

Australian Food and Grocery Council SUBMISSION

15 AUGUST 2014

TO:
JOINT STANDING COMMITTEE ON TREATIES

IN RESPONSE TO:
REVIEW OF THE JAPAN AUSTRALIA ECONOMIC
PARTNERSHIP AGREEMENT



Australian Food and Grocery Council

PREFACE

1. PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 178 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

With an annual turnover in the 2012-13 financial year of \$111 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector¹ is Australia's largest manufacturing industry. Representing 28 per cent of total manufacturing turnover, the sector accounts for over one quarter of the total manufacturing industry in Australia.

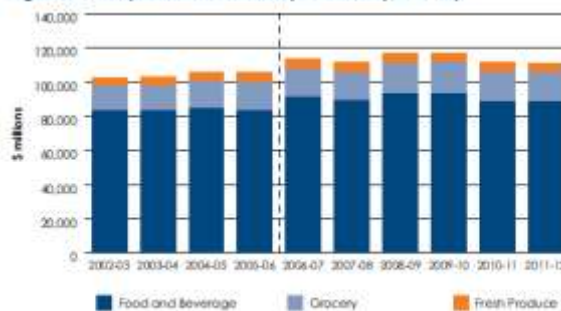
The diverse and sustainable industry is made up of over 25,662 businesses and accounts for over \$50.8 billion of the nation's international trade. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry spends \$535.8 million a year on research and development.

The food and grocery manufacturing sector employs more than 298,825 Australians, representing about 3 per cent of all employed people in Australia, paying around \$11.3 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia². It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

Figure 4.1: Composition of the industry's turnover (\$2011-12)⁴



Source: Based on ABS, catalogue number 8221.0, 8159.0 and 8155.0

¹ Fast moving consumer goods includes all products bought almost daily by Australians through retail outlets including food, beverages, toiletries, cosmetics, household cleaning items etc.

² About Australia: www.dfat.gov.au

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The AFGC Agribusiness Forum represents businesses with a role, or interest, in the transformation of raw materials and commodities that are used as inputs to the manufacture of fast moving consumer goods (FMCG).

The AFGC Agribusiness Forum's role is to develop and advocate a policy, regulatory and business environment that facilitates a profitable and internationally competitive agribusiness sector which, in turn, makes a significant contribution to the Australian economy.

The initial priorities of the Forum are to improve the cost competitiveness of the sector, and increase exports of food and beverage products.

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1. SUMMARY

The Australian Food and Grocery Council welcomes the Japan Australia Economic Partnership Agreement (JAEPA), and the improved market access arrangements for one of the most distorted agri-food markets in the world.

While not a perfect outcome, the scheduled tariff reductions across a range of agri-food products are welcome and will provide relief to Australian exporters facing fierce competition in Japan, and strong domestic cost pressures.

A review of Australia's market share of agri-food exports to six key Asian markets (Japan, Korea, China, Indonesia, Thailand, Malaysia) highlights Australia's declining position relative to other exporters. From 2006 to 2014, Australia's average food market share across the six key markets fell from approximately 11.5 per cent to 7.5 per cent. Tariff reductions provided by free trade agreements are a key element in addressing Australia's falling market share.

From 1993 to 2006, Australia's market share of Japan's imported food product increased from approximately 9 to 13 per cent. While this is encouraging, a closer review of the data shows that from a high of approximately 13 per cent of the market in 2006, Australia has fallen below the long term average in 2012 to approximately 7 per cent market share.

A review of JAEPA reveals complex outcomes across the approximately 2,338 agri-food tariff lines for Japan. While there appears to be some clear beneficiaries of the proposed agreement (including beef and horticulture), some sectors have identified that the agreement could have delivered much more (such as dairy). Recalling the high tariffs, significant government subsidies and unique trading arrangements in Japan, the JAEPA provides Australia with the most open access to Japan's market in comparison to our competitors (so called 'first mover advantage').

Some might consider that Australia should continue negotiating with Japan for another seven years for a better deal however there are strong arguments for implementing JAEPA and building on the progress through the Trans Pacific Partnership, Regional Comprehensive Economic Partnership and ultimately World Trade Organization negotiations.

While the specific benefits from JAEPA are hard to determine given the complexity of the market access outcome, in context and from a long term perspective, JAEPA is a welcome and solid step forward for Australia's agri-food trade with Japan.

