

10 June 2012



Mr Russell Chafer
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Joint Standing Committees on Treaties
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Dear Mr Chafer

**Submission to the Joint Standing Committee on Treaties inquiry into the Free Trade Agreement
between the Government of Australia and the Government of the Republic of Korea**

1. About AUSVEG

AUSVEG is the National Peak Industry Body representing the interests of Australian vegetable and potato growers. We represent growers around Australia and assist them by ensuring the National Vegetable Levy and the National Potato Levy are invested in research and development (R&D) that best meets the needs of the industry.

AUSVEG also makes representations on behalf of vegetable and potato growers to ensure their interests and concerns are effectively communicated to all levels of government, in the public sphere, and throughout relevant areas of the private sector.

AUSVEG executes its brief by delivering national projects in the areas of communication and trade development, as well as by providing leadership for our sector on a range of key issues.

2. Queries

For more information regarding this submission please contact AUSVEG's National Manager – Export Development, Mr Hayden Moore, on (03) 9822 0277 or at hayden.moore@ausveg.com.au. Should the Committee so desire, AUSVEG would be pleased to appear before the Committee to address the points contained in this submission.

Yours sincerely

Richard J Mulcahy
Chief Executive Officer

AUSVEG Ltd Submission to the Joint Standing Committee on Treaties inquiry into the Free Trade Agreement between the Government of Australia and the Government of the Republic of Korea (Seoul, 8 April 2014)

Summary

AUSVEG proposes that the Committee support action by Australia to become party to the Free Trade Agreement between the Government of Australia and the Government of the Republic of Korea. With respect to this free trade agreement, AUSVEG offers the following views:

1. AUSVEG supports on-going trade liberalisation efforts to ensure a global vegetable market place free of unnecessary government intervention and distortion.
2. AUSVEG supports the pragmatic approach of targeting trading partners for comprehensive bilateral agreements, while slower moving, multilateral trade policy reform takes place.
3. AUSVEG's view is that on balance, the KAFTA tariff outcomes represent a generally favourable outcome for Australian vegetables, particularly the removal of the tariff on potatoes in Australia's export season.
4. The existence of phytosanitary related trade barriers diminishes the potential of vegetable trade liberalisation under Australia's FTAs. AUSVEG urges the Australian Government to increase its focus on achieving commercially viable phytosanitary protocols to ensure that the vegetable industry can realise the full benefit of free trade agreements.

Introductory remarks

AUSVEG Ltd ("AUSVEG") welcomes the opportunity to present this submission to the Joint Standing Committee on Treaties ("JSCOT") inquiry into the Free Trade Agreement ("KAFTA") between the Government of Australia and the Government of the Republic of Korea ("Korea"), signed in Seoul on 8 April 2014.

The Australian vegetable industry has a production value of AU\$3.8 billion¹ and is renowned for the quality and safety of its produce. Historically, the industry has been domestically focussed, with only 7 per cent of vegetable production currently exported². While the domestic market will continue to be a major focus of the industry, domestic market growth is expected to be limited to population growth³. Consequently, there is growing recognition that expansion to international markets mitigates domestic market risks and increases the scope for future growth.

The industry has recognised the importance of export markets to its long-term viability, with export development being included as a key pillar of the current industry Strategic Investment

¹ Australian Bureau of Statistics, *Catalogue 7503.0 Value of Agricultural Commodities Produced 2012-13*

² Australian Bureau of Statistics, *Catalogue 5465.0, International Trade 2011-12*, Released

³ Australian Vegetable Industry Strategic Investment Plan 2012 - 2017

Plan⁴. Modelling undertaken for this plan indicates that the gains from increases in exports offer the greatest potential return on research and development investment⁵. However, highly competitive markets and low margins will continue to present challenges to vegetable exporters. There is a high level of self-sufficiency in vegetables across many international markets, with some markets that have traditionally imported Australian vegetables becoming net exporters of vegetables.

Market access for Australian vegetables

The current and future success of Australian vegetable exports relies on Australia's global competitiveness. One of the primary factors contributing to global competitiveness is Australia's international market access. Australia's 'market access' consists of tariff and non-tariff measures.

Non-tariff barriers to trade can be broadly defined as any measure outside tariffs that impact trade flows⁶. Importantly for the trade in fresh horticultural products, this includes the phytosanitary measures⁷ under which horticultural products can meet the biosecurity and quarantine standards of Australia's trading partners (also referred to as "phytosanitary protocols"). While the aim of any free trade agreement ("FTA") is to improve tariff outcomes, AUSVEG is unaware that FTAs have directly resulted in improvement of phytosanitary related trade barriers⁸.

