



SUBMISSION to the
Joint Standing Committee on Trade and Investment Growth

*Inquiry into Diversifying Australia's Trade and Investment
Profile*

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1. About AMIC

AMIC is the Peak Industry Council representing 2,000 post-farm gate red meat industry enterprises. AMIC members include businesses processing for domestic and export consumption, smallgoods manufacturers, boning rooms, cold stores, wholesalers and distributors through to exporters and independent retail butchers.

The Australian meat supply chain makes a substantial contribution to the national economy each year by accounting for over \$16.2 billion in Gross Domestic Product (GDP), or 1.3% of total GDP and \$7.6 billion in Australian household income.

The post-farm gate meat industry employs around 200,000 people directly and indirectly, and is often the single biggest employer in rural/regional areas, underpinning vitality and sustainability of Australia's agricultural sector and regional communities.

2. Executive Summary

Australia's red meat (beef, sheepmeat and goat meat) and associated meat product exports are marketed into the domestic market and over 100 international markets.

The red meat industry's prosperity is highly dependent on international trade. Access to overseas markets is critical not only for the export of produce, but also for the sourcing of inputs, technology and capital equipment. These trade transfers are paramount for business efficiency.

As such, Australian processors and exporters are continually seeking opportunities to improve our market access and expand market reach, which in turn seeks to deliver the best farm gate returns and underpin Australian agriculture and the rural and regional communities reliant on livestock processing.

However, Australian processors and exporters face a range of challenges that limit our ability to diversify. Importantly, while FTAs have helped to significantly lower the barrier to entry, Australian exporters still face an enormous suite of challenges in the form of non-tariff measures applied by importing countries, which in varying cases limit our ability to access markets; take full advantage of existing preferential access; or have an adverse impact of increasing the costs of production, thereby making Australian exports less internationally competitive.

In assisting Australian processors and exporters to improve our diversification strategy, the Australian Government has worked to secure improvements in access via the existing suite of bilateral trade agreements, and has acknowledged the detrimental impact of non-tariff measures and the urgent

need to address them in a manner that minimises additional imposts on the Australian system. These efforts should be recognised, and further enhanced and prioritised, in order for the meat export sector to be sustainable and continue to underpin the growth in agriculture towards \$100bn by 2030 in line with the Government's vision.

This submission seeks to address the specific questions posed in the Inquiry's Terms of Reference.

3. Market reliance

ToR - "Consider if Australia is too reliant on any one market for exports. If so, what factors are contributing to this dominance"

The Australian meat industry currently is able to access over 100 markets, based on our 'clean and green' status and our rigorous food safety and integrity systems.

A common assumption/misperception from lay audiences is that a whole processed carcass is destined for one particular market, thereby generating a strong degree of reliance on that market. In fact, each carcass is disassembled by Australian processors into multiple components/cuts/product types, each of which may have a different target market base on customer preferences (e.g. grinding beef to the US for hamburgers; cube rolls to Korea for BBQs; brisket to China for hot pot or manufacturing meat; livers to Egypt; skin-on goats to the US, etc.).

However, the existing access that we have into some markets is coupled with a range of regulatory non-tariff measures that limit our ability to fully embrace the concept of a truly diversified supply chain. For example, each lot of grinding beef for export to the US must be sampled for STECs (a type of microbe) to meet US legislation; Korea requires that meat is produced under the supervision of a government veterinarian; China has stringent requirements for establishment approvals and product labelling; Egypt requires product to be derived from cattle not treated with certain veterinary products; and EU/UK legislation does not yet have provisions for skin-on goat carcasses.

Over the past several decades, the Australian meat industry has observed a number of changes in the dominance of markets to which Australia supplies, due to a myriad of factors, including but not limited to:

- The rise in the number of bilateral **Free Trade Agreements** successfully negotiated in the last 20 years or so that have provided preferential tariff settings for Australian red meat exports – including FTAs with the US, Singapore, ASEAN, NZ, Chile, Japan, Korea, China, Malaysia, Thailand, CPTPP, Hong Kong, Peru and more recently, Indonesia. FTAs currently being negotiated will likely have a material

impact in further diversifying the future direction and market mix of Australian meat exports, but these outcomes will be affected by other considerations as listed below.

