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Joint Select Committee on Trade and investment Growth

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Parliamentary Inquiry into the benefits from Australia's existing Free Trade Agreements

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The Australian citrus industry

The Australian citrus industry is one of the largest fresh fruit industries in Australia. There are approximately 1,600 citrus growers based in every mainland state and the Northern Territory, but concentrated in the Murray Darling Basin regions of SA, VIC, and NSW; and in the Central Burnett/Emerald region of QLD. The industry produces around 620,000 tonnes annually, with a gross value of production over $500 million.

Citrus is also Australia's largest fresh fruit export, with around 165,000 tonnes annually shipped to over 30 export destinations. Citrus exports in 2014 were valued at $202 million. Important markets include Japan, China, Hong Kong, Malaysia, the Middle East, New Zealand, USA and Indonesia. A more recent focus has been placed on the developing ASEAN markets of Philippines, Thailand and Vietnam. The industry is investing heavily in developing new markets and trading relationships in the Asian region.

Citrus is also one of the largest fresh import categories in Australia, with annual volume of around 23,000 tonnes valued at $33 million. The Australian citrus industry produces only around 1% of global citrus production and competes directly in export markets with lower cost southern hemisphere citrus exporting countries such as South Africa, Chile and Peru.

Navel orange plantings make up a substantial portion of the Australian citrus industry – 12,000 hectares out of a total of 28,000 hectares – and are the largest fresh citrus product. Valencia oranges are the next biggest variety, and form the basis of a domestic fresh orange juice sector.

Lemons, limes and grapefruit make a lesser but important contribution to the citrus domestic market offer. But recent plantings are mainly mandarins, a trend that is predicted to continue in line with consumer preferences. The industry invests heavily in variety improvement, with an eye on better meeting future consumer demands.

Citrus Australia Ltd

Citrus Australia is the national peak industry body for the Australian citrus growing industry supported by nearly 300 growers and affiliate members as well as an active and focused team that provides vital services to the industry. Grower members pay an annual voluntary membership fee, based on their citrus hectares, with corresponding voting rights.

Citrus Australia has established regional advisory committees in its major growing areas including South Australia, the Riverina, Sunraysia and Queensland.

Further national advisory committees cover the key issues of export marketing, domestic marketing and variety development. Regional and national workshops, forums and events are held annually. These committees and events form a strong consultation network, closely linking the peak body to all sectors of the industry.

Citrus Australia strongly supports the Australia Government entering into Free Trade Agreements with our trading nations as a means to reduce and eliminate tariff and non-tariff barriers and to support trade growth.

Terms of Reference

The Joint Select Committee on Trade and Investment Growth was established to inquire into and report on any measures to further boost Australia's trade and investment performance, including, but not limited to, barriers to trade; reduction of red tape and structural challenges and opportunities for the Australian community.

As part of its remit, and taking into consideration efforts to promote utilisation of Australia's North Asia Free Trade Agreements (FTAs), as well as future FTAs, the Committee will focus its inquiry on the experience of business in utilising Australia's existing FTAs including: New Zealand, Singapore, Thailand, the United States, Chile, the Association of South East Asian Nations and Malaysia.