Finally, while much of the focus is on the negotiation of the agreements with Korea, Japan and China, adequate resources, attention and time needs to be provided for the implementation, supporting outreach and review of new trade agreements.

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2. MARKET ACCESS UNDER JAEPA

The Australian Food and Grocery Council welcomes the Japan Australia Economic Partnership Agreement (JAEPA), and the improved market access arrangements for one of the most distorted agri-food markets in the world.

The Department of Foreign Affairs and Trade (DFAT) reports that Japan has tariff peaks of over 200 per cent on some agri-food products, and average tariffs of over 23 per cent on agri-food products. OECD analysis estimates that 56 per cent of each Japanese farmer's income is provided by government subsidies compared to an OECD average of 19 per cent, 3 per cent in Australia and 53 per cent in Korea. Japan also maintains some unique arrangements on the import of sugar and grains, such as product specifications for sugar and opaque trading arrangements for grains. Given all these factors, Japan can be a difficult market for Australian agri-food exports.

DFAT reports that key outcomes for agri-food in the Japan-Australia Economic Partnership include:

- Beef: Rapid reduction of the high 38.5 per cent tariff on beef, Australia's largest agricultural export to Japan worth \$1.4 billion in 2013.
- Wine: Elimination of the 15 per cent tariff on bottled wine over seven years and immediate elimination of the tariff on bulk wine.
- Dairy: Immediate duty-free quotas for Australian cheese, immediate duty-free access for the growing trade in milk protein concentrates, lactose and casein and new opportunities for ice-cream and frozen yoghurt.
- Seafood: Immediate elimination of tariffs up to 9.6 per cent on lobsters, prawns, oysters, crabs and abalone and elimination of tariffs on tuna and Atlantic salmon over 10 years.
- Horticulture: Immediate elimination of tariffs up to 6 per cent on asparagus, macadamia nuts, almonds, mangoes, and many other products. High tariffs on walnuts (10 per cent) and onions (8.5 per cent) will be eliminated in five years, while tariffs on apples (17.5 per cent) will be eliminated over 10 years. Taking advantage of counter-seasonal production, tariffs on oranges (16 per cent), table grapes (7.8 per cent) and cherries (8.5 per cent) will be eliminated during our exporting season.
- Grains: Immediate duty-free and quota free access for Australian wheat and barley for animal feed and streamlined export arrangements for some Australian wheat varieties. Elimination of the 21.3 per cent tariff on wheat gluten and tariffs on canola and vegetable oils over up to 10 years.
- Sugar: Immediate tariff elimination and reduced levies for international standard raw sugar.
- Processed foods: Tariffs up to 29.8 per cent on juice, canned fruit, soup, jam, peanut butter, tea and pet food will be eliminated and Australia will receive preferential access for chocolate, honey, biscuits, cakes and breakfast cereals.

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A closer review of the agreement reveals the following results for Australian agri-food (HS Chapters 1-24) from Japan's 10 digit tariff lines:

- 620 lines subject to immediate elimination of tariffs
- 419 lines subject to tariff elimination over periods of 3 to 15 years
- 172 lines subject to some liberalisation through quotas and other arrangements
- 159 lines subject to review in approximately 5 years

while

- 399 lines are currently tariff-free.

The summary above highlights a complex outcome across the approximately 2,338 agri-food tariff lines for Japan. While there appear to be some clear beneficiaries of the proposed agreement (including beef and horticulture), some sectors have identified that the agreement could have delivered much more (such as dairy). For a number of beef, dairy and grains tariff lines there are some opportunities to review the development of trade in these products five years after implementation, or as otherwise agreed by the parties.

Recalling the high tariffs, significant government subsidies and unique trading arrangements in Japan, the JAEPA provides Australia with the most open access to Japan's market in comparison to our competitors (so called 'first mover advantage'). While it would be difficult to argue that JAEPA will set a new standard for free trade or trade liberalisation in a global context, it is an important step forward for Japan and the Japan Australia trading relationship. Some might consider that Australia should continue negotiating with Japan for another seven years for a better deal however there are strong arguments for implementing JAEPA and building on the progress through the Trans Pacific Partnership, Regional Comprehensive Economic Partnership and ultimately World Trade Organization negotiations.