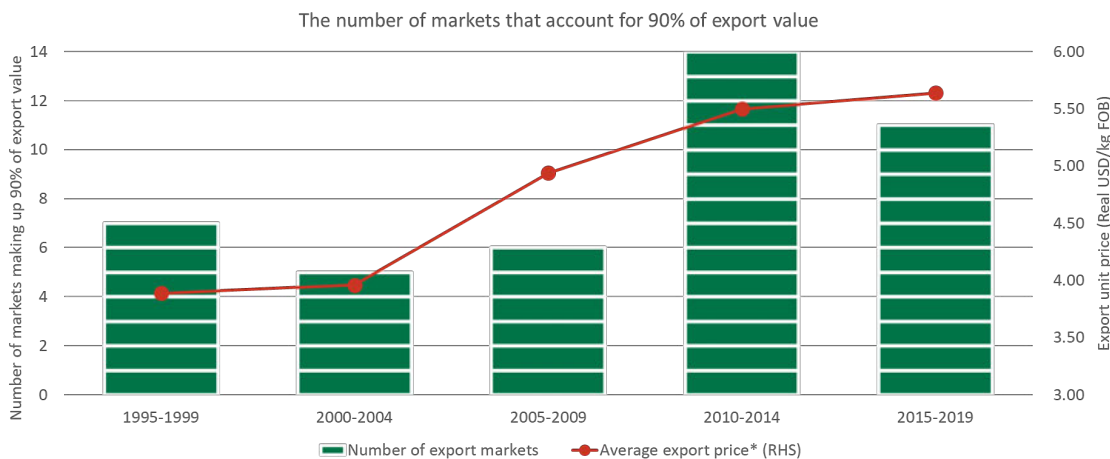
- The **ease of access** to particular markets including trade distorting/trade limiting measures. As described above, apart from tariffs and quotas, Australian red meat exports face numerous and growing non-tariff measures (estimated at a cost to Australian producers of \$3.4bn per annum in 2017). These measures may include a range of requirements, for example:
 - sanitary requirements (e.g. animal health, shelf-life, allowable veterinary treatments, maximum permitted residue levels, processing standards, etc.);
 - technical requirements (e.g. listing approvals, foreign country audits, labelling, microbiological testing, documentation legalisation); and
 - other operational requirements (temperature, staffing, verification requirements, etc).
- **Market demand** – the growth in demand for quality sources of animal-based protein as economies grow and become increasingly affluent, and more consumers looking to red meat to provide a healthy and nutritious product.
- There is **innate competition** for a finite resource – Australia's livestock production systems are broadly speaking, extensive systems limited by climatic conditions. Australian meat exporters in turn seek the best returns for the finite resource in a competitive global market. In seeking out the markets that provide the premium returns, in turn it provides improved farm-gate returns and underpins rural/regional sustainability and prosperity.
- The dynamic nature of **animal health**, including emerging diseases – for example, African Swine Fever has greatly reduced pork supply in the Asian region, distorting the global protein flow in order to fill the significant deficit in the region.
- Investments in **processing hubs** and general infrastructure, by importing countries – where Australian raw materials are converted/value-added by the importing country and re-exported to third countries.
- Availability of **freight options** – Investments by Australian processors in internationally recognised food safety systems (such as HACCP, Refrigeration Index, Product Hygiene Index etc) has enabled the production of meat with longer shelf-life. Coupled with improvements in international logistics, it has enabled more Australian meat to be transported as chilled, both via air and ship freight, to a greater range of countries (that historically would have only been able to receive frozen product).

Given the above factors, Australia's reliance on various markets for meat exports has shifted over a number of decades, including from original export

markets such as the UK prior it joining the EU, through to US, Japan, and more recently over the past decade to China, the Middle East and other emerging markets in the South Asian region including Indonesia.