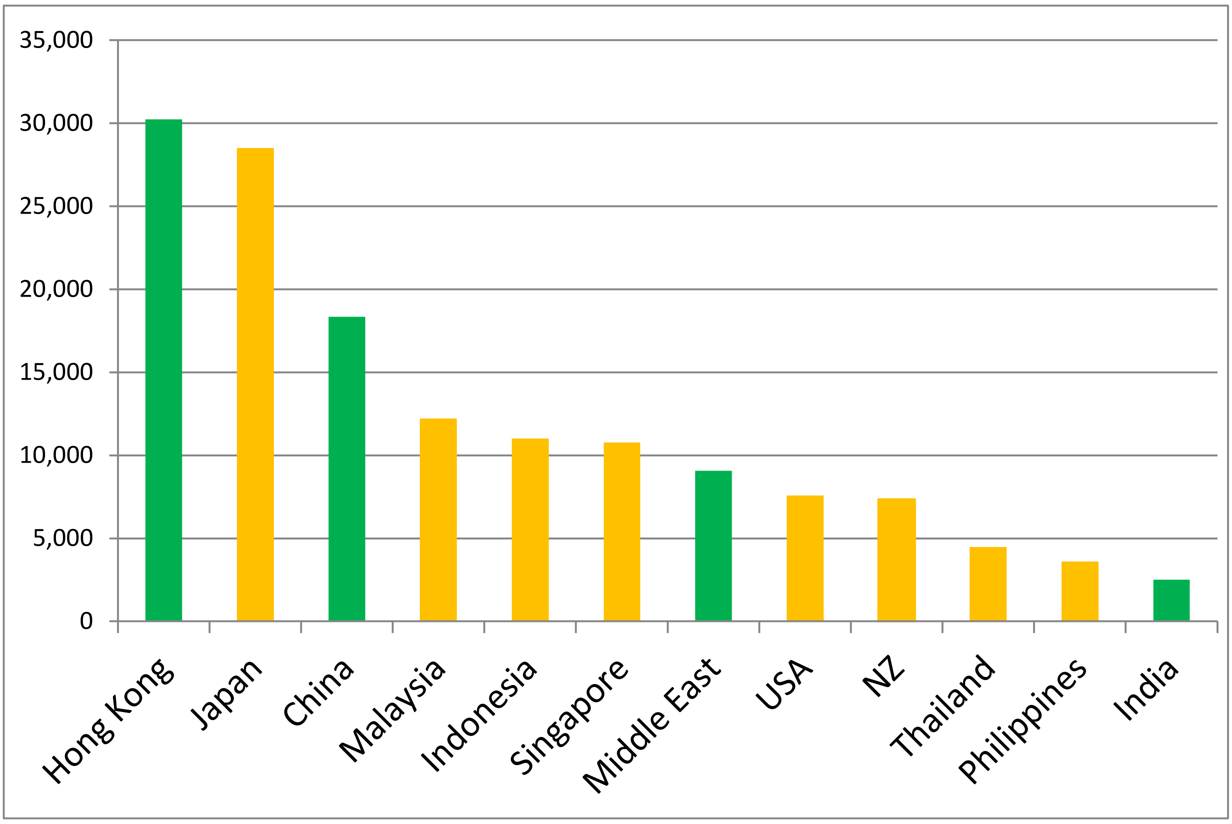
Export of fresh citrus

Australian citrus is the largest exported fresh fruit sector in Australia by volume with nearly 158,000 tonnes exported to over 30 countries in 2014 valued at $202 million.

Chart 1 illustrates the top 12 export markets by volume with those highlighted in yellow FTA partners with Australia. Citrus Australia acknowledges the Korea Australia FTA and the signing of the China Australia FTA in June 2015 and looks forward to entry into force later this year. Citrus Australia also supports the ongoing negotiations with India and the Gulf Cooperation Council.

Most countries specify stringent quarantine and market access conditions for the trade of fresh fruit, with the exception of Singapore and Hong Kong.

Chart 1: Major export markets for Australian citrus, 2014 (tonnes). Yellow indicates existing FTA nations.



There are numerous non-technical and technical requirements and barriers to trade, many of which are governed under WTO and WTO SPS (sanitary and phytosanitary) rules.

Technical barriers include:

- Phytosanitary conditions (quarantine)
- Food safety
- Chemical maximum residue limits
- Packaging/labelling/grading specifications
- Traceability and quality systems
- Registration of producers

Non-technical barriers to trade include:

- Tariffs
- Quotas and Special Agricultural Safeguards
- Embargos and bans
- Entry through certain ports
- Import licensing and permits

A FTA in our experience is best placed to address non-technical barriers to trade in particular tariffs, quotas and Special Agricultural Safeguards. As well it secures a more formal commitment to work bilaterally on sanitary and phytosanitary measures, food standards and market access. It is also difficult to quantify the increased interest and goodwill generated by a formal trade agreement.