Despite some favourable results from Australia's FTAs of the last decade, the international vegetable market remains relatively distorted. That is to say, many trading partners have high tariffs on vegetable imports and restrictive phytosanitary measures.

Australia's vegetable trade with the Republic of Korea

Korea is a large vegetable producer and consumer in its own right and is considered reasonably self-sufficient for its vegetable demand⁹. The domestic Korean vegetable market is expected to

⁴ Horticulture Australia Limited and AUSVEG Limited, *Vegetable Industry Strategic Investment Plan 2012-2017*, 2012

⁵ Centre for International Economics, *Analytical Business Case - Australian Vegetable industry Strategic Investment Plan 2012 – 2017*

⁶ Staiger, R.W., *Non-tariff Measures and the WTO*, Working Paper of the World Trade Organisation Economic Research and Statistics Division January 2012

⁷ A "phytosanitary measure" is defined as any legislation, regulation or official procedure aimed at preventing the introduction or spread of plant pests of potential importance. Source: World Trade Organisation.

⁸ Office of Horticultural Market Access, *Submission to the Productivity Commission Review of Bilateral and Regional Trade Agreements*, 2010

⁹ AgEconPlus Pty Ltd (commissioned by Horticulture Australia Ltd), *Domestic and Export Market Access and Trade Viability Issues – A Strategy to Address*, 2013.

continue to increase, with a shift away from rice production and toward vegetable production, particularly greenhouse vegetable production to counter harsh seasonal conditions¹⁰.

The largest exporter of vegetables to Korea is China, with an import market share in excess of 70 per cent in 2013 (refer appendix 1). Australian vegetable exports to Korea are relatively small in this context, being worth \$US8.9 million and making up 1.2 per cent of Korean vegetable imports. The major Australian vegetable export commodity is potatoes, worth \$US8.5 million in 2013 (refer appendix 2). Korea was Australia's 12th largest vegetable export market in 2013¹¹.

In general, Korean tariffs on fresh vegetables are 27 per cent (or higher), with tariff-rate quotas also applying to some commodities. However, in situations where there is a shortfall of domestic vegetable supply, the Korean Government will sometimes temporarily waive tariffs and quotas to fulfil market requirements.

Summary of KAFTA vegetable tariff outcomes

The accepted overarching objective for tariff outcomes under any FTA is the immediate removal of tariffs across all goods. Of course, AUSVEG acknowledges the difficulties in concluding FTA negotiations and in achieving the aforementioned aim. It is AUSVEG's view that FTA tariff outcomes must provide a significant improvement to market access and competitiveness, both in terms of the products covered by the FTA and the timeliness of tariff reductions. To do this, tariff outcomes must therefore compare favourably with Australia's international competitors.

A summary of the key vegetable tariff outcomes under KAFTA is included in appendix 3. Generally, Korean tariffs on Australian vegetables are currently 27 per cent or higher. Under KAFTA, the majority of vegetable commodities will have tariffs eliminated in equal stages over a period between three and eighteen years. The exceptions are a small number of vegetable commodities that are exempt from tariff reductions (for example capsicum and spinach), and the tariffs on potatoes, which will be eliminated immediately for Australian exports between 1 December and 30 April, and otherwise phased out over 15 years¹². The period of immediate potato tariff elimination corresponds to the Australian potato export season.

The major competitors in the Korean vegetable import market that have also signed a FTA with Korea are the United States of America ("U.S.") and Canada. The Korean and U.S. FTA came in to force in March 2012 and provides for staged tariff eliminations over a significantly shorter timeframe for almost all vegetable commodities (refer appendix 4). While the signing of KAFTA will ameliorate the loss of Australia's competitive position following the Korea-U.S. FTA with

¹⁰ United States Department of Agriculture Economic Research Service, *South Korea: Speciality & Processed Products Markets*, www.ers.usda.gov (Downloaded May 2014).

¹¹ Global Trade Information Service, sourced from Australian Bureau of Statistics International Trade Data 2013

¹² Australian Department of Foreign Affairs and Trade, *Free Trade Agreement between the Government of Australian and the Government of the Republic of Korea* (April 2014).

respect to vegetables¹³, the tariff outcomes will still place Australia at a competitive disadvantage relative to the U.S. in the medium term. The Korea-Canada FTA was signed in March 2014. Detailed vegetable tariff outcomes are not yet available, however tariffs on dried legumes (Canada's main export to Korea) will be eliminated over 10 years¹⁴, consistent with the outcomes under KAFTA.

