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Benefits and implementation timeframe

3.1 The majority of evidence received by the Committee indicated a range of benefits flowing from the implementation of the Korea-Australia Free Trade Agreement (KAFTA) for business and industry. Apart from the direct value of tariff reductions, increased competitive advantage and potential future opportunities were identified as tangible positive results.

3.2 However, there is a sense of urgency amongst the commercial community for implementation of KAFTA to be finalised before the end of calendar year 2014. Any delay in implementation may compound long-term disadvantage for a number of Australian industries. Missing out on the double tariff reduction which early implementation will allow, will entrench existing tariff gaps and seriously impede competitiveness.

Benefits

3.3 Witnesses from business and industry welcome the proposed free trade agreement with Korea. They told the Committee that the agreement provides benefits and opportunities on a number of levels. Apart from the obvious direct benefit of reduced tariffs and increased market access, they identified competitive advantage, protection of existing markets, and positioning to take advantage of future negotiating opportunities as positive outcomes.

3.4 Reduced tariffs and increased market access will provide an immediate boost to trade. For example the dairy industry told the Committee it expects an increase of US$7.6 billion in the first year of operation of KAFTA and continued annual growth thereafter. The dairy farm, manufacturing and export industry is currently worth $13 billion a year to the Australian economy and Korea is its tenth largest market.[1]

3.5 If KAFTA is introduced before the end of calendar year 2014 and the beef industry can take advantage of the double tariff reduction, Meat and Livestock Australia estimate that the red meat industry will benefit by $408 million over the next 15 years.[2] For the Australian Agricultural Company for whom the Korean market is currently worth $35 million, the expected reduction in the tariff differential between Australia and their major competitor, the United States (US), from 8 per cent to 5.34 per cent represents a significant increase in trade value.[3]

3.6 Likewise, the sugar industry told the Committee that the removal of the 3 per cent tariff on raw sugar, which equates to $15 per tonne, will provide a significant increase to existing exports. Presently Korea is Australia's largest export market for raw sugar, taking approximately 100 million tonnes worth $500 million annually.[4]

3.7 For the horticultural industry KAFTA is particularly welcome as the industry has faced high tariff barriers in the Korean market.[5] The Australian Table Grape Association expects to create $40 million worth of exports over the next five years if KAFTA comes into effect.[6] Australian potato growers already hold a 37 per cent market share of the Korean potato import market worth $11 million to $12 million annual with an existing 27 per cent tariff. That tariff can reach 304 per cent if the above-quota tariff clicks into force.[7] With tariffs due to drop to zero with the implementation of KAFTA, the market is expected to double.[8]

3.8 Australian nuts are an expanding horticultural export sector. The 30 per cent tariff on Australian macadamia nuts, for example, will be reduced to zero over five years and exports are expected to go from 175 tonnes per

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1 Mr Noel Campbell, Chairman, Australian Dairy Industry Council Inc., *Committee Hansard*, Canberra, 14 July 2014, p. 21.

2 Mr Malcolm John Foster, Chairman, KAFTA Beef Industry Taskforce, *Committee Hansard*, Sydney, 29 July 2014, p. 17.

3 Mr Jason Strong, Managing Director, Australian Agricultural Company, *Committee Hansard*, Brisbane, 30 July 2014, p. 16.

4 Mr Warren Peter Males, Head, Economics, Canegrowers, *Committee Hansard*, Brisbane, 30 July 2014, p. 1.

5 The Office of Horticultural Market Access (OHMA), *Submission 37*, p. [1].

6 Mr Jeffrey Scott, Chief Executive Officer, Australian Table Grape Association, *Committee Hansard*, Sydney, 29 July 2014, p 45.

