Australian Food and Grocery Council
SUBMISSION

DATE

TO:
JOINT STANDING COMMITTEE ON TREATIES

IN RESPONSE TO:
REVIEW OF THE KOREA AUSTRALIA FREE TRADE AGREEMENT

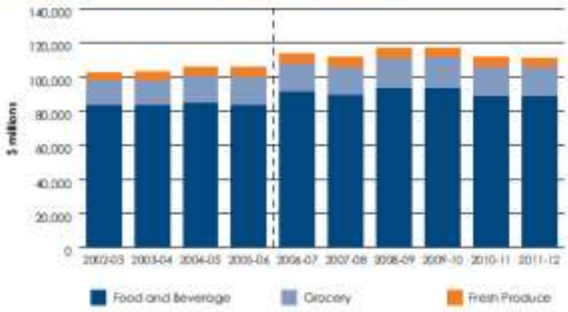
Australian Food and Grocery Council

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.

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

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 sector[1] 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 Australia[2]. 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.

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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

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.

1. SUMMARY

The Australian Food and Grocery Council welcomes the Korea-Australia Free Trade Agreement (KAFTA), 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 wide range of agri-food products are welcome and will provide relief to Australian exporters facing fierce competition in Korea, 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 1992 to 2012, Australia's market share of Korea's imported food product increased from approximately 13 to 15 per cent. While this is encouraging, a closer review of the data shows that from a high of approximately 17 per cent of the market in 2006, Australia has steadily fallen below the long term average to 2012.

This situation makes implementation of KAFTA in 2014 all the more important. If KAFTA is implemented in 2014, Australian exporters will receive their first tariff cut on implementation of the agreement and a second tariff cut on 1 January 2015. This will provide immediate relief to exporters and assist with competitiveness in market.

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 to the implementation, supporting outreach and review of new trade agreements.

2. MARKET ACCESS UNDER KAFTA

The Australian Food and Grocery Council welcomes the Korea-Australia Free Trade Agreement (KAFTA), and the improved market access arrangements for one of the most distorted agri-food markets in the world.

With tariff peaks of over 200 per cent on some agri-food products, and more than 53 per cent of each Korean farmer's income provided by government subsidies, Korea can be a difficult market for Australian agri-food exports. While KAFTA would not remove all tariffs, and would not address subsidies to Korean farmers, it will reduce or eliminate a wide range of tariffs and enable Australian exporters to trade more effectively.

Well known outcomes under KAFTA include:

- the elimination of Korea's 40 per cent tariff on beef and 18 per cent tariff on bovine offal progressively over 15 years,
- the elimination of Korea's 15 per cent tariff on Australian wine immediately on entry into force of the Agreement,
- the elimination of Korea's 3 per cent tariff on raw sugar on entry into force,
- the elimination of Korea's high tariffs of 36 per cent on cheese and 89 per cent on butter will be eliminated over 13 and 20 years,
    - Australian dairy exporters will also benefit from growing duty free quotas for cheese, butter and infant formula,
- the elimination of Korea's 22.5 per cent tariff on sheep and goat meat over 10 years. Tariffs on key pork exports of 22.5 to 25 per cent will be eliminated in five to 15 years, and
- a wide ranging outcome on horticultural products from the elimination of tariffs on some lines, to greater access for fresh produce to the Korean on a counter-seasonal basis. Highlighting the complementarity between Australia and Korea.

For processed and packaged food (broadly captured under Chapters 16-22 of the Harmonised System of Commodity Description and Coding System), Korea will eliminate a wide range of tariffs of up to 63 per cent over different timeframes. The outcome will benefit a wide range of processed and packaged food products and enable Australian exporters to more effectively compete with other major exporters including the United States, the European Union and Canada.

While the long timeframes for tariff elimination on particular products and the exclusions from liberalisation are disappointing, taken in context, KAFTA will create a framework for Australian exporters to develop in the Korean market to 2050.