The existing FTA's with Thailand, ASEAN-NZ and USA are used solely to highlight various points in this submission.

TAFTA (Thailand)

The Thailand-Australia Free Trade Agreement (TAFTA) entered into force on 1 January 2005 and was Australia's third free trade agreement after New Zealand and Singapore.

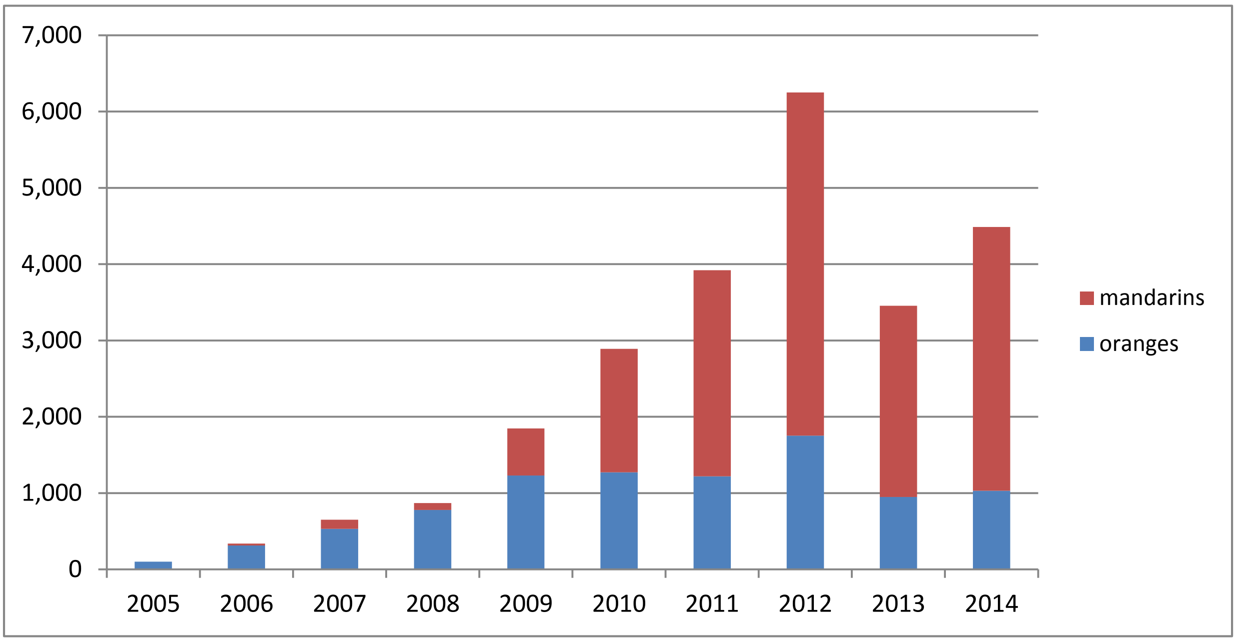
Citrus tariffs were to phase down to zero over a five to ten year period (see Table 1). However a special agricultural safeguard meant that any citrus exported over the 1,000 tonne limit attracted the 40% tariff.

Table 1. TAFTA Citrus tariff reduction schedule

	tariff	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
oranges	33	30	24	18	12	6	0	0	0	0	0	0
mandarins	42	30	27	52	21	18	15	12	9	6	3	0

The reduction in tariffs attributed to the increase in trade to Thailand (see Chart 2). Once the special agricultural safeguard is removed (in 2015) Citrus Australia expects trade to increase.

Chart 2: 10 year Citrus exports to Thailand: tonnes



AANZFTA (ASEAN-Australia-NZ FTA)

AANZFTA is Australia's first multi-country FTA. It is the first time Australia and New Zealand have been involved jointly in negotiating an FTA with third countries. It is the first time ASEAN has embarked on FTA negotiations covering all sectors including goods, services, investment and intellectual property simultaneously. AANZFTA fully entered into force with all 12 signatories on 10 January 2012.