7 Mr Scott, *Committee Hansard*, Sydney, 29 July 2014, p. 45.

8 Mr Hayden Moore, National Manager, Export Development, AUSVEG Ltd., *Committee Hansard*, Sydney, 29 July 2014, p 45.

annum (worth $3 million) to approximately 2000 tonnes (worth $40 million).[9]

3.9 The wine industry too is enthusiastic about the opportunities presented by KAFTA. The 15 per cent tariff on Australian wine will reduce to zero on entry into force. In 2013 the industry held approximately four per cent by volume of the Korean market but expects that market share to increase to 15 per cent over the next two or three years against their global competitors.[10]

3.10 However, it is the competitive advantage that KAFTA presents that provides significant potential for many Australian industries. The Winemakers' Federation of Australia informed the Committee that exports to Korea had been 'steadily decreasing since 2007' largely because of the Korean free trade agreements with the US, the European Union (EU) and Chile.[11] The wine industry sees the Korean market as a 'major growth opportunity' and KAFTA will enable the industry to compete on a 'level playing field'.[12]

3.11 The Nut Council of Australia told the Committee that Australian growers have sold almost no almonds to Korea since the Korea-US free trade agreement (KORUS) came into effect in March 2000, reducing the US tariff to zero.[13] The entry into force of KAFTA will reduce the tariff for Australian almonds from 8 per cent to zero, putting the Australian industry back on an equal footing with the US industry. The Korean market imports 20 000 tonnes of almonds annually worth $160 million.[14]

3.12 The importance of this competitive advantage was stressed by nearly all of the industries and industry bodies that spoke to the Committee, not only to grow markets but to maintain existing market share. The sugar industry explained the consequences of losing the competitive edge in a strong existing market:

> Korea is a longstanding customer of the Australian industry. The Thais will have a tariff advantage over Australia going forward unless this agreement is ratified. At the limit it would mean that Australia would be looking for alternative outlets for one million

9 Australian Nut Industry Council, *Submission 40*, p. [2].

10 Mr Anthony Nicholas Battaglene, General Manager, Strategy and International Affairs, Winemakers' Federation of Australia, *Committee Hansard*, Canberra, 5 August 2014, pp. 1 and 3.

11 Winemakers' Federation of Australia, *Submission 4*, p. [4].

12 Mr Battaglene, Winemakers' Federation of Australia, *Committee Hansard*, Canberra, 5 August, 2014, p. 1.

13 Australian Nut Industry Council, *Submission 40*, p. [2].

14 Australian Nut Industry Council, *Submission 40*, p. [2].

> tonnes of its raw sugar exports. If so, that would have a significant impact on returns to the Australian industry, not just because of the impact of the tariff but seeking alternative markets would see those markets delivering a lower net to our industry than the Korean market, which is a very good market for us.[15]

3.13 The National Farmers' Federation (NFF) pointed out that 70 per cent of Australian agricultural products are exported, emphasising that 'it is about having a market and an opportunity; it is about having another customer for our exports'.[16] The Cattle Council of Australia told the Committee that market access to multiple markets was the major issue for producers as it protects profitability from fluctuating demand in individual markets:

> We used to sell pretty much 95 per cent of our export beef to three markets. We are now in 105 markets. Having competitive advantage or at least being on an equal playing field in those markets makes operations on a day-to-day basis a lot easier.[17]

3.14 The Australian Table Grape Association reiterated the need for access to diversified markets:

> We need diversification in our export markets … To have diversification means the growers have choice—different prices, different quality fruit. Different varieties of fruit can go to various markets. It cannot all just go to one country.[18]

3.15 Diversification and choice of markets also helps domestic competition. Witnesses referred to the supermarket duopoly in Australia and told the Committee that access to a variety of external markets forced supermarket chains to offer growers and producers more realistic prices.[19]

3.16 Industries also noted that secure access to existing markets coupled with the expected increase in trade will provide increased employment opportunities. Many of these industries are significant employers in rural and remote areas. For example the red meat industry employs some 150 000 people: 100 000 at the farm gate and 50 000 downstream:

> About 50 000 of those are directly employed in meat processing and retailing. The remainder are throughout the supply chain. So

15 Mr Males, Canegrowers, *Committee Hansard*, Brisbane, 30 July 2014, p. 1.

16 Mr Brent Finlay, President, National Farmers' Federation (NFF), *Committee Hansard*, Sydney, 29 July 2014, p. 28.

17 Mr Jed Matz, Chief Executive Officer, Cattle Council of Australia, *Committee Hansard*, Sydney, 29 July 2014, pp. 21–22.