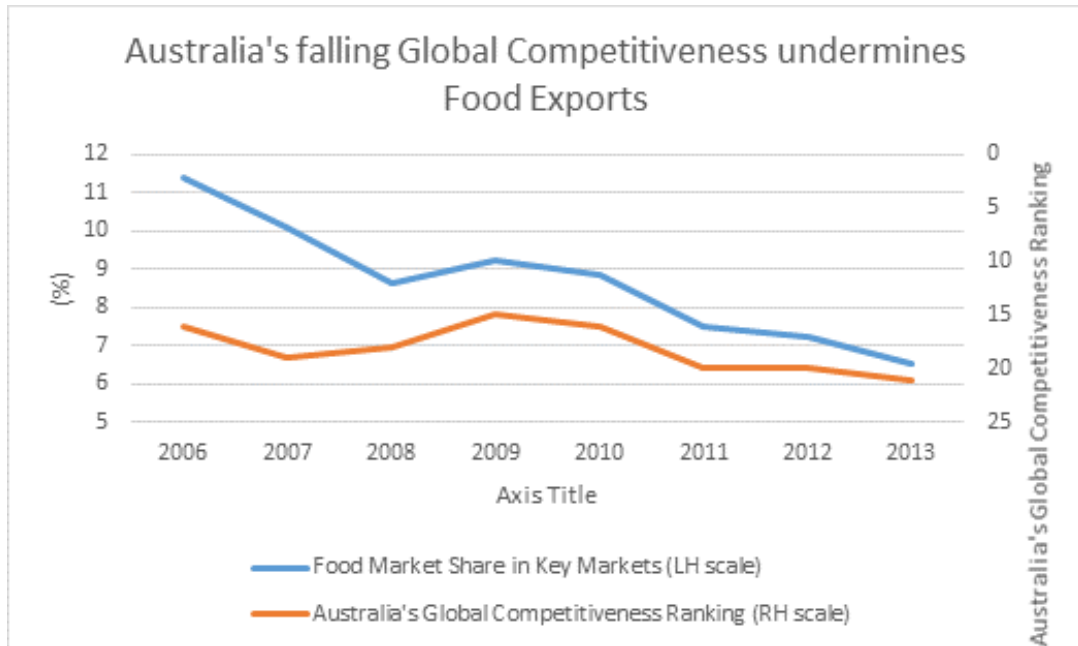
While the specific benefits from JAEPA are hard to determine given the complexity of the market access outcome, in context and from a long term perspective, JAEPA is a welcome and solid step forward for Australia's agri-food trade with Japan.

2.1. JAEPA IN CONTEXT – AUSTRALIAN FOOD EXPORTS

China, Japan and Korea are key markets for Australian agri-food exports and that is why Korea Australia Free Trade Agreement, the Japan Australian Economic Partnership Agreement and ongoing negotiations with China have been a key focus for the Australian agri-food sector.

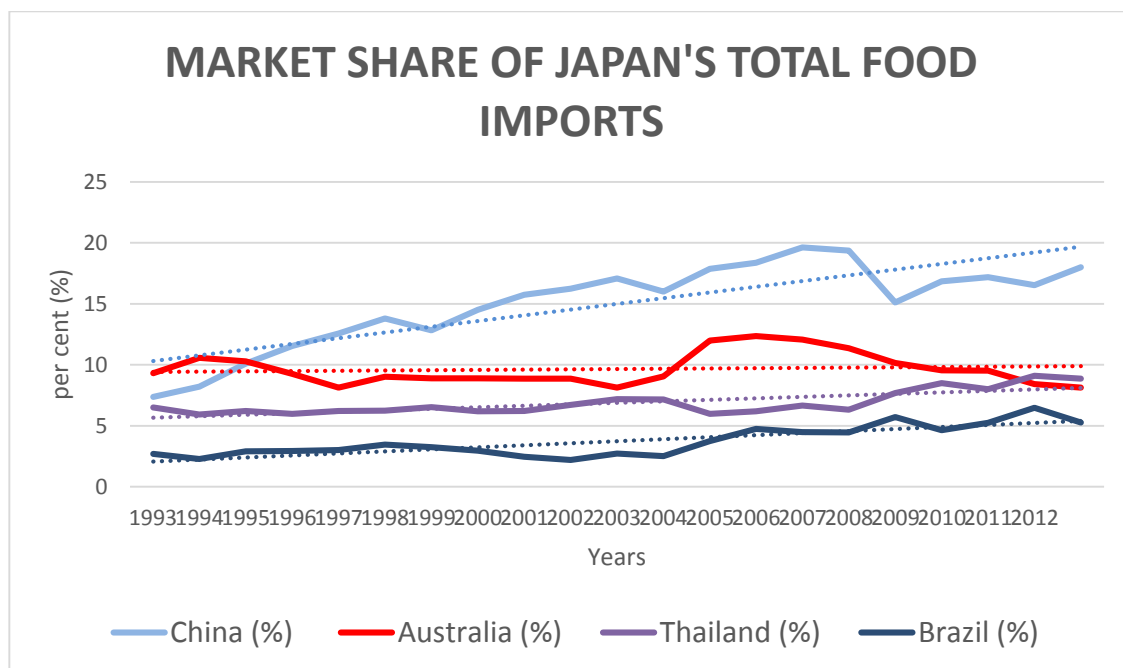
A review of Australia's market share of agri-food exports to six key Asian markets (Japan, Korea, China, Indonesia, Thailand, Malaysia) highlights Australia's declining position relative to other exporters (see chart below). The relationship between Australia's declining global competitiveness and our falling market share is clearly evident.