TABLE 2 AANZFTA Citrus tariff schedule for Thailand

	2012	2013	2014	2015	2016	2017	2018	2019	2020 +
oranges	5	0	0	0	0	0	0	0	0
mandarins	40	40	40	40	40	40	40	40	0

Table 2 demonstrates the conflicting schedule previously negotiated under TAFTA (compare Table 1).

TABLE 3 AANZFTA Citrus tariff schedule for Indonesia

	2012	2013	2014	2015	2016	2017	2018	2019	2020
oranges	0	0	0	0	0	0	0	0	0
mandarins	25	25	25	25	25	25	25	25	25

Disappointingly, AANZFTA has agreed on a 25% rate until 2024 after which it will reduce to 18.75%. The 2014 MFN applied tariff for mandarins is 20%.

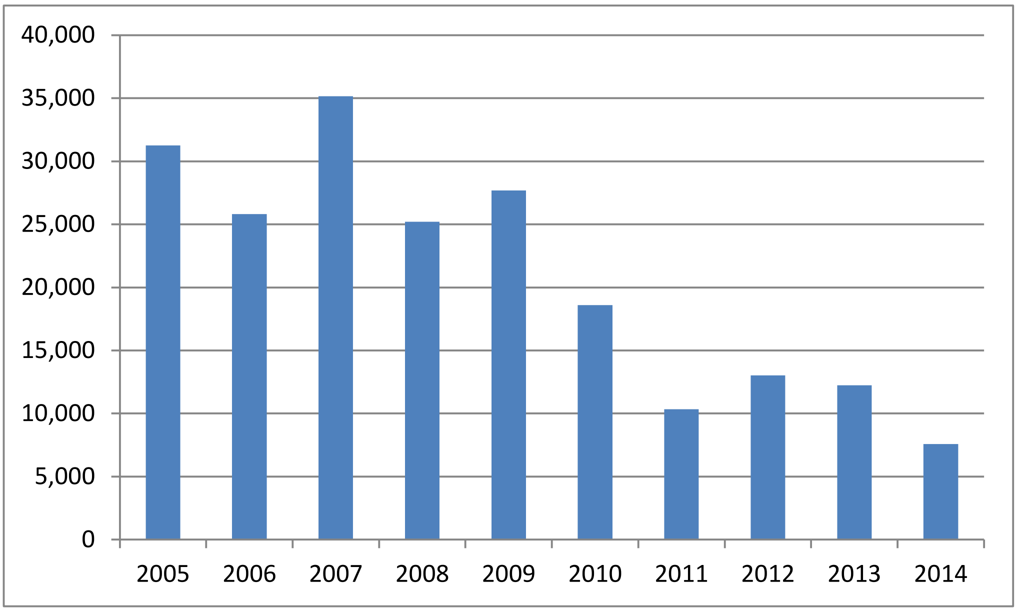
Whilst FTA's are successful in addressing and reducing &/or eliminating some non-technical barriers for fresh produce there are many other factors which have a greater influence on trade growth such as quarantine protocols, competition, exchange rates, export registration and inspection fees, supply issues and political priorities.

USA (AUSFTA)

The Australia US FTA entered into force in 2005 and immediately eliminated citrus tariffs, saving the Australian citrus industry close to $700,000 in the first year.

The USA was the largest export market for Australian citrus until 2009 when quarantine access was given to Chilean citrus – a direct low cost southern hemisphere supplier – and the subsequent rise of the Australian dollar above parity. Chart 2 outlines the decline in exports to this market.

Chart 3: 10 year Australian citrus exports to USA (tonnes)



Indonesia (AANZFTA)

Indonesia was the 5th largest export market for Australian citrus in 2014. Despite being a signatory to AANZFTA Indonesia's 'self-sufficiency' policy has disappointingly resulted in the non-approval of import permits for citrus during the months of July, August and September 2015. This is the prime export period for Australian citrus.

It is critical that Australia concludes the Indonesia Australia Comprehensive Economic Partnership Agreement which commenced in September 2012 as soon as possible as a means of addressing strained bilateral and diplomatic relations and building on the economic and trade outcomes of the AANZFTA.

