



Submission

Inquiry into Diversifying Australia's Trade and Investment Profile

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Introduction



The Australian Nut Industry Council Ltd (ANIC) is the federation of the seven Australian tree nut growing industries. The members of ANIC are: Australian Walnut Industry Association; Australian Almonds; Chestnuts Australia Inc; Hazelnut Growers of Australia Inc; Australian Macadamia Society; Australian Pecan Growers Association Inc; Pistachio Growers Association.



The Australian tree nut industry with a farm gate value of over AU\$1.3 billion FY2019 with exports of AU\$1.05 billion. Exports will increase to over AU\$1.5 billion in 2025. The industry is currently experiencing its largest expansion in a decade, with new plantings occurring across all tree nuts. With a lead time of 5-10 years, this expansion will push farm gate value over AU\$2 billion by 2030

Strong markets, sound business models and recent free trade agreements with key export markets have all lead to more than AU\$400 million per annum of new investment to continue to expand national production.

Almonds, Macadamias, Walnuts, Pecans and Pistachios export to more than 65 countries Tree nuts account for approximately 40% of all horticultural exports. Almonds are the nation's most valuable horticultural; export commodity.

1. Consider if Australia is too reliant on any one market for exports. If so, what factors are contributing to this dominance;

As the purchasing power of Chinese consumers has grown over the past decade, Chinese imports of tree nuts has dramatically grown. Australia is a minor world producer of nuts, less than 8% of world supply. As a result of the free trade agreement with China and especially with the trade war between USA and China, China become Australia's largest export market in 2018/2019 with 47% of nut exports. This trend has continued for the six months ended December 2019 with 53% of total nut exports.

The focus on China by Federal and State Government's has been at times to the detriment of other markets while the nut industry has always focussed on multiple markets. Australian producers need access to multiple markets and every market that offers a return on investment for growers.



Different markets will often take different products from a particular commodity. For instance, some countries want in shell while others require just kernel; some take large nuts while others will take smaller nuts; etc.

The largest possible markets available to Australian nuts will ensure the industry continues to grow. To achieve the goal of Australian Agriculture being a \$100 billion industry by 2030 will only be achieved by increasing exports making the maximum number of markets essential.

In 2017/2018 China was not a major purchaser of Australian Almonds however as result of the free trade agreement with China and especially with the trade war between USA and China saw China become Australia's largest export market in 2018/2019 with 47% of exports. This trend has continued through to the end of December 2019 with 53% of total nut exports.

Macadamias as a native Australian product it was unaffected by the trade war and the China proportion may remain consistent at 41-42% during this period. The export market for Walnuts is mainly to European countries with over 80% going to the EU in both 2018 and 2019, China's percentage of Walnut exports fell from 10% to 7% over that year.

One of the reasons for the decline in walnut exports to China has been the rapid expansion of the Chinese Walnut Industry and Chinese production. While the Chinese production may never completely satisfy their domestic demand the increase in production has had an effect on their imports from countries like Australia. Notwithstanding that there is still a window of opportunity given our counter-seasonal production and Australia's reputation for high quality nuts.

Over the last 5 years exports of nuts has risen by AU\$340 million with most of the growth attributed to the largest nut industries; Almonds and Macadamias.

2. The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over reliance on any one market;

The Australian Nut Industry Council does not believe there is an over reliance in one market for its sector as it sells to 65 countries. The expansion of nut production will require an increase in exports and the ability to market to various countries to establish a profitable supply and demand. The devaluation of the Australian dollar assists in the price point of its product and will aid exports.

3. Consider if Australia is too reliant on foreign investment. If so, what factors are contributing to this dominance;

Foreign investment has been required to fuel the large expansion of tree nut plantations and as most Australian processing occurs at grower owned facilities, foreign investment has a positive effect on the tree nut sector. This foreign investment has recently come from North American pension funds. Oddly, the Australian superannuation industry have not been significant investors. No hard data is readily available, but Australian family farmers are major investors in new Australian nut orchards. The expansion of nut orchards, whether foreign or locally owned, has provided critical mass to the Australian industry especially in processing efficiency and the ability to be a significant player in the key world export markets.

The failure of Australian based 'management investment' schemes created major losses for the individual investors, but the plantings of particularly almonds and walnuts were purchased by a number of 'grower based' organisations. This has resulted in those industries expanding quite rapidly and putting the industries in a strong position to achieve further growth. The



purchase of a walnut 'management investment' scheme in Leeton/Griffith, NSW by Webster Limited; they now produce 90% of Australia's walnuts.

