

Senate Select Committee on Australia's Food Processing Sector
Public Hearing 11 May 2012 – Parliament House, Canberra

Questions on Notice from Senator Xenophon

Witness: Department of Foreign Affairs and Trade

Committee Hansard Transcript p 48

Question 1

What are the details for the rules of origin (ROOs) that apply with respect to the CER between Australia and New Zealand?

Answer

Australia and New Zealand agreed in 2006 to amend the original rules of origin for the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) to a system based on the change in tariff classification (CTC) approach. The details of the product-specific rules applicable to the regime are outlined in the Customs (New Zealand Rules of Origin) Regulations 2006 (<http://www.comlaw.gov.au/Details/F2006L04069>).

The product-specific rules were further amended at the beginning of 2012 to take into account the revision of the Tariff Code to the current HS2012 version. Details of these changes can be found on the Customs and Border Protection website (see ACN 2012/24 at <http://www.customs.gov.au/notices/acn/default.asp>).

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Question 2

Do the ROOs ('rules of origin') under ANZCER provide China, in terms of its access for goods exported to New Zealand under the China-NZ FTA, 'a backdoor way' of getting goods into Australia, including in relation to the issue of food labelling, that current Australian import arrangements would otherwise prevent?

Answer

The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) does not provide for any preferential treatment of rules of origin for non-Parties to the agreement. Therefore, the rules of origin under ANZCERTA do not provide a "backdoor way" of getting goods into Australia.

Rules of origin rules are separate and distinct from Australian requirements for labelling food according to country of origin.

All food imported into Australia requires country of origin labelling under the provisions of the Commerce (Trade Descriptions) Act 1905 (the CTD Act) and the subordinate Commerce (Imports) Regulations 1940. The Australian Customs and Border Protection Service administers the CTD Act and Regulations.

The Commerce (Imports) Regulations 1940 require "the name of the country in which the goods were made or produced" to be included in the trade description.

To qualify as the 'country of origin', the following requirements must be met:

- . the goods have been substantially transformed in that country; and,
- . 50% or more of the total cost of producing or manufacturing the goods is attributable to production or manufacturing processes that occurred in that country.

The CTD Act specifically prohibits the import of goods not marked in accordance with the Regulations.

There are no exceptions to these requirements as a result of the ANZCERTA.

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Question 3

To what extent are free trade agreements only as good as the exchange rate at the time that we (Australia) entered into them?

Answer

The currency exchange rate at any point in time has no relevance to the benefits of a more liberalised trading environment resulting from a free trade agreement (FTA).

The purpose of FTAs is to facilitate trade between economies by eliminating or reducing border restrictions and establishing a legal framework which strengthens the business environment for investment and services. Creating a more liberal trading environment underpinned by rules allows each participating economy to maximise its comparative advantages resulting in enhanced economic prosperity.

The complementary nature of FTAs allows Australia to take advantage of its relative strengths, which includes abundant reserves of energy and mineral resources, a highly productive agriculture sector, a skilled labour force and a flexible and open economy. Australia is well positioned to gain significantly over the next decades through greater economic integration with the rapidly growing economies in our region.

FTAs are intended to be long-term commitments governing the trade relationship between the parties. The benefits of FTAs are derived through comparative advantage, not through fluctuations of currency exchange rates.

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Question 4

To what extent are fixed currencies taken into account in terms of determining issues of trade and access?

Answer

The currency policy adopted by an economy, whether it be a floating exchange rate, a fixed (or “pegged”) exchange rate or something in-between (“managed float”), should not be a factor when considering trade policy issues such as whether to commence preferential trade agreement negotiations. The benefits of international trade are derived through comparative advantage, independent of currency policies of trading partners. The subject of trade negotiations is the market access barriers that each government imposes.

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Question 5

In general terms, has there been an increase in fruit and vegetable imports including processed food in recent years? What is the trend? How does Australia's experience with imports compare with exports of fruit and vegetables and processed food?

Answer

There has been an increase in Australia's imports of fruit and vegetables and processed food in the period 2006 to 2011. The trend over that time is that imports of fruit and vegetables have risen by an average 7.9 per cent per annum. Imports of processed food have risen by an average 7 per cent per annum.

Australia's exports of fruit and vegetables have risen by an average 6.7 per cent per annum over the period 2006 to 2011. Exports of processed food have contracted by an average 0.8 per cent per annum.

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Question 6

To what extent have the increased costs of inspection and AQIS charges been a dampening factor in exports?

Answer

The Department of Agriculture, Fisheries and Forestry (DAFF) has provided the following information in response to this question.

The Government has invested \$127.4 million in the improvement and enhancement of a world class export certification system. The reforms represent the first major overhaul of these arrangements for over 20 years and mean our export industries are well placed to improve their efficiency and competitiveness in the global market.

