqué about the Group's readiness to move forward Doha round negotiations and work to lock in a framework agreement on agriculture...⁸

10.26 The Committee was also advised that Trade Minister Vaile had since attended meetings in Paris, including a series of ministerial meetings and informal negotiations, on parts of the agricultural text that are being addressed as part of the Doha round.

10.27 DFAT officials said the specific initiatives that have been put forward, the breadth of Australia's coverage and interest in the Doha round, combined with the energy and activity Australia has put into the Cairns Group and into the overall negotiations, belies any suggestion that Australia is not playing a leadership role in agriculture.⁹

10.28 The DFAT officials agreed that there are aspects of the FTA in the agricultural sector, where an even better outcome was desirable. However, even with those provisos on the outcome for agriculture, they considered the FTA to be a good agreement, and there has been overall support for it from agricultural industries. The officials said that it is a balanced package and one that both governments believe is a substantial outcome for their economies. That was the basis for their agreement.¹⁰

10.29 Small access gains to the US market deliver potentially very substantial, benefits for industries the size of those in Australia's agricultural sector. The dairy industry is a good example. Having reviewed the Agreement, that industry has made it clear to the Committee that they regard the access gains as significant for the scale of their industry, as it considers investment decisions and changes to the industry's structure and operations over time.¹¹

8 Minister for Trade, Hon Mark Vaile MP, *Trade 2004*, pp. 23-24

9 *Transcript of Evidence*, 10 May 2004, p.48 (Gosper, DFAT)

10 *Transcript of Evidence*, 10 May 2004, p.50 (Deady, DFAT)

11 *Transcript of Evidence*, 10 May 2004, p.51 (Deady, DFAT)

10.30 An important aspect of the outcome of the Agreement is that the single desk arrangement for export marketing of Australian commodities has been preserved.¹²

10.31 One major concern is the absence of a Most Favoured Nation clause, which would require the United States to extend to Australia, treatment no less favourable than that accorded to agricultural products from a third country. In practical terms that would mean that the United States would have to pass on to Australia, any concessions it negotiates on agricultural products in a trade agreement with a third country, e.g. Chile or NAFTA. This may become extremely important if the negotiations to establish the proposed Free Trade Area of the Americas are successful. That agreement would include several of Australia's main competitors in agricultural exports.

10.32 The NFF indicated in its evidence that AUSFTA would be enhanced with the inclusion (through an exchange of letters) of a Most Favoured Nation provision.¹³ This raises the question of why that provision has not been included for agriculture, while it has been included in the Chapters applying to Services (Article 10.3) and Investment (Article 11.4).

12 Department of Foreign Affairs and Trade, *Australia-United States Free Trade Agreement: Guide to the Agreement*, 1st Edition, March 2004, p.79

13 *Transcript of Evidence*, 5 May 2004, p.147 (Corish, NFF)