Beyond the U.S. and Canada, Korea's other existing FTAs cover countries that are not currently major vegetable exporters to Korea (including Chile, Singapore, India, Association of South-East Asian Nations, the European Union and Peru). Korean FTA negotiations with Australia's competitors in the Korean market, including New Zealand and China, are ongoing. Successful completion of Korean FTA's with China and New Zealand will put pressure on Australia's current market share. China's generally low cost of production and subsequent price to market is already a significant competitive advantage and New Zealand is also regarded as a key competitor in international markets, with vegetable production quality that is comparable with Australia.

Summary of non-tariff barriers to trade with the Republic of Korea

Phytosanitary related trade barriers are the most significant impediment to Australian vegetable exports. The phytosanitary protocols that facilitate vegetable trade are negotiated and agreed outside FTAs, and therefore irrespective of FTA tariff outcomes, an increase in the quality of market access for Australian vegetables will not occur without commercially viable phytosanitary protocols.

Phytosanitary protocols are negotiated bilaterally at the Government level for each commodity (or closely associated group of commodities) under the terms of the World Trade Organisation's Sanitary and Phytosanitary Agreement. The unsatisfactorily long process of achieving phytosanitary protocols has caused extremely long backlogs of requests from one country to another¹⁵.

It should be noted that notwithstanding moves to liberalise trade in recent decades, in some markets phytosanitary related trade barriers have actually significantly reduced market access for Australian vegetables. A relevant example is Korea's prohibition of imports of carrots from mainland Australia in 2006 due to the presence in Australia of the burrowing nematode pest (*Radopholus similis*)¹⁶.

¹³ Centre for International Economics (prepared for the National Farmers' Federation), *Impact of KORUS on Australian agriculture* (2007).

¹⁴ Canadian Department of Foreign Affairs, Trade and Development, *Canada-Korea Free Trade Agreement – Final Agreement Summary* (2014)

¹⁵ Office of Horticultural Market Access, *Submission to the Productivity Commission Review of Bilateral and Regional Trade Agreements*, 2010

¹⁶ World Trade Organisation Notification (G/SPS/N/KOR/199). Note that carrot exports to the Republic of Korea were initially completely prohibited from Australia, before Tasmanian carrot exports were subsequently permitted in 2007.

In Korea, phytosanitary protocols have only been negotiated for a small number of vegetable commodities, including potatoes, onions, asparagus and carrots only from Tasmania (refer appendix 3). The restrictive market access is, in a large part due to the presence of the burrowing nematode and fruit fly¹⁷ on mainland Australia. Thus, supporting the horticultural sector to demonstrate the effective treatment, or regional freedom, of these horticultural pests must remain the highest priority for Government.

Finally, it is important to note that if the phytosanitary protocols established for international vegetable trade are unnecessarily cumbersome or impractical to administer, it will significantly diminish commercial value to Australian vegetable exporters and in some cases, totally undermine market access.

AUSVEG's comments on the KAFTA outcomes

The Australian Department of Foreign Affairs and Trade's *National Interest Analysis* makes a number of assertions regarding the efficacy of KAFTA, including:

- *KAFTA substantially liberalises Australia's trade with the Republic of Korea*
- *KAFTA gives Australian exporters significantly improved market access in goods and services, eliminating tariffs on a wide range of Australian goods exports*
- *KAFTA also protects Australia's competitive position in the Republic of Korean market*
- *KAFTA will deliver market gains and deeper cuts to tariffs more rapidly than current multilateral initiatives underway*

With respect to these assertions, AUSVEG submits these views to the JSCOT:

1. AUSVEG supports on-going trade liberalisation efforts to ensure a global vegetable market place free of unnecessary government intervention and distortion. Australian vegetables continue to face fierce market competition in international markets from countries that have preferential market access or that subsidise vegetable production. Being well-positioned from a trade policy perspective is critical to the long-term prosperity of the industry.
2. AUSVEG supports the pragmatic approach of targeting trading partners for comprehensive bilateral agreements, while slower moving, multilateral trade policy reform takes place. However, these agreements will be individually judged on whether they substantially overcome trade barriers and improve Australia's competitiveness in international vegetable markets.
3. AUSVEG's view is that on balance, the KAFTA tariff outcomes represent a generally favourable outcome for the Australian vegetable industry, particularly the removal of the tariff on potatoes in Australia's export season. While vegetable tariff outcomes were not as

¹⁷ This includes Queensland Fruit Fly (*Bactrocera tryoni*) and Mediterranean Fruit Fly (*Ceratitidis capitata*)

favourable as those provided for in the Korea-U.S. FTA, the relatively early conclusion of KAFTA negotiations is reasonably expected to provide Australia with some level of advantage against other competitors in the Korean market.

