

# **The Office of Horticultural Market Access (OHMA)**

**Submission to the  
Joint Standing Committee on Treaties**

**Korea-Australia Free Trade Agreement**

**June 2014**

## **Executive Summary**

- Horticulture is Australia's third largest agriculture industry, with a gross value of production of \$8.7 billion in 2011-12 and around 60,000 people employed in horticulture production.
- A number of horticulture industries already have a strong export capability and many more are committed to developing exports. A strong export culture is seen as an important part of long term industry viability and competitiveness.
- To date Korea has not been a significant market for horticulture exports due in part to high tariff barriers. Examples of tariffs on horticulture are: 304% on potatoes, 144% on mandarins, 50% on oranges, 45% on table grapes and 30% on macadamias.
- The Korea-Australia FTA will make a significant contribution to removing these prohibitive tariffs and enabling Australian exporters to further develop the Korean market.
- If the agreement enters into force before the end of 2014, there would be an initial tariff cut immediately upon entry into force, followed by a second tariff cut on 1 January 2015. A double reduction within just a few months would be of great benefit to horticulture exporters facing those high tariffs into Korea.
- Therefore OHMA and the horticulture industries it represents support the completion of all necessary parliamentary procedures so that the agreement can enter into force at the earliest possible opportunity.

## **Background: OHMA and Horticulture Industries**

The Submission is made by the Office of Horticultural Market Access (OHMA). OHMA is an industry-based committee which has been established to help maximise export market access opportunities for horticulture industries. A core function of OHMA is to provide coordinated industry advice and support to the government departments involved in the official market access negotiation process.

Horticulture is Australia's third largest agriculture industry, with a gross value of production of \$8.7 billion in 2011-12<sup>1</sup>. Around 60,000 people are employed in horticulture production, and a further 6,200 in fruit and vegetable processing<sup>2</sup>. Horticulture industries therefore make a significant contribution to the Australian economy.

The main product groups had the following gross value of production in 2011-12: fruit and nuts \$4,090 million; vegetables \$3,338 million and nursery, flower and turf production \$1,271 million.

A number of horticulture industries have already developed a strong export capability and many more are committed to further developing exports. A strong export culture is seen as an important part of long term industry viability and competitiveness.

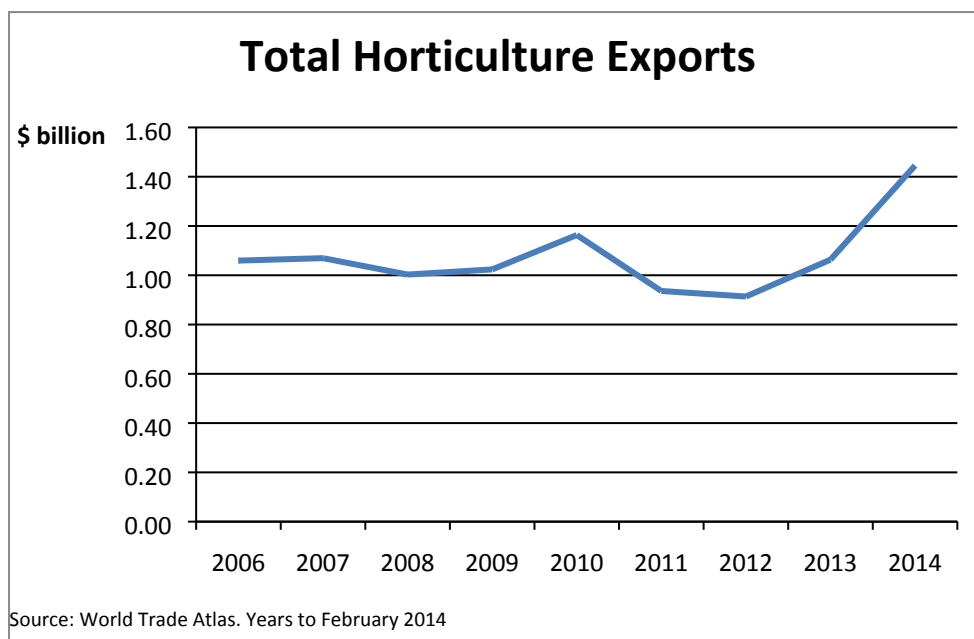
Horticulture exports are increasing. Total exports in the year to February 2014 were valued at \$1.44 billion<sup>3</sup>. This represented a 60% increase in the value of horticulture exports just two years ago.

