



Submission No 11

Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea

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Date:

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To the Committee Secretary

Please find attached Primary Industries and Resources South Australia's submission to the Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea.

If you have any questions about the submission please contact Justin Ross, General Manager, Market Development on telephone (08) 8226 8157.

Yours sincerely

Geoff Knight
CHIEF EXECUTIVE

PIRSA Submission to the inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea

Overview

This submission is made to the Joint Standing Committee on Foreign Affairs, Defence and Trade by the Department of Primary Industries and Resources SA (PIRSA)

Primary Industries and Resources South Australia (PIRSA) is committed to the economic development of the State of South Australia and the sustainable use of natural resources. PIRSA supports value-chain development of the food, wine, seafood, forestry, fibre and minerals and energy industries.

Together, in 2008-09, these industries accounted for gross turnover (outputs) that exceed \$18 billion, resulting in direct value-add contributions of \$11b or around 14% of Gross State Product. From an employment perspective, these industries and their value-chains employ around 170,000 people, representing around 22% of the SA workforce, and generated export goods representing 74% (\$7b) of total merchandise trade from the State.

Japan and the Republic of Korea are both important trading partners with the State of South Australia. Japan is the third largest export market for South Australian agricultural products behind the United States of America the United Kingdom. The largest individual exports to the USA and UK is South Australian wine. South Korea is the 14th largest export market for South Australian agricultural, food and wine products.

Key South Australian agriculture, food and wine companies have established strong relationships with major trading houses in Japan and Korea. The South Australian food industry, through its peak body Food SA, has a commercial representative based in Japan.

Relationships have also been developed with Japanese researchers particularly in the area of aquaculture development with Cleanseas entering into a formal arrangement with the Kinki University in Japan to breed Southern Bluefin tuna in a captive environment.

1. The nature of Australia's existing trade and investment relations;

Agriculture and Food

Japan is the largest export market for South Australian food and other agriculture products. The major export products are seafood (Southern Bluefin tuna), frozen and chilled beef and lamb and cereal crops such as wheat, barley malt and canola. Citrus is the largest horticulture export from South Australia to Japan.

Japan and Korea are premium markets for these products with Japanese and Korean consumers seeking high quality products that are produced in natural environments with strong traceability systems in place. The affluent Japanese and the emerging Korean market offer an ideal match for the high quality food products that are produced in South Australia.

In recent years, despite the challenges of a fluctuating Australian dollar and impacts of the Global Financial Crisis, Japan has remained a vital and highly valued market for South Australian food exports. While a range of high valued seafood products are exported to Japan, the largest seafood export is Southern Bluefin Tuna. Even though export totals have moderated in recent years, due to a reduced catch quota and impact of a higher Australia dollar, demand for bluefin tuna remains strong. Industry projections are for a significant increase in demand for Southern Blue Fin Tuna in Japan for the 2011 season, with continued pressure on local Japanese and European supply. There is strong potential for growth in other premium seafood products, with Japan offering a discerning and premium market for quality seafood, a strong match with the South Australian industries production.

The value of chilled and frozen beef and lamb exports from South Australia to Japan has grown from \$79 million in 2007-08 to \$98 million in 2009-10. Australian beef is regarded for its high quality and safety by the Japanese, particularly following USA beef exclusion from Japan due to BSE earlier in the decade. South Australia forms a relatively small proportion of Australian beef exports, but is a major supplier of lamb to Japan. Australia is a substantial player in world lamb trade and is in a strong position to capitalise on high lamb prices in Japan and other markets.

Japan is a major market for the South Australian fodder industry with demand particularly high for oaten hay for the Japanese dairy industry. This industry has historically been very sensitive to exchange rate fluctuations and competed with USA fodder suppliers in the Japanese market. Exports of fodder from South Australia to Japan have grown from \$19 million in 2007-08 to \$26 million in 2009-10. Industry reports indicate that demand from Japan dairy farmers for South Australian oaten hay continues to grow as it is perceived as a superior product to the USA's equivalent.

The South Australian Government has imposed a prohibition on the commercial cultivation of genetically modified food crops. The prohibition extends to banning the transporting of GM grains through South Australia. In some specific markets this is seen as a market advantage and South Australian canola grown on Kangaroo Island is successfully being marketed in Japan on its clean production including being free from genetically modified grain through the PAL Co-operative.

South Australian food businesses are positioned to be able to meet this consumer demand for natural, quality food products in Japan.

While Australian and South Australian trade to Japan in forest products is mainly raw materials in the form of woodchips, most imports are processed paper products.

Wine

South Australia exported approximately \$1.3 billion of wine in 2009/10, 19% of total SA merchandise trade value. SA exported wine to over 120 countries, up from 90 countries in 1996/97. Both the UK and the USA remain the key export destinations for SA wine, comprising more than half (51%) of total SA wine export value.

