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Submission to the Senate Committee on Foreign Affairs, Defence and Trade Relations in relation to its inquiry regarding:

- Customs Amendment (Japan-Australia Economic Partnership Agreement Implementation) Bill 2014, and

1. About AUSVEG

AUSVEG is the Industry Representative Body for Australia's 9,000 vegetable and potato growers. We represent growers around Australia and assist them by ensuring the National Vegetable Levy and the National Potato Levy are invested in research and development (R&D) that best meets the needs of the industry.

AUSVEG also makes representations on behalf of vegetable and potato growers to ensure their interests and concerns are effectively communicated to all levels of government, in the public sphere, and throughout relevant areas of the private sector.

AUSVEG executes its brief by delivering national projects in the areas of communication and the environment, as well as by providing leadership for our sector on a range of key issues.

2. Queries

For more information regarding this submission please contact AUSVEG's National Manager – Export Development, Mr Michael Coote,

Yours sincerely

Richard J Mulcahy
Chief Executive Officer

AUSVEG Ltd Submission to the Senate Committee on Foreign Affairs, Defence and Trade Relations

Summary

With respect to this free trade agreement, AUSVEG offers the following views:

1. AUSVEG supports on-going trade liberalisation efforts to ensure a global vegetable market place free of unnecessary government intervention and distortion.
2. AUSVEG supports the reduction or elimination of many tariffs on Australian agricultural exports under the Japan-Australia Economic Partnership Agreement (JAEPA). The tariff reduction represents a potentially favourable outcome for the vegetable industry.
3. AUSVEG's view is that the opportunity for further improvement in market access for vegetables should be prioritised to ensure the horticulture sector benefits under JAEPA.
4. The initiative to cut red tape and costs for Australian horticulture producers and the implementation of a system of preferential treatment with either self-certification or a certificate of declaration that the product is Australian is strongly supported by AUSVEG.

Introductory remarks

AUSVEG Ltd ("AUSVEG") welcomes the opportunity to present this submission to the Senate Committee on Foreign Affairs, Defence and Trade Relations regarding the Customs Amendment (Japan-Australia Economic Partnership Agreement Implementation) Bill 2014, and Customs Tariff Amendment (Japan-Australia Economic Partnership Agreement Implementation) Bill 2014.

The Australian vegetable industry has a production value of AU\$3.8 billion¹ and is renowned for the quality and safety of its produce. Historically, the industry has been domestically focussed, with only 7 per cent of vegetable production currently exported². While the domestic market will continue to be a major focus of the industry, domestic market growth is expected to be limited to population growth³. Consequently, there is growing recognition that expansion to international markets mitigates domestic market risks and increases the scope for future growth.

The industry as whole has recognised the importance of export markets to the long-term viability of the Australian vegetable industry, with export development being included as a key pillar of the current industry Strategic Investment Plan. Modelling undertaken for this plan indicates that the gains from increases in exports offer the greatest potential returns on R&D investment⁴. However, highly competitive markets and low margins will continue to present challenges to

¹ Australian Bureau of Statistics, *Catalogue 7503.0 Value of Agricultural Commodities Produced 2012-13*

² Australian Bureau of Statistics, *Catalogue 5465.0, International Trade 2011-12*, Released

³ Australian Vegetable Industry Strategic Investment Plan 2012 - 2017

⁴ Centre for International Economics, *Analytical Business Case - Australian Vegetable industry Strategic Investment Plan 2012 – 2017*

vegetable exporters. There is a high level of self-sufficiency in vegetables across many international markets and some markets that have traditionally imported Australian vegetables are becoming net exporters of vegetables.

Market access for Australian vegetables

The current, and potential, success of Australian vegetable export markets relies on our global competitiveness. One of the primary factors contributing to our global competitiveness is Australia's international market access. Australia's 'market access' consists of tariff and non-tariff measures.

Non-tariff barriers to trade can be broadly defined as any measure outside tariffs that impact trade flows⁵. Importantly for the trade in fresh horticultural products, this includes the phytosanitary access conditions under which horticultural products can meet the biosecurity and quarantine standards of Australia's trading partners. While the aim of any free trade agreement ("FTA") is to overcome Australia's tariff trade barriers, AUSVEG is unaware of FTAs that have resulted in improvement of non-tariff trade barriers⁶.