While some key markets have remained a large part of Australia's export mix, Australia's export portfolio has generally become more diversified. In the case of beef, over the period 1995-1999 seven markets accounted for 90% of the export value of Australian beef. Market concentration increased in the early 2000s but has since decreased over the last ten years, as illustrated below. Over the period 2015-2019, eleven markets accounted for 90% of the export value of Australian beef, while 105 markets competed for the remaining 10%. Strong global competition for Australian beef from a range of markets coincided with export prices steadily increasing.

Beef exports have become more diversified



Source: ABS, MLA

*Average FOB export values converted to real prices (2019 dollars) and to USD

4. Advantages and disadvantages of market reliance

ToR - “The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over reliance on any one market”

In the meat export space, commercial operators determine the degree of reliance on a market based on their individual risk appetite and the risk: reward ratio. As such, what is defined as ‘reliance’ compared to ‘over-reliance’ should be clarified in this context. Just because an exporter is reliant on a particular market and derives a significant amount of their revenue from exporting their product to this market, it does not necessarily mean that they are over-reliant on the particular market. The degree of ‘over-reliance’ is subjective and risk-dependent.

Benefits

- **Economies of scale** – trade concentration enables industry participants and stakeholders to be able to focus their finite resources to achieve economies of scale. For example:
 - *Operational* – if a processor is packing for a consistent market/specification, it means that operationally, they can focus their resources on securing a particular livestock category, and producing and selling a standardised cut/product, with associated batching of packaging materials, documentation requirements, storage and transport requirements, shelf-life claims, and meeting other commercial specifications.
 - *Business* – focusing on one market means that finite resources can be utilised to undertake dedicated business development activities and investments, including in-market promotion, staffing or establishment of locally based offices, business relationship building etc.
 - *Industry* – where there is critical mass of Australian businesses in the market, it creates greater market penetration and return on investment for sector-wide marketing and promotion, as well as improved returns on industry-based research and development that aims to place Australian product at a competitive advantage.
 - *Government* – trade concentration creates a clear business case for focusing government investment in resources and prioritisation to negotiate improvements in trading conditions or reduce barriers to trade, especially where these are longer-term objectives that require ongoing effort and commitment to resolve.
- **Mutually beneficial relationship** – trade concentration is often a reflection of the deep and longstanding relationships that industry participants have forged with customers in-market, which demonstrates Australian exporters are long-term, reliable suppliers that consistently deliver a safe, wholesome and quality product, regardless of short-term trade disruptions or price fluctuations. Trade concentration enables the building of the strong reputation of the Australian red meat sector over many years, in close association with importers and their customers.

Disadvantages

- **Proportionately greater risk** – the obvious disadvantage to trade concentration is that there is the risk of ‘all eggs in one basket’.

Unlike a number of other agricultural sectors that produce highly perishable products (e.g. live seafood, certain horticultural products) and may have a short ‘season’ in which the products must be marketed, the Australian red meat industry is somewhat more resilient to short term market access shocks.

That being said, however, there is still the potential for significant systemic shocks and financial loss that can arise from a market

suddenly closing, as product produced specifically for one market is often not easily diverted to another market without incurring heavy costs. These costs could be in the form of: the cost of downgrading and freezing down chilled product to extend shelf-life; diversion of landed consignments, in-transit consignments, inventory product, and pipeline product to other markets (often at a significant financial discount); as well as substantial logistical challenges such as demurrage costs, re-packaging/labelling, re-certification, and transportation costs.

- Should the above scenario eventuate (i.e. sudden closure of a significant market), it can result in a **short to medium term glut** of Australian meat on the international market, which will result in heavy discounting, reduced processing in Australia and severely reduced farm gate returns.
- **“Haves and have nots”** – varying levels of market entry requirements generates market distortion within the Australian red meat processing and export sector, and also creates distortions between Australia and the countries with which Australia competes. The distortions enable some establishments and/or countries to access premiums that are inaccessible to others, and overall compromises the ability for Australian exporters to compete on a level playing field and maximise farm gate returns.

5. Impact of global crises

ToR – “The impact of global crises including trade disputes and political disputes on Australia’s relationship with countries we are reliant upon for trade and investment purposes”

Challenges

- The current **unstable trading environment** significantly erodes business confidence, and sudden shocks resulting in substantial/critical financial losses that threaten the viability of industry participants.