4. The existence of phytosanitary related trade barriers diminishes market access and therefore the potential of vegetable trade liberalisation under Australia's FTAs. AUSVEG urges the Australian Government to increase its focus on achieving commercially viable phytosanitary protocols to ensure that the vegetable industry can realise the full benefit of FTAs.

AUSVEG proposes that the JSCOT support action by Australia to become party to KAFTA.

Future bilateral trade agreement negotiations

Australia is currently engaged in bilateral trade agreement negotiations with seven different trading partners. As outlined above, the result of these trade policy reforms will be critical to the long-term viability and prosperity of the Australian vegetable industry.

In its 2009 Report on the *Agreement Establishing the Association of Southeast Asian Nations-Australia-New Zealand Free Trade Area*, the JSCOT's first recommendation was "that the Australian Government pursue all possible bilateral and multilateral avenues to secure improved tariff outcomes for the horticulture industry". AUSVEG strongly supports this sentiment.

AUSVEG urges the Australian Department of Foreign Affairs and Trade to take the strongest position possible with partner countries to target the immediate elimination of tariffs across vegetable commodities, especially as Australia usually allows the same for vegetable imports. AUSVEG does, however, acknowledge that partner countries will often claim certain commodity 'sensitivities' and that timely resolution of FTA negotiations is important to avoid 'being left behind'.

Critically, improved market access for vegetable commodities will, to a significant extent for vegetables, remain unrealisable unless commercially viable phytosanitary protocols are also achieved. The Australian Government does possess the capability to successfully prosecute phytosanitary protocol negotiations. However, it is important that sufficient resources are allocated to handle the large number of cases that are being (or could be) negotiated and that these resources are allocated effectively as possible. As phytosanitary negotiations also rely on the Australia's trading partner, favourable political and diplomatic relationships are also essential.

Appendix 1. Top 10 vegetable importing countries to the Republic of Korea

Figures in US Dollar thousand.

Exporting country	Imported value			Market share 2013
	2011	2012	2013	
China	538,945	493,038	509,199	70.4%
Viet Nam	23,041	55,824	70,736	9.8%
Thailand	50,036	71,110	69,637	9.6%
United States of America	17,966	28,507	25,137	3.5%
New Zealand	14,276	19,190	14,928	2.1%
Myanmar	9,057	8,438	9,317	1.3%
Australia	10,003	10,070	8,904	1.2%
Canada	3,311	2,888	3,557	0.5%
Tonga	1,728	2,194	1,940	0.3%
Indonesia	9,487	3,107	1,755	0.2%
World	682,612	700,413	723,125	

Source: United Nations Statistical Division, data retrieved June 2014 from <http://comtrade.un.org/>

Appendix 2. Australia's vegetable exports to the Republic of Korea

Figures in US Dollar thousand.

Commodity Description	Product Code (HS Code)	Republic of Korea imports from Australia		
		2011	2012	2013
Potatoes	0701	9,673	9,752	8,533
Tomatoes	0702	0	0	0
Onions, garlic and leeks	0703	0	0	0
Cabbages and cauliflowers	0704	0	6	0
Lettuce and chicory, fresh or chilled	0705	0	0	0
Carrots, turnips and salad beetroot, fresh or chilled	0706	0	0	93
Cucumbers and gherkins, fresh or chilled	0707	0	0	0
Leguminous vegetables		0	0	0
Other fresh vegetables	0709	228	173	158
Frozen vegetables	0710	1	0	0
Provisionally preserved vegetables	0711	0	0	0
Dried vegetables	0712	100	136	119
Dried leguminous vegetables	0713	1	2	0
Total		10,003	10,069	8,904

Source: United Nations Statistical Division, data retrieved June 2014 from <http://comtrade.un.org/>

Appendix 3. Extract from KAFTA, Republic of Korea Schedule of Tariff Commitments

A selected extract of the Republic of Korea KAFTA tariff commitments, is provided in table 1. Explanatory notes for the table are also outlined below:

Product Code (HS Code) - Harmonised Tariff Schedule commodity identification code.

Korean Tariff Base Rate – This is the existing tariff rate payable on Australian export goods upon arrival in the Republic of Korea. The tariff rate included for potatoes is 304 per cent, which relates to the over-quota tariff rate. The in-quota rate is 30 per cent.

Staging Category – If this is a number, it refers to the number of years the tariff will be phased out in equal annual stages beginning on the date of entry into force of KAFTA. Where ‘exempt’, tariffs remain at base rates. Where staging category is ‘S-1’, the item is subject to the following provision:

- a) for goods entered into Korea from 1 December through 30 April, customs duties shall be eliminated entirely on the date of entry into force of KAFTA; and
- b) for goods entered into Korea from 1 May through 30 November, customs duties shall be removed in 15 equal annual stages beginning on the date of entry into force of KAFTA.