Despite some favourable results from Australia's FTAs of the last decade, international vegetable market remains relatively distorted. That is to say, many trading partners have high tariffs on vegetable imports and restricted phytosanitary access.

Australia's vegetable trade with Japan

In 2012, the total volume of fresh vegetables imported into Japan was \$1.1 billion – an increase of 11 per cent compared to the previous year⁷. The main imported fresh vegetables were onions, pumpkins, carrots, leeks, broccoli and burdock - these are also grown in Japan.

The largest exporters of vegetables to Japan are China and the United States of America appendix 1), accounting for more than half of Japan's total edible vegetable imports. Australian vegetable exports to Japan are relatively small in this context being worth only \$51 million in 2012-2013. The major Australian export commodity is asparagus worth \$14 million in 2012-2013 (refer appendix 2). In 2012-13 Japan was Australia's largest vegetable export market in 2013⁸

In general, Japanese tariffs on fresh vegetables are 6 per cent (or higher), with tariff rate quotas also applying to some commodities.

⁵ Staiger, R.W., *Non-tariff Measures and the WTO*, Working Paper of the World Trade Organisation Economic Research and Statistics Division January 2012

⁶ Office of Horticultural Market Access, *Submission to the Productivity Commission Review of Bilateral and Regional Trade Agreements*, 2010

⁷ ITC calculations based on UN COMTRADE statistics

⁸ Global Trade Information Service, sourced from Australian Bureau of Statistics International Trade Data 2013

Summary of JAEPA vegetable tariff outcomes

The overarching objective for tariff outcomes under any EPA is the immediate removal of tariffs across all goods. Of course, AUSVEG acknowledges the difficulties in concluding EPA negotiations and in achieving the aforementioned aim. It is AUSVEG's view that EPA tariff outcomes must provide a significant improvement to market access and competitiveness, both in terms of the products covered by the EPA and the timeliness of tariff reductions. To do this, tariff outcomes must therefore compare favourably with Australia's international competitors.

A summary of the key vegetable tariff outcomes under JAEPA is included in appendix 3.

Generally, Japanese tariffs on Australian vegetables are currently 3 per cent or higher. Under JAEPA, the majority of vegetable commodities will have tariffs eliminated upon the agreements entry into force. The exceptions include a small number of vegetable commodities that are exempt from tariff reductions (for broad beans and potatoes), which will be eliminated over the next decade.

The major competitors in the Japanese vegetable import market that have also signed a FTA with Japan are Thailand, Mexico and Peru. The Japan and Thailand economic partnership came in to force in June 2009, when Thailand entered the agreement as a member state of the Association of Southeast Asian Nations (ASEAN) and provides for staged tariff eliminations over a significantly longer timeframe for all vegetable commodities (refer appendix 4). From this table it is possible to see that the tariff outcomes will place Australia at a competitive advantage relative to Thailand.

Beyond Thailand and Mexico, Japan's other existing EPAs cover countries that are not currently major vegetable exporters to Japan (including Singapore, Malaysia, Chile, Brunei, Indonesia, Philippines, Switzerland, Viet Nam and India). Japan EPA negotiations with Australia's competitors in the Japanese market, including the European Union (EU), Canada and China, are ongoing. Successful completion of EPA's with China, the EU and Canada will put pressure on Australia's current market share. China's generally low cost of production and subsequent price to market give the country a significant competitive advantage. Both Canada and the EU are currently Australia's main competitors in export to Japan; with comparable vegetable quality.

Summary of non-tariff barriers to trade with Japan

Phytosanitary access is the most significant trade impediment to Australian vegetable exports. It is negotiated and agreed outside free trade agreements, and therefore irrespective of tariff outcomes, an increase in the quality of market access for Australian vegetables will not occur without phytosanitary access.

Phytosanitary access is negotiated bilaterally by at the Government level for each commodity or group of commodities under the terms of the World Trade Organisation's Sanitary and Phytosanitary Agreement. There are extremely long backlogs of requests from one country to another for phytosanitary access requirements to be assessed, with the process of assessment itself also being unsatisfactorily lengthy⁹.

It should be noted that notwithstanding moves to liberalise trade in recent decades, phytosanitary access conditions have become significantly reduced for Australian vegetable exports in some markets. A relevant example is Japan's prohibition of imports of pumpkin, in a large part due to the presence of fruit fly¹⁰ in mainland Australia. Thus, supporting the horticultural sector to demonstrate the effective treatment, or regional freedom, of these horticultural pests must remain the highest priority for Government.

