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4 September 2014

Foreign Affairs, Defence and Trade Committee

Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: fadt.sen@aph.gov.au

RE: AUSTRALIA/KOREA FTA INQUIRY – TEYS AUSTRALIA BRIEF

Dear Committee Secretary,

We are writing to provide a summary brief for the Senate Foreign Affairs, Defence and Trade References Committee, as part of the inquiry into the Korea-Australia Free Trade Agreement (KAFTA). This brief is intended to provide a short background of Teys Australia's involvement in, and exposure to the Korean export market for Australian Beef.

Teys Australia Pty Ltd, is the second largest beef processor and exporter in Australia, with 100% of cattle supply sourced from Australian Beef producers. We employ over 4500 Full Time Employees (FTE) across 10 locations, heavily dominated in regional and rural areas in Eastern Australia. The economic contribution of Teys Australia, as a regional manufacturer, adds approximately \$2.6 Billion to the national GDP, and \$1.1 Billion to household income each year, generating over 17 000 jobs, when flow on effects are taken into consideration.

The Australian Beef trade to Korea:

- Korea is Australia's fourth largest beef export customer. In 2013, Australian beef exports to Korea totalled 144,365 tonnes, representing 13% of Australia's global beef exports, with a value in excess of A\$792m. In addition, Korea purchased 4,167 tonnes of Australian sheep meat; 931 tonnes of goat meat and 26,024 tonnes of offal - worth a collective A\$88m;
- Having supplied the market since 1976, Australia's quality and value attributes have ensured Australian beef, and increasingly lamb, are firm favourites on Korean tables – with both products currently commanding dominant positions in the imported red meat market segment;
- Korea is a key and growing export market for Australian beef;
 - 2011 Australian exports to Korea were **61 480 Tonnes** of beef;
 - 2012 exports to Korea increased to **125 956 Tonnes** of beef;
 - 2013 exports increased to **144 364 Tonnes** of beef; and,
 - 2014 exports are set to again increase from 2013 volumes.



Under the Korea Australia Free Trade Agreement (KAFTA), tariff reductions for beef will provide significant advantages, including:

1. The 40% beef import tariff will be eliminated in equal stages over 15 years (volume safeguard provisions and accompanying safeguard tariffs are applicable during the elimination period);
2. Tariffs of between 18-27% on offal will be eliminated in equal stages over 15 years.
3. The majority of tariffs on processed meat / co-products (2-72%) will be eliminated over 15 years;
4. The above will deliver initial tariff reductions on entry into force of KAFTA and will ultimately secure unencumbered access for the key red meat products exported to Korea. This will in turn provide a number of additional benefits to Australian beef producers (outlined later in this brief);
5. Entry into force of KAFTA in calendar 2014 will see the tariff levied on Australian beef cut to 37.3% I.e. the beef tariff differential compared to imported US beef into Korea will be 5.3% (rather than 8%);

It is critical that the exchange of diplomatic notifications occurs in November at the G20 Leaders' Summit to certify that respective applicable legal requirements and procedures have been completed. This will allow *entry into force*, and hence the initial tariff cut in December 2014, allowing Australia to maintain a tariff differential of 5.3% against the US for duration of the 15 year step down period.

Teys Australia's Exposure to Korea

Teys Australia is responsible for a significant portion of the total Australian beef trade to Korea. Through our trading arrangements and existing collaborative customers, Teys will be in a position to pass on significant benefit to our Australian Beef producer base under a ratified agreement:

- *Teys Australia has significantly increased exports volumes to Korea* (with chilled and frozen product providing roughly equal portions);
 - In 2011 (pre-JV), Teys shipped 8808 Tonnes of beef to Korea; 14% of the Australian total;
 - In 2012, Teys shipped 54 820 Tonnes, *43.5% of the Australian total*;
 - In 2013, Teys shipped 43 676 Tonnes, *30% of the Australian total*;
 - YTD 2014 figures follow a similar trend.
- The value of *Teys exports to Korea in 2012/2013, were over \$190 Million*;
 - \$82 M chilled; and,
 - \$108 M frozen.
- The value of *Teys exports to Korea in 2013/2014 were over \$294 Million*;
 - \$107 M chilled; and,
 - \$187 M Frozen.
- Teys provides branded beef products directly into four of the major supermarkets in Korea, including: *Emart, Lotte, GS Retail* and through a strong business partnership with *TESCO*;
- Teys also sells products direct to two of the three largest Korean restaurant chains, including the *Outback* restaurant chain, and *KIPS*, as long standing business partners.



Australian Beef trade disadvantage against the US

It is crucial to ensure that KAFTA is urgently ratified and thereby enters into force in calendar year 2014.

This will ensure the beef tariff differential (Australian vs US beef) is brought back to 5.4% (instead of the current 8%), and subsequently guarantee that the tariff differential is not greater than 5.4% for the remainder of the 15 year tariff elimination period.

The US has been benefiting from tariff cuts following entry into force (2012) of the Korea-United States FTA (KORUS) – with the previous 40% tariff on beef being eliminated over 15 years to 2026. Effective 1 January 2014 (i.e. year 3 of the 15 year tariff phase down), US beef has an 8% tariff preference over Australian beef (see Table 1 below).