The 'management investment' schemes highlighted what could be achieved in 'mass plantings' which have been essential for industries to expand rapidly. It was most disappointing that they were managed so badly. The lack of Australian investment, particularly by the Super funds, has been most disappointing and frustrating and this has often led growers to seek foreign investment.

4. The advantages and disadvantages, including in relation to the national interest and national economic risk, to an over reliance on foreign investment, especially foreign investment by state-owned enterprises;

There is no known foreign investment by state-owned enterprises in the Australian tree nut industry. Australia has for over two centuries depended upon foreign investment in Agriculture. ANIC is of the view, that such investment is on balance positive

5. The impact of global crises including trade disputes and political disputes on Australia's relationship with countries we are reliant upon for trade and investment purposes;

The USA China trade war had a positive impact on the Australian Nut Industry, especially Almonds but highlights the short-term nature of the increase if trade relations resumed at normal levels.

It has enabled a fast tracking of the establishment of trading relationships with many participants in the Chinese nut trade that are a basis for continued sales to that market albeit at lower prices should the tariff advantage dissipate.

On the other hand, the often 'fractured' relationships between Government's can have a negative effect on the industries like horticulture. The often 'poor' relationship at a political level between the Australian and Chinese governments can have a detrimental effect on how market access protocols and programs transpire so creating 'trade barriers' for exports.

There is a history of these 'fractured' relationships which have created problems for trade. The Nut industry has had problems with almond and walnut trade to India. Other countries where there are trade difficulties (not necessarily for nuts) include Vietnam, Indonesia and the Philippines. The reasons are mainly 'political' disputes that then lead to 'trade' restrictions.

6. The impact of bilateral trade agreements on Australia's exports and whether they contribute to concentrated export markets;

Free trade agreements have had a positive effect on the nut sector with free trade agreements existing with most of our major trading partners with the exception of India. This facilitates better access to these markets and has allowed for export growth.

Given that the nut industry has very few, if any, phytosanitary trade issues the trade agreements have been most beneficial in reducing and/or eliminating tariffs which have assisted in making the Australian nuts more price competitive in those markets.

The reduction in tariffs is a win: win for the Australian producer and the supply chain within the particular country. The better the price the more product the supply chain will take. The FTAs with ASEAN, Korea, Japan, and China have certainly provided additional markets for Australian agriculture and encouraged the investment in smart agriculture growing nuts – agriculture that returns Australia over AU\$20,000 per hectare of revenue rather than hundreds of dollars per hectare.



7. The impact of bilateral trade agreements on Australia's domestic market and whether they contribute to an over reliance on foreign investment;

During the period of export growth for the Australian nut industry, sales of the domestic market have also increased strongly particularly in the manufacturing sector.

Bilateral trade agreements have a positive effect on the export of tree nuts and the sector would support the expansion of these agreements especially with India as a major nut eating nation. The bilateral trade agreements in fact have a benefit to Australian producers in that the producers can increase production but in doing so this does not then 'flood' the domestic market so reducing the returns.

8. Analysis of industry and government preparations to diversify its trading partners and secure new markets for Australia's exports, including through further free trade agreements

The Australian nut industry currently exports to the UK and Europe and would be at a significant disadvantage to US product should trade agreements be put in place between them and not between Australia and the UK and Europe. A trade agreement with India would be very beneficial. The nut industry is looking to expand exports globally and is looking beyond established markets with trade development programs in emerging markets.

By maintaining exports to 65 countries, the nut industry has diversified its trading partners to ensure that it maximises its opportunities to export to the markets that provide the best opportunity for Australian growers.

9. Analysis of industry and government preparations to ensure the Australian economy is not overly reliant on foreign investment.

There is a relationship between two-way trade and investment with Australia's major trading partners which were traditionally the US the UK and Japan being the largest foreign investors. In recent years, US and Canadian superannuation funds have invested in Australian nut orchards, an opportunity not taken up by Australian funds. The rise of the trading importance of China has resulted in increased Chinese investment in Australia and the future economic relationship may depend on how well Australia can regulate that investment.

Australia would benefit from a national register of land and water assets and of foreign ownership of them to ensure transparency and community accountability on the level of investment.