Finally, from the viewpoint of achieving commercial outcomes for vegetable market access, if the phytosanitary protocols established for vegetable trade are unnecessarily cumbersome or impractical to administer, it will significantly diminish commercial value to Australian vegetable exporters and in some cases, totally undermine market access.

AUSVEG's comments on the JAEPA outcomes

AUSVEG submits these views to the committee:

1. AUSVEG supports on-going trade liberalisation efforts to ensure a global vegetable market place free of unnecessary government intervention and distortion. Australian vegetables continue to face fierce market competition in international markets from countries that have preferential market access or subsidised vegetable production. Being well-positioned from a trade policy perspective is critical to the long-term prosperity of the industry.
2. AUSVEG supports the pragmatic approach of targeting trading partners for comprehensive bilateral agreements, while slower moving, multilateral trade policy reform takes place. However, these agreements will be individually judged on whether they substantially overcome trade barriers and improve Australia's competitiveness in international vegetable markets.
3. AUSVEG's view is that on balance, the JAEPA tariff outcomes represent a favourable outcome for Australian vegetables, particularly the removal of the tariff on key commodities such as asparagus. Vegetable tariff outcomes were as favourable (if not more) as those provided for in the Japan-Thailand EPA. The relatively early conclusion of

⁹ Office of Horticultural Market Access, *Submission to the Productivity Commission Review of Bilateral and Regional Trade Agreements*, 2010

¹⁰ This includes Queensland Fruit Fly (*Bactrocera tryoni*) and Mediterranean Fruit Fly (*Ceratitis capitata*)

JAEPa is reasonably expected to provide Australia with some level of advantage against other competitors in the Japanese market.

4. The existence of phytosanitary non-tariff barriers diminishes the potential of vegetable trade liberalisation under Australia's FTAs. Competitive market access for vegetables can only be achieved by phytosanitary access under commercial conditions. AUSVEG urges the Australian Government to increase its focus on achieving phytosanitary access to ensure that the vegetable industry can realise the full benefit from FTAs/EPAs.

AUSVEG proposes that the Committee support the Customs Amendment (Japan-Australia Economic Partnership Agreement Implementation) Bill 2014.

Future bilateral trade agreement negotiations

Australia is currently engaged in several FTA negotiations. As outlined above, the result of this trade policy reform will be critical to the long-term viability and prosperity of the Australian vegetable industry.

AUSVEG urges the Australian Department of Foreign Affairs and Trade to take the strongest position possible with partner countries to target the immediate elimination of tariffs across vegetable commodities (as Australia usually allows for imports from partner countries). AUSVEG does, however, acknowledge that partner countries will often claim certain commodity 'sensitivities' and that timely resolution of FTA/EPA negotiations is important to avoid 'being left behind'.

Critically, improved market access for vegetable commodities will, to a significant extent for vegetables, remain unrealisable unless improved phytosanitary access is also achieved. The Australian Government does possess the capacity to successfully prosecute market access negotiations (although it also relies on Australia's trading partner); however, it is important that sufficient resources are provided to handle the number of cases that are being negotiated. It is also essential that the resources allocated to this pursuit are used effectively as possible.

Appendix 1. Top 10 vegetable exporting countries to Japan

Figures in US Dollar thousand.

Exporting country	Imported value			Market share 2013
	2011	2012	2013	
China	1,471,015,765.00	1,522,749,554.00	1,451,069,384.00	57.76%
USA	304,531,679.00	307,822,211.00	289,373,594.00	11.52%
Thailand	122,071,642.00	128,610,158.00	113,790,798.00	4.53%
Rep. of Korea	90,322,911.00	114,047,382.00	110,201,800.00	4.39%
New Zealand	116,019,695.00	121,181,450.00	95,026,668.00	3.78%
Other Asia, nes	84,049,871.00	107,955,554.00	84,782,629.00	3.37%
Mexico	83,372,021.00	89,152,560.00	82,115,344.00	3.27%
Netherlands	34,351,486.00	43,195,272.00	38,986,195.00	1.55%
Canada	34,191,590.00	31,813,741.00	36,426,108.00	1.45%
Peru	21,648,711.00	30,313,578.00	30,513,941.00	1.21%
World	2,531,965,926.00	2,691,102,753.00	2,512,244,474.00	

Source: United Nations Statistical Division, data retrieved November 2014 from
<http://comtrade.un.org/>

Appendix 2. Australia's vegetable exports to Japan

Figures in Australian Dollars.