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Source: UN Statistical Database 'Comtrade' 2014 and the World Economic Forum Competitiveness Index 2013

While Australia's fall in average market share across the six key Asian markets is very concerning and requires immediate action, it is important to note that Japan is one of two markets where Australia is actually increasing market share (see chart below).



Source: UN Statistical Database 'Comtrade' 2014

From 1993 to 2006, Australia's market share of Japan's imported food product increased from approximately 9 to 13 per cent. While this is encouraging, a closer review of the data shows that from a high of approximately 13 per cent of the market in 2006, Australia has fallen below the long-term average in 2012 to approximately 7 per cent market share.

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With the decline in Australia's global competitiveness³, the price of Australia's food products is often the most expensive of imported product across key markets in Asia. Australian product is often many multiples the price of local production. Any tariff advantages that Australia may gain under free trade agreements, such as the Thailand Australia Free Trade Agreement (TAFTA) and the Malaysia Australia Free Trade Agreement (MAFTA) simply enable Australian products to compete with other imported products in overseas markets.

3. NEW TRADING ARRANGEMENTS UNDER JAEPA

Each free trade, or preferential trade, agreement invariably produces a new set of arrangements given the nature of a negotiated outcome between two parties. This new agreement and set of arrangements adds to the existing arrangements under the World Trade Organization and bilateral and regional trade agreements in place. A multilateral trade deal in the World Trade Organization is the ultimate goal to ensure that the best arrangements are available to all parties and there is a consistent framework.

A number of exporters have highlighted the time consumed in meeting the different and specific requirements of individual trade agreements in order to receive the preferential treatment under particular agreements. JAEPA will add to this task and while food and beverage exporters will welcome the implementation of JAEPA, there is growing concern about the administrative burden across agreements.

While there are no easy solutions to this issue, there is an opportunity for the Australian Government to identify opening positions in trade negotiations in broad terms, such as an opening claim being the elimination of all tariffs, open and transparent customs and other border procedures, a set of standardised documentation and procedural arrangements, and a strong and timely dispute resolution mechanism for issues at the border.

This type of information should avoid sensitivities in government-to-government discussions but will outline a set of expectations to proposed negotiating partners. The final negotiated outcomes would be expected to continue to contain variation but there may be more opportunity for commonality among agreements.

4. OUTREACH TO INDUSTRY

Outreach activities and practical information on using the agreement are essential for current and potential Australian exporters to make maximum use of all trade agreements. The AFGC would welcome focussed and sector specific outreach to industry with an emphasis on the practical and commercial realities of the agreement.

5. ONGOING REVIEW

Trade agreements often have an annual review mechanism and regular officials level meetings as standard elements. The AFGC welcomes the inclusion of a wide range of committees in JAEPA including committees on sanitary and phytosanitary measures, trade in goods, rules of origin and investment. The

³ As measured by organisations such as the World Economic Forum and IMD Business School, Switzerland.

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AFGC encourages the use of these committees as part of broader efforts to liberalise trade with Japan, and to support continued domestic reform in Japan. The trade in goods committee includes specific reference to non-tariff measures which is a key area requiring ongoing attention. The AFGC supports active engagement in these committees by the Australian Government going forward.

There appears to be less focus on reviewing the utilisation of different agreements and consideration of improvements to improve utilisation. In support of this, the AFGC calls for increased efforts to collect data on the utilisation of various agreements in place with a focus on working with industry to address impediments to trade. The AFGC acknowledges and welcomes recent opportunities to participate in annual review processes of trade agreements and hopes to continue that constructive engagement.

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