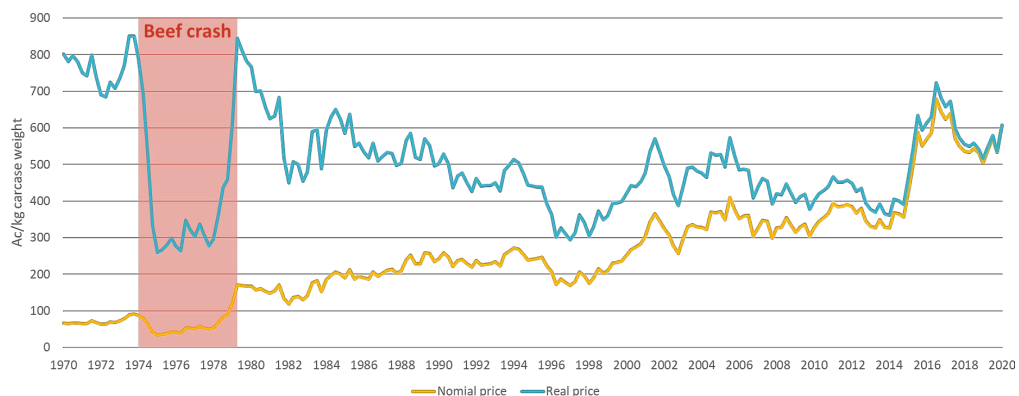
However, this is not a new phenomenon – globalised trade inherently carries risks associated with various crisis, be they economic, geo-political, animal/human health related, currency-based volatilities, associated with natural disasters or other factors.

For example, in the late 1990s, Australia’s \$108m p.a. lamb export market to the US was completely disrupted through the US imposition of import quotas coupled with a 40% above quota tariff as a domestic safeguard, and it was not until a successful WTO challenge in 2001 when the quotas and tariffs were rescinded and normal trade resumed. Since then, the US has become the largest export customer for Australian lamb, growing almost 60% in volume during the past decade. It is also the highest value destination for Australian sheepmeat (\$936m in the 12 months to May 2019).

- The lack of business and consumer confidence internationally can **limit industry investment**, which can impact on Australian establishments' medium-longer term competitiveness
- **Global protectionist sentiment and increased politicisation of trade** (e.g. US-China Phase 1 Deal) artificially distorts trade, resulting in an uneven playing field and subjecting some exporting nations such as Australia to unfairly strict rules/barriers. Further, as tariffs are reduced through FTAs, generally greater emphasis is being placed on a growing number of non-tariff barriers internationally, which are difficult to break down, requiring significant resource and effort over protracted periods, with no guarantee of success.
- **Gradual demise of WTO rules-based trading** – threatens the foundation of global free trade and reduced capacity to appeal discriminatory decisions that form barriers to trade.

The 'Beef Crash' in the 1970s illustrates the market turmoil created when countries become protectionist in response to a global crisis. A global recession in the early 1970s, triggered in part by an oil price shock, depressed demand at a time when herds were building in North America and Australia. The demand-supply imbalance depressed beef prices but the impact on export-reliant Australia was compounded by many countries implementing protectionist measures. The WTO rules-based system has avoided a repeat of similar events in response to crises.

Historical Australian young cattle prices



Source: MLA
Real prices converted into 2019 dollars

Opportunities –

- **Unprecedented ways of doing business** – COVID has challenged Australians to work smarter – more effectively and efficiently. The meat export industry has had to adapt to a rapidly changing environment with significant opportunities for modernisation, using technology as a platform to challenge the status quo.

- Highlight on **food security** – Australia is in a globally enviable position to be able to produce far more than is consumed domestically; the Australian meat industry has demonstrated its reliability and resilience to continue to supply food to domestic and international markets throughout significant challenge periods including catastrophic drought, floods, bushfires and COVID. Australia continues to demonstrate our strong biosecurity controls in preventing the entry of the globally devastating disease African Swine Fever that has seen the deaths of hundreds of millions of hogs across the world in recent years.