Though not the immediate remit of this inquiry the imminent China Australia FTA will be the last example cited.

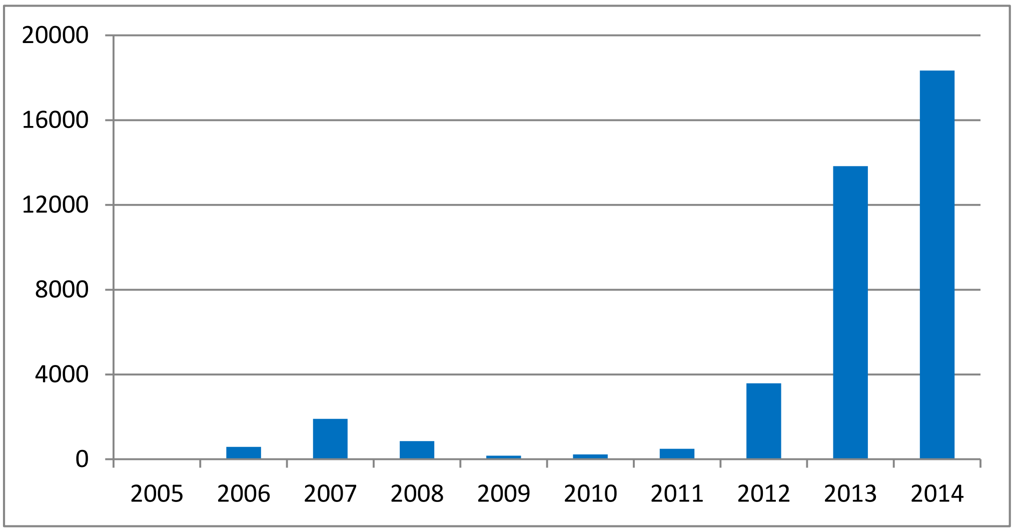
China (ChAFTA)

ChAFTA was officially signed by the Australian Trade Minister and his Chinese counterpart in Canberra on 17 June 2015. It is a landmark trade agreement for Australia and China's most liberalising.

Australian citrus will benefit with an elimination of the 11-12% tariffs over a period of eight years.

However Australian citrus has already enjoyed growth in the Chinese market since market access was approved in 2005. Rapid growth has been only achievable since 2012 due to a concerted effort in research and extension (protocol compliance) and market development. Even though the eventual removal of the tariffs is welcome it is certainly not driving trade growth.

Chart 4: 10 year Australian citrus exports to China (tonnes)



The current stringent quarantine barriers imposed on Australian citrus exports to China are certainly adding costs and prohibiting more trade. For example China is virtually the only market (international and domestic) that does not recognise South Australia's fruit fly pest free area. This requires South Australian fruit to be cold treated for export to China via Shepparton and Melbourne instead of direct with no cold treatment via Adelaide, adding several thousand dollars to each container.

Conclusion

Citrus Australia:

- Strongly supports bilateral trade agreements as a means of reducing &/or eliminating some non-technical barriers for fresh fruit exports and encouraging trade growth. FTA's can be seen as a powerful competitive advantage for Australian businesses.
- Supports in principle multilateral trade agreements but recommends that more detailed work and time is required for more complex agreements with multiple countries to ensure that any negotiated outcomes improve or at least maintain the status quo with respect to prior bilateral or WTO/MFN agreements (and not undermine them).
- Supports comprehensive government and industry outreach programs for businesses looking to trade with FTA nations.
- Advocates for increased government capacity and capability to ensure commitments made in FTA's are implemented including ongoing market access and SPS negotiations. The Department of Agriculture must dedicate an equivalent outcome focused effort into resolving market access and SPS issues in tandem with the high performance team in the Department of Foreign Affairs and Trade. This is particularly important if we wish to capture the burgeoning opportunities for Australian food in the Asian century.
- Emphasises there are many other factors which may have a greater influence on trade growth for fresh produce such as quarantine protocols, competition, exchange rates, export registration and inspection fees, supply issues and political priorities.