2.1. KAFTA IN CONTEXT – AUSTRALIAN FOOD EXPORTS

China, Japan and Korea are key markets for Australian agri-food exports and that is why KAFTA and the Japan Australian Economic Partnership Agreement 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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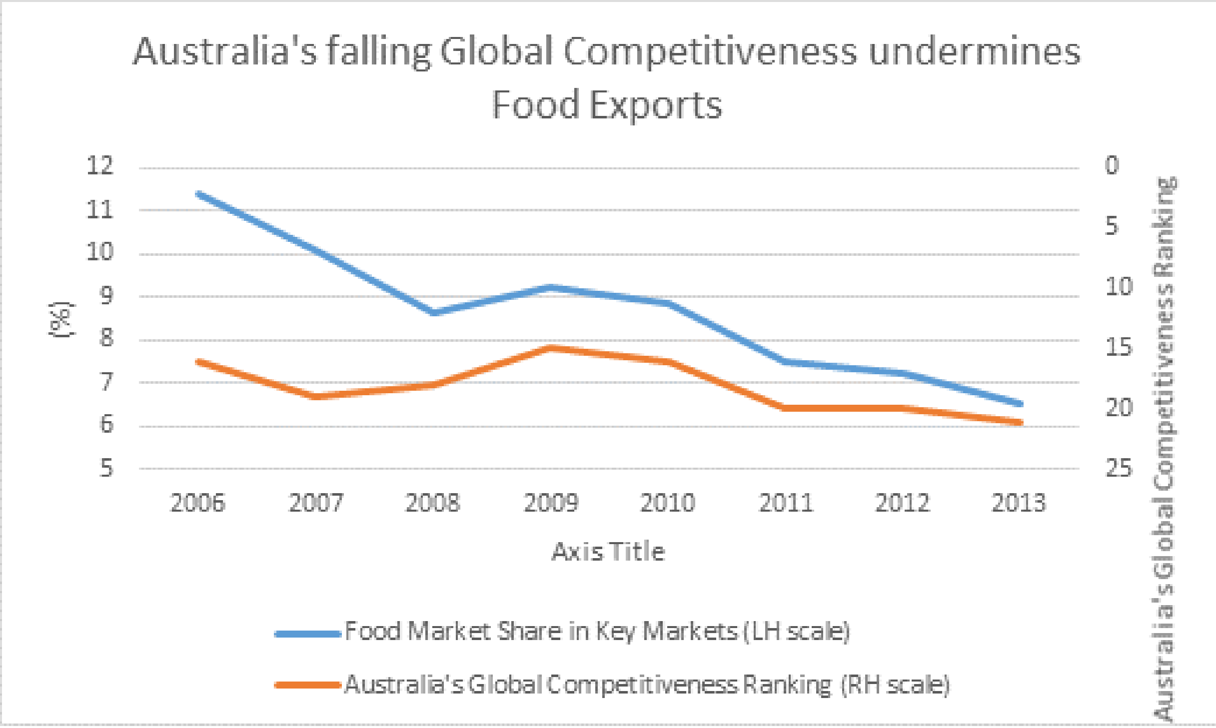
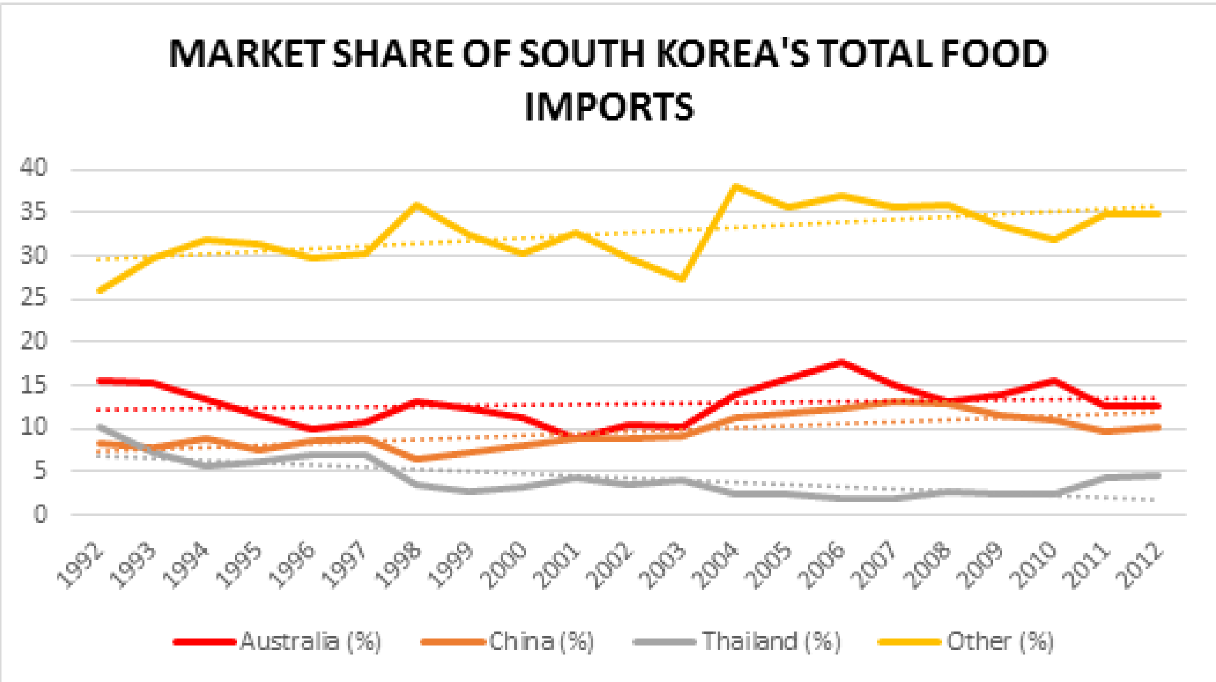