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<sup>1</sup> Horticulture Factsheet 2012, Department of Agriculture

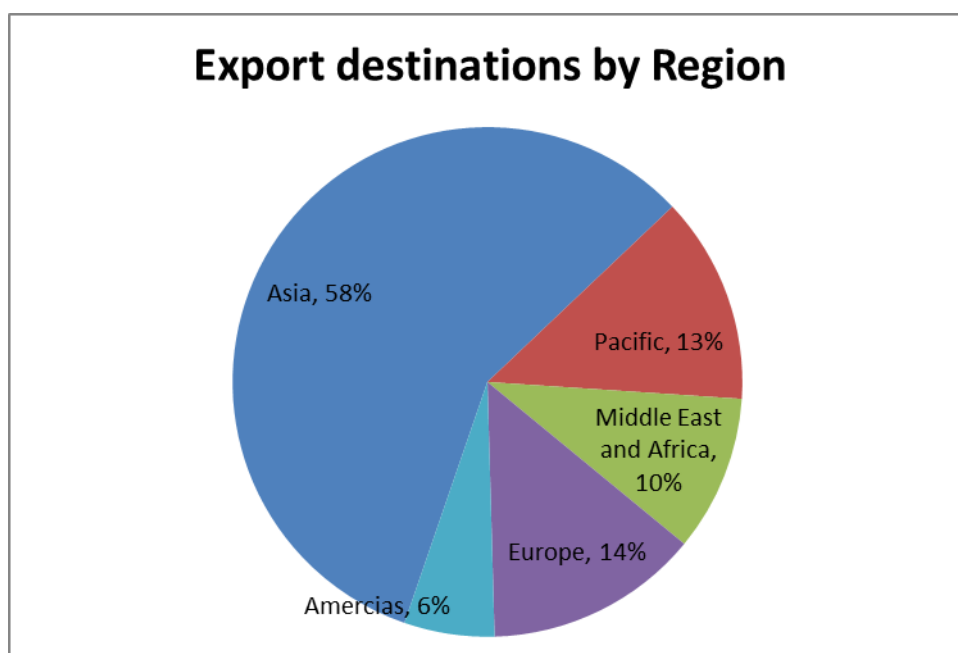
<sup>2</sup> Horticulture Factsheet 2012, Department of Agriculture

<sup>3</sup> Source: World Trade Atlas. Horticulture is defined as all products in HS Chapters 06, 07, 08 and 20, excluding products in HS 0713.



Fresh fruit accounts for around 40% of total exports, nuts are 29%, fresh vegetables 16%, processed products 16% and nursery/cut flowers are 1%.

The majority of current horticulture exports are destined for Asia, with eight of the top twelve export markets being in Asia. In other regions, New Zealand, United States, Germany and United Arab Emirates are important export destinations.



## **Horticulture Trade with South Korea**

To date, horticulture exports to South Korea have been relatively modest. Average annual exports in the last 3 years have been \$16.3 million, which ranks Korea as the 21<sup>st</sup> largest export market for Australian horticulture. Korea is however an important market for potato exporters, taking around 20% of all potato exports. The other main horticulture export items at present are macadamias, oranges and fruit juice.

Barriers to the Korean market are two-fold: phytosanitary restrictions and extremely high tariffs. On the former, phytosanitary protocols are required to access the Korean market and these are currently in place for only a small number of fruit and vegetable products. In line with established practice, negotiations to establish further phytosanitary protocols are being conducted on a separate track to the FTA. New access for table grapes was the most recent success in early 2014.

South Korea has some of the highest tariffs on horticulture products of any market in Asia. Current Most Favoured Nation (MFN) tariffs on key horticulture items are listed below.

<b>Product</b>	<b>MFN Rate</b>
Potatoes	304%
Oranges	50%
Table Grapes	45%
Cherries	24%
Orange juice	54%
Macadamias	30%

Such high tariffs act as a deterrent to trade and can make Australian products uncompetitive, particularly in relation to product from countries that already have an FTA with Korea, notably the USA.

## **FTA Outcomes - Tariffs**

The elimination of tariffs under the Korea-Australia FTA will therefore make a significant contribution to Australian industry's ability to compete in and further develop the South Korean market.

Key outcomes for horticulture include:

- Immediate elimination of tariffs on cherries, dried grapes, shelled almonds and potatoes (on a seasonal basis).
- Elimination over 5 years of tariffs on macadamias, carrots, orange juice and table grapes.
- Elimination over 7 years of tariffs on tomatoes, apricots and oranges.
- Elimination over 10 years of tariffs on mangoes, peaches, plums, in-shell almonds and ground nuts.

Some horticulture products were excluded from the coverage of the agreement and will not be subject to any tariff reductions, for example, walnuts, apples, pears, garlic and onions. While this is disappointing, the FTA will on balance deliver a positive net benefit for horticulture industries.

### **FTA Outcomes – Certification of Origin**

OHMA supports the provisions of the FTA that allow exporters and producers to self-certify the origin of their goods. Some previous FTAs have required compulsory third-party certification, which adds additional cost and time delays to the export process. This is particularly true for horticulture exporters who are sending time-sensitive, perishable products and are often based in rural areas some distance from certifying authorities.

The option of self-certification provides flexibility to producers and exporters and should be included in all Australia's trade agreements.

### **Conclusions**

To date Korea has not been a significant market for horticulture exports due in part to high tariff barriers. The elimination of tariffs under the Korea-Australia FTA will make a significant contribution to Australian horticulture industry's ability to compete in and further develop the South Korean market.

If the agreement enters into force before the end of 2014, there would be an initial tariff cut immediately upon entry into force, followed by a second tariff cut on 1 January 2015. A double reduction within just a few months would be of great benefit to horticulture exporters currently facing high tariffs into Korea. Therefore OHMA and the horticulture industries it represents support the completion of all necessary parliamentary procedures so that the agreement can enter into force at the earliest possible opportunity.

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