6. Impact on the Australian domestic market

ToR – “The impact of bilateral trade agreements on Australia’s domestic market”

Export

Australia produces much more meat than can be consumed domestically. For example, in 2019, Australia exported approximately 70% of the beef produced and 60% of lamb.

As stated in previous sections, the Australian meat processing sector effectively breaks down carcasses into numerous different cuts, with various target customers. Australians typically consume a narrow range of cuts (e.g. rump steak, mince), and very little/if any of the offal cuts (e.g. heart, liver, kidney) or the very high-end cuts such as tenderloin. Thus having the capacity to be able to find alternative markets for these other cuts ensures that Australians can continue to access the product mix that forms the bulk of the consumers’ demand, and maximise the farm-gate returns through export.

Import

An important part of AMIC’s membership includes the smallgoods manufacturing industry, which employs many thousands of Australian workers and derives a portion of their raw materials from imported sources (i.e. pork from a number of approved countries). Having the ability to source these products from a range of diversified supplier markets (based on favourable animal health statuses) is critical to being able to produce cost effective and reliable supply of smallgoods for the Australian domestic market.

7. Preparedness for market access expansion and diversification

ToR – “Analysis of industry and government preparations to diversify its trading partners and secure new markets for Australia’s exports, including through further free trade agreements”

It must be recognised that diversification through further FTAs and breaking down of non-tariff barriers often occurs over protracted time periods, and

pivoting an entire industry's major trade reliance to other market/s can be challenging and costly, with no guarantee of success.

AMIC strongly believes that a collaborative industry-government partnership is critical to maximising market access for Australian meat exports. Government resourcing for expanding market access must be commensurate and aligned to the Government's vision of growing agricultural exports to \$100 billion by 2030.

Government actions

- **Negotiate FTAs** with a keen understanding of the domestic and international challenges faced by the Australian meat export industry, to achieve the very best outcome to ensure the competitiveness of the Australian industry. FTAs must have strong provisions for safeguard trigger levels that can accommodate growth in Australian exports. For example, currently under KAFTA, the beef safeguard is triggering earlier each year, and previously under TAFTA, the beef safeguard would trigger as early as January.

FTAs, as well as eliminating tariffs and quotas, must contain chapters on mechanisms to resolve non-tariff barriers, as well as opportunities for formal bilateral working groups and review processes.

- **Technical capacity** – government must be suitably resourced with experienced and talented negotiators and facilitators with strong understanding of the Australian red meat system, and to be able to effectively engage their counterparts. In this regard, industry is highly supportive of the ongoing deployment of DFAT and DAWE trade specialists (economic, technical and political) to existing and emerging markets.
- **Stronger cross-portfolio collaboration** - In order to grow Australian exports in a competitive, efficient and effective manner, the sector must be driven by innovation, research and development, and rapid adoption of modern technology – work smarter. Supportive Government policy settings and cross-portfolio collaboration to drive innovation in the agricultural sector, in partnership with commercial industry representatives, is critical.
- **Reduce regulatory red tape** – the Australian meat export industry is one of the most heavily regulated sectors in the world, which hampers the industry's international competitiveness. AMIC is currently working closely with Agriculture Minister Littleproud on modernising the regulatory environment to reduce the cost of compliance while ensuring a robust regulatory setting that ensures ongoing confidence by trading partners.

Industry actions

- **Whole of supply chain approach** – Red Meat 2030 (www.redmeat2030.com.au) provides the overarching strategic and

action plan for the red meat supply chain participants to drive the growth and prosperity of the industry. This blueprint contains specific reference to improving preferential market access, as well as alleviating the impost of non-tariff trade barriers, which as previously indicated, is critical to further diversifying Australia's trade profile.

- **Collaborative approach to market access** – AMIC works closely with industry participants, a number of key government departments, and industry service providers to develop joint approaches on economic and technical market access matters.
- **Industry partnerships** – AMIC and other key stakeholders have jointly signed Memorandums of Understanding with industry import associations in target markets, and have forged alliances with our counterparts to enable global information sharing and joint approaches on resolving common issues.

End.



If you have any questions regarding this submission, or should you wish to engage on AMIC's suggestions, please contact me at:

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