The value of wine exported from South Australia to Japan in 2009-10 was valued at \$21 million or 1.6% of the State's wine exports.

After a period of spectacular growth in the late 1990's the popularity of wine in Japan has slowed. Penetration of wine in the Japanese market remains relatively low as does the frequency of wine shopping visits. Australia is a relatively minor player in the Japanese wine market, holding a 4% share and seventh position as a supplier to the off-trade. Local product holds the greatest share of the market. The Old World dominates the top rankings of importers, with France the leading importer, Italy number three, followed by Spain. The US is the exception to the rule at second position in the rankings.

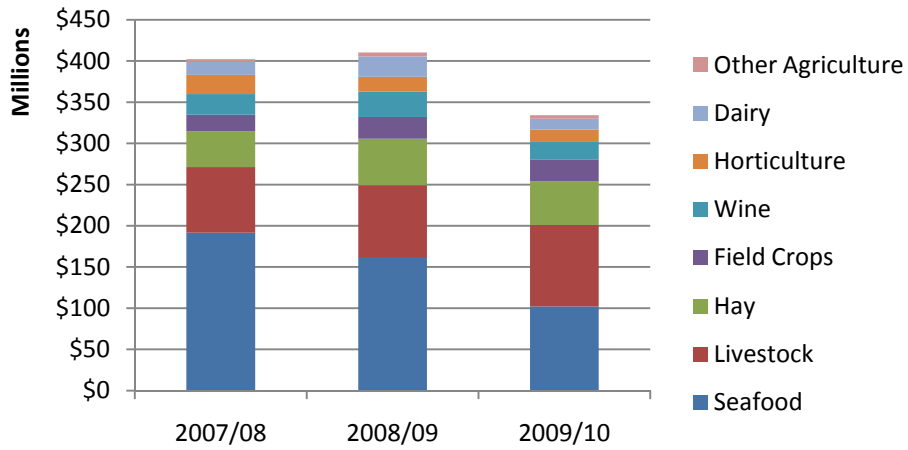
The volume of wine imported to Japan from the so called New World wine producers of South Africa, Chile and Australia showed double digit growth in 2009, of 45%, 26% and 12%, respectively. Out of the New World wines, import volumes from Chile are the largest, at 24.9 million litres in 2009. French wines have the highest import volume with 58.2 million litres in 2009. However, import volumes of Old World wines are falling, due to a lack of price competitiveness. Import volumes from France and Germany dropped by 7% and 15%, respectively, in 2009. It should be noted that Italian wines, which recorded the second largest import volume, showed a volume increase of 4%, reaching 30.4 million litres in 2009. This is due in part to the good performance of on-trade sales, driven by budget full-service Italian restaurants, in particular the Saizeria chain. (Euromonitor-March 2011)

The value of South Australian wine exports to South Korea has reduced from \$8 million in 2007-08 to \$4 million in 2009-10 which continues to reflect the excess of wine supply globally. South Korea is a large market for alcoholic beverages but is an emerging market for wine as most consumption of alcoholic beverages is in beer and spirits. Future growth in wine sales is expected, driven by health and prestige perceptions, higher disposable incomes and by the Supermarket channel actively promoting wine. Demand for white wine is predicted to grow by 15% by 2015 and red wine by 3%. Jacobs Creek is the most prominent Australian wine brand in South Korea.

Chile and the US wine suppliers have a distinct competitive advantage having signed Free Trade Agreements with South Korea.

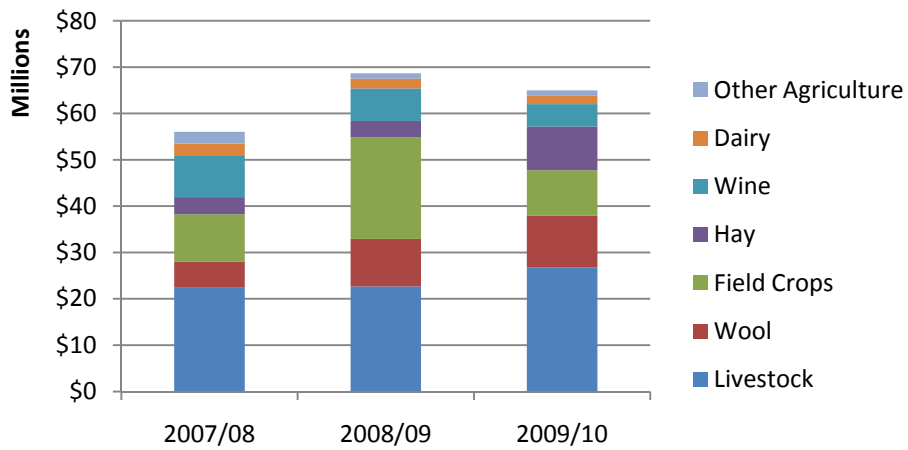
SA Agriculture, Food and Wine Exports to Japan

(ABS Statistics, PIRSA Scorecad Categories)



SA Agriculture, Food and Wine Exports to Korea

(ABS Statistics, PIRSA Scorecad Categories)



2. Emerging and possible future trends in these relations

Japan

The Japanese market is facing a challenging time, with decreasing numbers of children and young adults and the increasing numbers of older Japanese citizens continuing to shape consumer trends in the future.