Modelling by the Centre for International Economics completed in 2012 by the Australian red meat industry, indicated that the Australian beef industry would have incurred a cumulative loss of around A\$1.4 billion over the 15 years the tariff on US beef was being reduced to zero:- if no corresponding tariff treatment was secured for Australian beef. The outcomes of this modelling are presented in Table 1

Table 1:- Estimate cost Impact on Australia Beef Industry with no FTA

Year	Tariff on US Beef (KORUS FTA) %	Tariff on Australian Beef %	Potential Cost to Australian Beef Industry AUD\$ Million	Potential Impact on Australia's market share (imported beef Segment)
Base rate	40	40	Nil	50.0%
2012	37.33	40	0	49.0%
2013	34.67	40	-13.4	37.5%
2014	32	40	-28.2	34.0%
2015	29.33	40	-43.5	30.4%
2016	26.67	40	-61.3	27.8%
2017	24	40	-78.4	25.5%
2018	21.33	40	-97.7	23.4%
2019	18.67	40	-117.3	21.5%
2020	16	40	-77.4	29.2%
2021	13.33	40	-84.5	29.7%
2022	10.67	40	-134.2	24.9%
2023	8	40	-147.2	25.4%
2024	5.33	40	-159.9	25.7%
2025	2.67	40	-171.3	26.1%
2026	0	40	-182.1	26.1%

The ratification and entry into force of KAFTA will help Australian beef exports compete on a more level playing field in Korea as well as help secure the ongoing supply of Australian beef for Korean consumers in what is becoming a highly competitive global protein market.

The current tariff differential (2014 at 8%) is at a margin which favourably positions US beef at a level which the trade (importers) in Korea indicate influences their purchase decisions. Thus, narrowing this tariff differential across the tariff phase out period, will be essential in order to maintain Australia's relative competitiveness.



Entry into force of KAFTA in calendar 2014 will see the tariff levied on Australian beef cut to 37.3% (tariff differential will be 5.3%, rather than 8%). If this transpires, on 1 January 2015, the tariff on US beef will reduce to 29.4% and the tariff on Australian beef will be reduced again to 34.7%. The 5.3% differential remains; **this ensures the differential is not greater than 5.4% for the remainder of the tariff elimination period.**

If entry into force of KAFTA is not delivered in 2014, Australian beef will receive its first tariff cut in 2015 i.e. to 37.3%. Given US beef will be levied at that time at 29.4%, the differential will remain at 8% for the remainder of the 15 year tariff elimination period. The impact of the tariff has the potential to be exacerbated in the short term, due to seasonal factors on the Australian cattle herd, causing upward price pressure on exported beef products; hence increasing the size of the tariff impact.

As is the case for the Australian export Beef industry to Korea, the stepping down of tariffs; will result in a number of economic benefits that can be passed through beyond Teys' operations to regional Australian Beef producers:

- As noted above, modelling suggests that the tariff reductions secured under KAFTA will benefit Australian beef export sales by around \$182 Million over 15 years; compared to a scenario without a FTA in place;
- With a diminished competitive disadvantage against the US, the anticipated increases in volume would absorb significantly greater volumes of Australian Beef, and provide a multiplied effect as greater demand draws against the limited capability of the Australian production system
- While the full value of the import tariff reduction would not be realised by exporters, in a fine margin industry such as beef processing, estimated revenue increases would allow significant value to be passed back to Australian producers. This would translate directly to higher prices being able to be paid for livestock in the market for Australian cattle;
- The current Import Tariff dis-incentivises value adding operations in Australia, as higher value products attract a larger import tariff impost at point of entry. Increased value adding operations in Australia would provide significant economic benefits within Australia. Currently, this trade is impacted by Import tariff hurdles, which disadvantages the location of value – added operations in Australia;

Should you have any questions, please do not hesitate on contacting our Charles Hollingworth

Yours Faithfully,

Tom Maguire
General Manager – Corporate Services;
Teys Australia Pty Ltd



TEYS AUSTRALIA

Teys Australia Pty Ltd, is the second largest beef processor and exporter in Australia, with 100% of cattle supply sourced from Australian Beef Producers, exporting to over 40 countries across the globe. Teys Australia is proudly operated by the Teys Family, and jointly owned by the Teys Family and Cargill (50% shares).

Teys Australia's operations employ over 4500 Full Time Employees across 10 locations, heavily dominated in regional areas. The economic contribution of Teys Australia adds approximately \$2.6 Billion to the national GDP, and \$1.1 Billion to household income each year, generating over 17 000 jobs, when flow on effects are taken into consideration.

Teys' Australian Footprint



Teys Australia's Asset Footprint

The joint venture operates six modern and efficient beef processing plants strategically located across the Eastern seaboard:

- **Teys Australia Naracoorte:** in the Coonawarra wine district in South Australia; employs 400 people, making it Naracoorte's largest employer;
- **Teys Australia Wagga Complex** employs over 800 people from over 40 nationalities;
- **Teys Australia Tamworth Complex** employs over 450 personnel, and is focused on the retail markets in Australia;
- **Teys Australia Beenleigh Complex:** has approximately 800 employees, and processes grain-fed cattle from Teys' Condamine Feedlot;
- **Teys Australia Rockhampton:** remains Australia's largest single shift operation. It currently employs over 900 people and is the city's largest employer.
- **Teys Australia Biloela Complex:** located in central QLD; employs 400 employees.
- Teys operates 3 feedlots: **Jindalee** (NSW), **Charlton** (VIC) and **Condamine** (Qld).
- **Teys Australia Food Solutions**, (Brisbane) provides value added meat solutions;
- **Teys Australia Murgon** processes cattle hides supplied by the Company.