## Treaties tabled on 13 May 2014 Submission 40



ABN: 20 321 554 497

75 Casuarina Drive ELANORA QLD 4221 AUSTRALIA

M: +61 409 707 806

exec@nutindustry.org.au www.nutindustry.org.au

13 June 2014

Committee Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600

This submission is made by the Australian Nut Industry Council – the federation of the seven Australian tree nut producing industries – Almonds, Chestnuts, Hazelnuts, Macadamias, Pecans, Pistachios and Walnuts. The submission is supported by each of the ANIC member industries.

# **Executive Summary**

The Australian Nut Industry fully supports the Korea-Australia Free Trade Agreement. The elimination of tariffs on Australian nut exports will significantly increase the export opportunities for the expanding Australian nut industry.

It is of vital importance that this Treaty enters into force during 2014 to allow two quick steps downward of some the very high tariffs (e.g. 30% on macadamia nuts) – a reduction of 6% immediately and a further 6% on 1<sup>st</sup> January 2015.

# Korea-Australia Free Trade Agreement (KAFTA)

The KAFTA provides for the elimination of Korean tariffs on all Australian nut exports, except walnuts. The KAFTA will be of significant benefit to the Australian nut industries, particularly the export focused almond and macadamia industries.

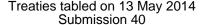
Nut exports from Australia are expanding rapidly. Total nut exports in 2013/14 will exceed \$400 million. Tree nuts are now the largest Australian horticulture export.

In the last 15 years there has been a substantial increase in the hectares devoted to nut growing in Australia. These investments have been targeted at the export market. Growing tree nuts is smart agriculture that uses capital, land and water efficiently. Nut exports will continue to grow and are projected to reach \$1 billion annually by 2025.

The world demand for nuts is growing. In developed western markets such as Australia, Europe and North America, the growing awareness of the health benefits of nuts is driving the increase in consumption. Solid science shows

<sup>~</sup> Almond Board of Australia ~ Australian Macadamia Society ~ Australian Pecan Growers' Association Inc. ~

<sup>~</sup> Australian Walnut Industry Association ~ Chestnuts Australia Inc. ~ Hazelnut Growers of Australia Inc. ~





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that people who eat nuts daily have a 50% reduced risk of cardiovascular disease and a 20% reduced risk of overall mortality. The 2013 Australian Dietary Guidelines recommend that Australian adults should include 30gms of nuts per day in their diet.

In developing markets such as China, India and Korea increasing affluence is allowing more consumers to enjoy the healthy taste sensation that nuts provides.

Korea is an important and growing market for nuts.

# **Almonds**

KAFTA will remove the huge advantage held by the USA almond industry since the Korea/USA FTA entered into force in March 2012.

The current 8% tariff on Australian almonds will be reduced to zero, entry into force. This returns Australia and USA to an equally competitive position. Korea imports about 20,000 tonnes of almonds annually with a current market value of about \$160 million. Australia has sold almost zero almonds into Korea since the KORUS FTA was concluded.

Since the announcement of the KAFTA, the Australian Almond Board has announced plans for a trade delegation in November 2014 to Korea to reintroduce Australian almonds into this important market.

The rapid conclusion of the KAFTA is highly desirable and will facilitate Australian almond exports to re-commence as soon as possible.

## **Macadamia Nuts**

KAFTA will remove the 30% tariff on Australian macadamia nuts over 5 years.

Several years ago the Australian Macadamia Society (AMS) targeted Korea as the next market to open for this iconic Australian native plant food. The AMS has invested over \$A1.3 million in the last three years to introduce macadamia nuts to Korean consumers.

Already exports have reached 175 tonnes with a value of \$3 million pa. With the removal of the 30% tariff, the price of Australian macadamias in Korea will drop, allowing more Korean consumers to afford this Australian delicacy.

The AMS expects that the Korean market could grow over the next decade to be a similar consumption per head to the Japanese market. This would result in a market of about 2,000 tonnes per annum with a value of about \$40 million.

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The rapid *entry into force* of KAFTA is particularly important for macadamias – a product with a very high tariff to be eliminated over five years. The first 6% will be removed *entry into force*. Subsequent reductions will occur on the 1<sup>st</sup> January of the following years. If KAFTA can be concluded during 2014, there will be a total reduction of 12% from the 1<sup>st</sup> January 2015. This will provide a significant cost reduction for Korean consumers and an immediate boost in demand for Australian macadamias.

The Australian macadamia industry is the world market leader. It has progressively opened markets in Japan, Europe and China over the past 20 years. Other producing countries have followed through the door that the AMS has opened. KAFTA will provide Australian macadamias with a competitive edge over its most aggressive competitor, South Africa. Hopefully this will achieve even better returns for Australian growers.

The DFAT negotiating team is to be congratulated for achieving a 5 year write off on the macadamia tariff. The 5 years puts Australia on equal terms with the 7 years allowed under KORUS (settled two years ago).

#### Other nuts

It was disappointing that Korea refused to remove the tariff on Australian walnuts, claiming "sensitivity". This was a bewildering decision considering that Korea had eliminated the walnut tariffs in its FTAs with the USA and Chile - both huge walnut producers and exporters. Korea currently imports about 15,000 tonnes of walnuts with a value of about \$A60 million. It is accepted that the Australian negotiators did their utmost to reverse this position of Korea.

The expansion of Australian walnut growing is only now manifesting itself in the export statistics. In 2013/14 walnut exports will be about 10,000 tonnes with a value of \$A50 million. These exports will double over the next decade. Korea would have been a valuable export market.

Whilst not achieving tariff elimination in KAFTA, the Australian negotiators were successful in having the walnut tariffs eliminated in the Japan Agreement.

Current Australian production of the other tree nuts (Pistachios, Pecans, Chestnuts and Hazelnuts) is destined for the domestic market. However, KAFTA provides a competitive market for Australia and will further encourage an expansion of the production of these nuts.

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There has recently been a large, over 1,000 hectares, development of a hazelnut orchard in southern NSW. This will also target the export market, albeit in 5 to 7 years. It is being heralded as a demonstration hazelnut grove and as such, speaks volumes for the future of Australian hazelnuts by assisting our farmers identify a very real commercial venture with export opportunities. It is also becoming apparent that the opportunity to provide fresh nuts to the Northern Hemisphere exists for Australian nuts.

# **Conclusion**

The Australian nut industry fully supports KAFTA and urges the Australian Parliament to conclude the necessary formalities as quickly as possible to allow the benefits to flow.

Yours sincerely,

Richard Sampson-Genest Chairman Australian Nut Industry Council