18 Mr Scott, Australian Table Grape Association, *Committee Hansard*, Sydney, 29 July 2014, p. 47.

19 Mr Finlay, NFF, *Committee Hansard*, Sydney, 29 July 2014, p. 29.

> they are not just farmers but truck drivers and people who provide ancillary services from laboratories to air freight and all the rest of the things that come with an industry of this size.[20]

3.17 The dairy industry has 6 400 dairy farmers but reminded the Committee that to support the growth in exports 'significant capability' will also be required in the processing sector.[21] An example that emphasised the important role played by relevant industries in rural employment came from the Australian Nut Industry Council. An operation in a small rural township with a population of 34 employed six full-time staff, supplemented with seasonal work during harvest pruning.[22]

3.18 Asked about the possible flow on effects on employment presented by the opportunities provided in KAFTA, the Director of the Board of the Australian Nut Industry Council told the Committee:

> … the more economic activity you have, the more jobs you have … If you have markets, you can expand your production and if you expand your production, you create jobs. It is simple, really.[23]

3.19 A further benefit identified by witnesses was the opportunities presented by 'having a seat at the table'. The Australian Nut Industry Council indicated that KAFTA was the first step in the process of establishing a relationship with Korea that could open up future prospects.[24] Citrus Australia provided an example of the types of non-tariff benefits that flow from free trade agreements:

> We often talk about tariffs and that it is the be all and end all of these free trade agreements, but what we often overlook—and you can see a good example of it with Thailand—is that, as part of the free trade agreement, the two nations actually commit to having ongoing dialogue about phytosanitary issues.[25]

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20 Mr Steve Martyn, National Director processing, Australian Meat Industry Council, *Committee Hansard*, Sydney, 29 July 2014, p. 18.

21 Mr Campbell, Australian Dairy Industry Council Inc., *Committee Hansard*, Canberra, 14 July 2014, p. 22.

22 Mr Christopher Kenneth Joyce, Board Director, Australian Nut Industry Council, *Committee Hansard*, Brisbane, 30 July 2014, p. 11; ANIC, *Supplementary 40.1*, p. [1].

23 Mr Joyce, Australian Nut Industry Council, *Committee Hansard*, Brisbane, 30 July 2014, p. 14.

24 Mr Joyce, Australian Nut Industry Council, *Committee Hansard*, Brisbane, 30 July 2014, p. 10.

25 Mr David Daniels, Market Access Manager, Citrus Australia Ltd, *Committee Hansard*, Sydney, 29 July 2014, p. 47.

Implementation timeframe

3.20 The primary risk identified by industry was the possibility that KAFTA would not be implemented before the end of the 2014 calendar year. For those industries that are relying on a phased tariff reduction period, the initial tariff reduction will come into effect on entry into force of KAFTA. If this takes place before the end of 2014, a second tariff reduction will take place on the 1 January 2015, providing a double reduction within a short timeframe.

3.21 The importance of this double reduction in tariffs was reiterated throughout the evidence to the Committee. Of particular concern to industry is the possibility of falling further behind competitors who have already implemented free trade agreements with Korea. The dairy industry was one of the many industries to draw the Committee's attention to the competitive disadvantage that could result if implementation of KAFTA is delayed:

> … if implementation does not occur until 2015, Australia will fall another year behind the EU and the US in terms of commercial disadvantage. It is vital that this opportunity for early implementation is not lost.[26]

3.22 The red meat industry quantified the disadvantage, explaining that the US had benefited from tariff cuts since entry into force of KORUS in 2012 and now has an 8 per cent preferential tariff over Australia.[27] As Korea is Australia's fourth-largest beef export customer, delayed implementation could have a detrimental effect on the whole industry:

> If we achieve entry into force this calendar year [2014] … we will see the current 40 per cent tariff on Australian beef drop to 37.3 per cent and therefore the eight per cent differential between us and the US drop to 5.3 per cent. That 5.3 per cent will then remain for the life of the phase-out period until there is no tariff at all. If we do not achieve entry into force in 2014 that eight per cent competitive disadvantage will remain for the life of the phase-down period and will have a significant impact on our market share.[28]

26 Mr Campbell, Australian Dairy Industry Council Inc., *Committee Hansard*, Canberra, 14 July 2014, p. 21.

27 Mr Foster, KAFTA Beef Industry Taskforce, *Committee Hansard*, Sydney, 29 July 2014, p. 16.

28 Mr Foster, KAFTA Beef Industry Taskforce, *Committee Hansard*, Sydney, 29 July 2014, p. 17.