Commodity	2010-11	2011-12	2012-13
Total	45,521,027	43,765,701	51,126,066
Asparagus	15,820,344	14,807,836	14,242,891
Onions And Shallots	5,470,096	4,222,466	3,643,001
Canned Tomatoes	441,247	1,901,840	1,854,465
Carrots And Turnips	2,272,946	2,136,622	1,272,780
Sweet Corn (Frozen)	-	75,597	1,004,388
Mushrooms	261,016	357,290	551,416
Tomatoes	-	-	387,752
Leeks	254,015	374,444	245,147

Source: Global Trade Information Service, sourced from Australian Bureau of Statistics
International Trade data, various years.

Appendix 1. Extract from JAEPA, Japan Tariff Commitments

A selected extract of the Japan JAEPA tariff commitments, is provided in table 1. Explanatory note for the table are also outlined below:

Product Code (HS Code) - Harmonised Tariff Schedule of Japan commodity identification code.

Japan Tariff Base Rate – This is the existing tariff rate payable on Australian export goods upon arrival in Japan.

Staging Category – The staging category refers to the duration of time over which a tariff will be reduced under the JAEPA. For the purpose of *Table 1* the following staging categories apply:

Staging Category A: Tariff will be eliminated entirely and will be duty free from the date the JAEPA agreement enters into force.

Staging Category B5: Tariffs will be eliminated from the base rate to free. This will occur through six equal instalments occurring annually over six years.

Staging Category B7: Tariffs will be eliminated from the base rate to free. This will occur through six equal instalments occurring annually over seven years.

Phytosanitary access – Phytosanitary access refers to the conditions under which horticultural products can meet the biosecurity and quarantine standards of Australia's trading partners. This information is sourced from the Australian Department of Agriculture's 'Manual of Importing Country Requirements'.

Table 1. Extract from the Japanese Schedule of Tariff Commitments (JAEPA)

Tariff item number	Description of Goods	Base Rate	Category
Chapter 7	Edible vegetables and certain roots and tubers		
7.01	Potatoes, fresh or chilled.	4.3%	A
	Asparagus	3%	A
7.03	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled.	8.5%	
	Not more than 73.70 yen/kg in value for customs duty	8.5% or the difference between	B5
		73.70 yen/kg and the value for customs duty per kilogram, whichever is the less	

	More than 73.70 yen/kg in value for customs duty		A
	Shallots	3%	A
703.2	- Garlic	3%	A
703.9	- Leeks and other alliaceous vegetables	3%	A
7.04	Cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled.	3%	A
7.05	Lettuce (<i>Lactuca sativa</i>) and chicory (<i>Cichorium spp.</i>), fresh or chilled.	3%	A
7.06	Carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled.	3%	A
709.6	Fruits of the genus <i>Capsicum</i> or of the genus <i>Pimenta</i>	3%	A
	Broccoli	6%	B5
	Potatoes whether or not cut or sliced but not further prepared	12.80%	B7

It should be noted that not all the vegetable commodities included in table 1 are subject to the National Vegetable Levy, consistent with the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999*. According to the legislation, the National Vegetable Levy applies to all vegetables with some exceptions, including (but not limited to) asparagus, garlic, onions, and mushrooms. Potatoes are subject to the National Potato Levy.

Appendix 4. Comparison of tariff outcomes of JAEPA and the Japan – Thailand EPA

A selected extract of the Japanese tariff commitments is compared with the corresponding tariff commitments included in the Japan – Thailand EPA in table 2 below.

Table 2. Extract from the Japanese Schedule of Tariff Commitments, from both JAEPA and the Japan-Thailand EPA.

Commodity Description	Product Code (HS Code)	Japan Base Rate (%)	Period of tariff elimination	
			JAEPA	Japan – Thailand EPA
Potatoes (fresh or chilled)	07.01	3%	On entry	none
Asparagus	0709.20	3%	On entry	None
Onions	0703.10	8.6%	On entry	10
Garlic	0703.20	3%	On entry	7
Leeks	0703.90	3%	On entry	5
Cabbage	07.04	3%	On entry	7
Carrots	0706.10	3%	On entry	7
Capsicum (Fruits of the genus Capsicum or of the genus Pimenta)	0709.60	3%	On entry	7