With falling expenditure expected across much of the economy until 2015 owing to the affects of recent natural disasters, adding to extended periods of recession and maturity in many markets, an estimated 7% shrinkage in the economy is expected across all categories.

Overall consumer expenditure is set to decrease across most broad categories; it is the reordering of priorities amongst this changing demographic that will see spending power creep up the age scale with increased spending on health and wellbeing products.

This trend will include increased spending on organic and healthier food and beverage options, leisure and active fitness goods such as gardening, hiking and spa breaks, nutritional supplements, and also healthcare services. These trends should result in ongoing demand for quality South Australian seafood, meat, grains and beverages.

South Korea

According to Euromonitor (South Korea Briefing March 2011) Expenditure on food and non alcoholic beverages is expected to grow by 42% by 2020. Much of this growth would appear to be driven through supermarket and hypermarket expansion with limited growth in the fine dining category as cheaper quick service restaurants and café's dominate. This will not increase overall demand for South Australia's product offering.

Consumer expenditure on wine is expected to grow by 40% to 2020. This increase in wine consumption is being driven by a change in consumer behaviour. Previously Korean consumers had been notorious for their binge drinking culture, when socialising or in business meetings. However, more and more Koreans are now drinking to enjoy the tastes of the drinks and have become more conscious about their health. As a result, more Koreans are looking for better quality alcoholic drinks and have developed their own tastes and preferences for alcoholic drinks.

There continues to be growth in the range of wine products. This change is also driven by consumers' finding other ways to spend their leisure time than in the pub or just drinking. Consumers increasingly prefer to drink quality products at home, or while socialising with family and friends.

With respect to wood products, the current South Australian trade with Korea is not as significant as wine, food and seafood. Nevertheless there are concerns about paper imports that may be dumped (as determined by Australian Customs and Border Protection Service) or derived from illegal logging (The Centre for International Economics, 2010). In time, the latter may be addressed by the Commonwealth's proposed illegal logging legislation¹.

¹ *The Centre for International Economics (2010) A Final Report to inform a Regulation Impact Statement for the proposed new policy on illegally logged timber. Final Report prepared for the Department of Agriculture, Fisheries and Forestry. Canberra*

3. Barriers and impediments to trade and investment with Japan and the Republic of Korea for Australian businesses;

No Comment.

4. Opportunities for deepening existing commercial links, and developing new ones, with Japan and the Republic of Korea; and

Faced with continued economic challenges resulting in reduced or at best stagnant domestic consumption, many Japanese importers have followed the example of the larger trading houses and developed their businesses into third party exporters. Increasingly these companies are importing product to Japan for re-export to a third market. These market linkages may present opportunities for South Australian producers and exporters to leverage on their existing Japanese relationships to access other emerging markets beyond Japan.

5. The role of the government in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in Japan and the Republic of Korea.

The Government already assists Australian companies to access opportunities in Japan and South Korea through market access and promotional activities.

Increasingly it is apparent that local industry is not able to make the most informed business decisions it can as there is a scarcity of accurate and timely market information available. Specifically, market intelligence information that enables businesses to decide whether there is an existing or emerging opportunity that matches with the attributes of their products is needed.

In 2007, DAFF in collaboration with the then National Food Industry Strategy (NFIS) retained McKinna et al. to research and publish the findings into the need and scope of a National Market Intelligence Service. The report acknowledged there was a need for a co-ordinated market intelligence service that could provide timely accurate and analysed market information to the Australia food and agriculture industry.

It was found that larger companies already access existing market intelligence sources usually at high cost and see this information as forming their competitive advantage. They rarely share this information. While smaller companies do not necessarily have the skills to interpret or apply this information, there are a large number of medium to large enterprises that could utilise this information if it was provided to them. As markets mature and Australia increasingly understands her production capability the need for specialised market information increases.

Many States, including South Australia, have developed limited market intelligence capabilities and have shown a desire to cooperate in the past. With Commonwealth leadership this intent could be translated into a co-ordinated national capability that can support Austrade's existing efforts in this area.