Source: UN Statistical Database 'Comtrade' 2014 and the World Economic Forum Competitiveness Index 2013

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 Korea is one of two markets where Australia is actually increasing market share (see chart below).



Source: UN Statistical Database 'Comtrade' 2014

From 1992 to 2012, Australia's market share of Korea's imported food product increased from approximately 13 to 15 per cent. While this is encouraging, a closer review of the data shows that from a high of approximately 17 per cent of the market in 2006, Australia has fallen below the long term average in 2012.

With the decline in Australia's global competitiveness[3], the price of Australia's exported 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 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.

2.2. TIMING OF IMPLEMENTATION

The KAFTA text states that phased tariff reductions will be implemented from entry into force of the agreement and on 1 January of every year that follows. The importance of timing in phased tariff reductions can be most clearly seen with the beef example: Australian beef exporters are on the same phased tariff reduction as beef exporters from the United States however Australia is a few years behind. If KAFTA is implemented in the 2014 calendar year, Australia exporters will receive the first tariff reduction in 2014 and another tariff reduction on 1 January 2015. If KAFTA is not implemented until 2015, Australian beef exporters will be another year behind the United States.

While the focus of this argument has been on Australia's beef exporters, there is also significant implications for other Australian agri-food exporters. At a time when all Australian exporters are under pressure from a high cost economy and finding it difficult to compete in overseas markets, immediate tariff reductions will provide greater scope for products to compete. Immediate tariff reductions will benefit all companies but will have a particular benefit for SME exporters who don't have the scale and financial resources of larger companies to maintain export markets under duress.

Acknowledging the tight timeframes and various processes required, we understand that implementation of KAFTA in 2014 is possible but would require a concerted effort on behalf of the Australian and Korean Governments. The AFGC calls for a determined effort to implement KAFTA in 2014 which will provide two tariff cuts in quick succession to Australian exporters.

3. INVESTOR STATE DISPUTE SETTLEMENT

The AFGC notes that Investor-State Dispute Settlement (ISDS) is a two-way street – it is good for investors from all parties to a trade agreement. The inclusion of such provisions in KAFTA provides a high level of confidence for investors in both parties, and the inclusion of such provisions promotes the good-faith objectives of the trade agreement. It is important to note the importance of carve outs for public interest matters, which should adequately address some of the concerns around the recent use of ISDS provisions. For example, Annex 11-B on Expropriation contains the following exception:

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

> *Except in rare circumstances, non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety, and the environment, do not constitute indirect expropriations*.

The AFGC supports this pragmatic and balanced approach to protecting both investors and public interests.

4. NEW TRADING ARRANGEMENTS UNDER KAFTA

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 or wasted in meeting the different and specific requirements of individual trade agreements in order to receive the preferential treatment under particular agreements. KAFTA will add to this task and while food and beverage exporters will welcome the implementation of KAFTA, there is a 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.

5. IMPLEMENTATION AND OUTREACH

Implementation of KAFTA may reveal some difficulties in meeting the processes and procedures as outlined in the text of the agreement. Timely review and resolution of any issues will be imperative to successful uptake or use of the agreement by Australian exporters. The AFGC calls for adequate resources for implementation and review, particularly in the first six months of entry into force, to ensure successful implementation of the agreement.

Similarly, outreach activities and practical information on using the agreement is essential for current and potential Australian exporters to make maximum use of the agreement. The AFGC understands that agencies, such as Austrade, have events scheduled in support of KAFTA implementation. The AFGC would welcome focussed and sector specific outreach to industry with a focus on the practical and commercial realities of the agreement.

6. ONGOING REVIEW

Trade agreements often have an annual review mechanism and regular officials level meetings as standard elements. 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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