Current Phytosanitary Protocols – Refers to whether phytosanitary protocols are currently in place with Korea such that Australian vegetable exports can meet Korea’s biosecurity and quarantine standards. This information is sourced from the Australian Department of Agriculture’s *‘Manual of Importing Country Requirements’*.

Table 1. Extract from the Republic of Korea Schedule of Tariff Commitments (KAFTA)

Commodity Description	Product Code (HS Code)	Korean Tariff Base Rate (%)	Staging Category	Current Phytosanitary Protocols
Seed Potatoes	0701.10	304	10	Yes
Ware Potatoes	0701.90	304	S-1	Yes – but prohibited from Western Australia and Victoria
Tomatoes	0702.00	45	7	No
Onions	0703.10.1	Greater of 135% or 180won/kg	Exempt	Yes
Shallots	0703.10.2	27	Exempt	Yes
Garlic	0703.20	Greater of 360% or 1,800won/kg	Exempt	No
Leeks	0703.90	27	7	No
Cauliflowers and broccoli	0704.10	27	10	No
Brussels sprouts	0704.20	27	7	Yes
Cabbages	0704.90.1	27	7	No
Kolhrabi	0704.90.9	27	5	Yes
Lettuce	0705.11	45	18	No

Carrots	0706.10.1	Greater of 30% or 134won/kg	5	Yes – but only from Tasmania
Turnips	0706.10.2	27	10	No
Radishes	0706.90.1	30	15	No
Wasabi and horseradish	0706.90.2	27	10	No
Beetroot	0706.90.9	27	15	Yes – but only from Tasmania
Cucumbers and gherkins	0707.00	27	15	No
Peas	0708.10	27	7	No
Beans	0708.20	27	10	No
Asparagus	0709.20	27	3	Yes
Aubergines	0709.30	27	5	No
Celery	0709.40	27	5	No
Capsicum and bell peppers	0709.60	Greater of 270% or 6,210won/kg	Exempt	No
Spinach	0709.70	Greater of 270% or 6,210won/kg	Exempt	No

It should be noted that not all the vegetable commodities included in table 1 are subject to the National Vegetable Levy under the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999*. Under the legislation, the National Vegetable Levy applies to all vegetables with some exceptions, including (but not limited to) asparagus, garlic, onions, and mushrooms. Potatoes are subject to the National Potato Levy.

Appendix 4. Comparison of tariff outcomes of KAFTA and the Korea-U.S. FTA

A selected extract of the Republic of Korea KAFTA tariff commitments is compared with the corresponding tariff commitments included in the Korea-U.S. FTA in table 2 below. Note that the tariff rate included for potatoes is 304 per cent, which relates to the over-quota tariff rate.

Table 2. Extract from the Republic of Korea Schedule of Tariff Commitments, from both KAFTA and the Korea-U.S. FTA

Commodity Description	Product Code (HS Code)	Korean Tariff Base Rate (%)	Period of tariff elimination (years)	
			KAFTA	KORUS
Ware Potatoes	0701.90	304	15*	7*
Tomatoes	0702.00	45	7	7
Onions	0703.10.1	Greater of 135% or 180won/kg	Exempt	15
Shallots	0703.10.2	27	Exempt	1
Garlic	0703.20	Greater of 360% or 1,800won/kg	Exempt	15
Leeks	0703.90	27	7	1
Cauliflowers and broccoli	0704.10	27	10	5
Brussels sprouts	0704.20	27	7	10
Cabbages	0704.90.1	27	7	1
Kolhrabi	0704.90.9	27	5	1
Lettuce	0705.11	45	18	10
Carrots	0706.10.1	Greater of 30% or 134won/kg	5	5
Turnips	0706.10.2	27	10	1
Radishes	0706.90.1	30	15	10
Wasabi and horseradish	0706.90.2	27	10	1
Beetroot	0706.90.9	27	15	5
Cucumbers and gherkins	0707.00	27	15	1
Peas	0708.10	27	7	5
Beans	0708.20	27	10	5
Asparagus	0709.20	27	3	1
Aubergines	0709.30	27	5	1
Celery	0709.40	27	5	1
Capsicum and bell peppers	0709.60	Greater of 270% or 6,210won/kg	Exempt	15
Spinach	0709.70	Greater of 270% or 6,210won/kg	Exempt	1

* This refers to the period of tariff elimination for potatoes entered into Korea from 1 May through 30 November. For exports outside this period, tariffs have been eliminated upon the respective FTAs coming into force.