



## Australian Dairy Industry

Represented by

Australian Dairy Industry Council Inc.

and Dairy Australia

Submission to

## The Joint Standing Committee on Treaties regarding the Korea-Australia Free Trade Agreement

### Contacts

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## The Australian Dairy Industry

The dairy industry is a \$13 billion farm, manufacturing and export industry. Australia's 6400 dairy farmers produce around 9.2 billion litres of milk a year. 43,000 Australians are directly employed on farms and in dairy processing. More than 100,000 Australians rely on dairy for their livelihoods, including vets, scientists, mechanics, financial advisors and feed suppliers. 98% of Australian dairy farms are family owned businesses. Our dairy quality and safety processes are among the best in the world.

Australian dairy makes a vital contribution to the national economy. With a farmgate value of \$13 billion, dairy enriches regional Australian communities. Australia is the fourth largest dairy exporter in the world, accounting for 7% of global trade. More than 40% of milk production is exported, and Australian exports are worth around \$2.7 billion a year. More than 125 Australian companies export dairy.

Our industry has the potential to grow substantially over the next decade to meet increasing domestic and international demand. Realising this growth potential and expanding the industry's economic, social and environmental benefits depends on a positive national and international operating environment.

The dairy industry welcomes the chance to present this submission regarding the Korea-Australia Free Trade Agreement signed in Seoul on 8<sup>th</sup> April 2014.

This is a joint submission from the Australian Dairy Industry Council (ADIC) and Dairy Australia.

The ADIC is the national peak policy body for the Australian dairy industry and represents all sectors of the industry on issues of national and international importance. Its constituent organisations – Australian Dairy Farmers Limited (ADF) and the Australian Dairy Products Federation (ADPF) – represent the interests of dairy farmers, manufacturers, processors and traders across Australia.

Dairy Australia is the dairy industry-owned service company, limited by guarantee, whose members are farmers and industry bodies, including the ADF and the ADPF.

## Key points

- **The Australian dairy industry supports the signing of the Korea Australia Free Trade Agreement.**
- **South Korea is an important dairy market, with Australia's dairy exports in 2013 being valued at an estimated \$88 million.**
- **KAFTA offers the opportunity of growing dairy exports, though both the EU and USA, major dairy exporting nations, have a head-start through respective FTAs with South Korea.**
- **The Australian dairy industry urges the Australian Government to undertake to expedite entry into force of the Korea Australia Free Trade Agreement, certainly before the end of the 2014 calendar year.**

## Background

The Australian dairy industry supports the signing of Australia's Free Trade Agreement (FTA) with South Korea.

The industry sees the completion of this agreement with Korea, as an important step forward on the path towards dairy trade liberalisation in East Asia.

While the final deal does not deliver everything that had been hoped for, it will provide access to a range of new opportunities in an important regional market.

Korea is a significant dairy market for Australia and currently ranks 10th by value with \$88 million worth of exports in 2013.

The agreement, when implemented, will set most Australian dairy products on a path to eventual full trade liberalisation into Korea, with the notable exception being milk powder, which was left out of the final agreement.

Some dairy products will enjoy zero tariff on entry into force, while the majority will see tariffs phased down over varying periods of time. In general, the phase in periods are generally longer than the equivalent periods negotiated by the EU and USA in their respective FTA's with Korea on top of their earlier implementation dates.

For some key items Australia will have access to a Country Specific Quota (CSQ) during the phase in period. Product exported within the CSQs will enter Korea at a reduced tariff (usually zero) while products outside the CSQs will revert to the tariff specified within the relevant KAFTA schedule. Products for which a CSQ is specified for Australia include Butter, fats and oils; Cheese; and Infant Formula.

Dairy Australia estimates that the first year benefit of tariff savings for Australia under KAFTA will be in the order of \$US 7.6 million, and that figure will grow year on year as the CSQ volumes increase and the out of quota tariffs reduce.

The commercial reality is that Australian dairy liberalisation will be five to seven years behind key trade rivals, the USA and European Union.

To ensure Australian dairy does not fall any further behind our competitors, it is vital that the FTA is implemented before the end of 2014 to kick-start the liberalisation process.

If implementation occurs this year (even if late in 2014) Australian dairy will begin to take advantage of the tariff reduction timeline, and will move to 2<sup>nd</sup> year reductions as from the 1<sup>st</sup> of January 2015.

If, however, implementation does not occur until 2015, Australia will fall another year behind in terms of commercial disadvantage to the EU and USA. It is vital that this opportunity for early implementation is not lost.

## Conclusion

The Australian dairy industry supports the signing of Australia's FTA with South Korea, and urges our government and the government of South Korea to ratify and implement the Korea Australia Free Trade Agreement as soon as is possible.