The Export Certification Reform Package provided funding to support Australian export industries through a 40 per cent rebate against export certification costs (\$85.3 million), and to fund projects (\$16.1 million), the majority of which were identified by the export sectors, to bring efficiencies and savings to exporters. The balance (\$26.0 million) was provided to fund the development of a new inspection model for meat exports and reduce the number of Commonwealth officers engaged in meat inspection. ECRP concluded on 30 June 2011.

The reforms across the fish, grains, meat, live exports, horticulture and dairy export sectors are estimated to provide savings to export industries of at least \$15-17 million per year, according to a review undertaken by Ernst and Young.

New fees and charges have been implemented for a number of these sectors to enable exporters to maximise the possible savings under the reforms and the Government has provided additional transitional funding to assist the sectors move onto the new arrangements. The Government provided transitional funding of \$27.8 million to assist meat exporters, \$0.7 million to assist dairy exporters, \$2.5 million to assist grain exporters and \$1.5 million to assist fish and egg exporters. Discussions are continuing with the horticulture and live animal export sectors.

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Question 7

Is there any truth to the perception in regional communities that farmers are shifting their enterprises to bulk commodity exports like grain and getting out of horticulture? Is it because the domestic market is uncompetitive or the cost of adding value is prohibitive? How have additional imposts or the removal of AQIS subsidies for inspection affected the cost of adding value?

Answer

The Department of Agriculture, Fisheries and Forestry has provided the following information in response to this question.

The question implies that shifts from the cultivation of horticultural crops to bulk commodity crops, like grain, are occurring on existing holdings. This appears to be unlikely, to any significant extent.

The majority of farms that are mainly dependant on horticultural production operate very small areas of land unsuited to enterprises that produce bulk commodities such as grain. Further, returns from the production of bulk commodities are unlikely to generate returns that would encourage a switch from horticulture to these activities, particularly on such a small scale.

ABS data show that 83 per cent of horticultural farm businesses operate holdings of less than 100 hectares, with 73 per cent operating less than 50 hectares. In marked contrast, only 6 per cent of grain farms operated less than 100 ha and only 24 per cent of broad acre, cotton, sugar and dairy farms operated less than 100 hectares. The majority of these small broad acre farms are lifestyle farms, not viable as farm businesses and where the majority of the farm operators' income is derived from non-farm activities.

Returns per hectare from bulk commodities such as grain are much lower than returns from horticultural activities. For example, farm cash income per ha of grain planted averaged \$200 for grains industry farms in 2010-11 (a year of well above average returns). In marked contrast, ABARES farm surveys indicate the farm cash income returned per hectare of vegetables grown averaged \$4,300 for vegetable industry farms in 2010-11.

DAFF does not routinely provide export certification services for processed horticultural products, since they are not prescribed under the export legislation. Exports of these products are therefore not subject to export certification fees and charges. However, where importing countries require export certification to accompany processed horticultural products, exporters approach DAFF for the certificates and export certification fees and charges do apply. The benefits of the reforms apply in this latter case - see answer to Question 6.

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Question 8

In his testimony to the Inquiry, Mr Dick Smith asserted that Beerenberg, the South Australian jam producer, had trouble accessing the French market because of tariffs or barriers. Is there a 20 per cent impost in France for imported jams? If that is the case, how does that work in the context of trade, for instance, with the European Community?

France is a member of the European single market. Tariffs are levied at the EU level and so apply for imports from outside the EU to any EU member. Trade within the EU is tariff free. Applied Most Favoured Nation (MFN) tariffs on jams and other fruit and nut pastes and concentrates imported into the EU vary depending on the key ingredient and/or sugar content, and range from 15 per cent for jams made from tropical fruits to 24 per cent plus €23 per 100 kg for jams of strawberries, raspberries or other fruits.

Imports from some countries may face lower or zero tariffs into the EU if these products have been included in a preferential trade agreement with the EU or for developing countries under the EU's Generalised Series of Tariff Preferences scheme, which provides lower tariffs or tariff-free entry for certain products into the EU.

The Department of Foreign Affairs and Trade works to reduce foreign barriers to Australian exports, including tariffs such as those applied to jam exports to EU countries. The international agriculture sector is not a level playing field with many countries, including the EU, continuing to provide considerable protection to their farmers. As chair of the Cairns Group of agricultural exporting countries, Australia is one of the world's leading advocates of agricultural trade policy reform. Australia's ongoing trade policy dialogue with the EU underlines our commitment to promote openness of trade in agricultural, food and other products. The Department places a priority on regular communication with the agrifood industry to identify priorities for Government action in seeking improved market access for Australian exporters.