



AUSTRALIAN
**FOOD &
GROCERY**
COUNCIL

AFGC SUBMISSION

INQUIRY INTO THE BUSINESS
EXPERIENCE IN UTILISING AUSTRALIA'S
FREE TRADE AGREEMENTS

Sustaining Australia

SUMMARY

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to provide input to the 'Inquiry into the Business Experience in utilising Australia's Free Trade Agreements'. The AFGC consistently receives feedback that Australia's trade agreements are providing commercial advantage to Australian exporters of agri-food products. While there are many suggestions for improvements, Australia's trade agreements are vital in providing exporters with an advantage in market, or catching up on foreign competitors who have the advantage of an earlier negotiated agreement.

In 2013-14, the AFGC undertook a research project looking at Australian export opportunities for snacks, beverages, condiments and baked goods into China, Malaysia and Thailand. Through this project, foreign retailers, importers and other market players made it clear that tariff reductions under Australia's trade agreements were key to the competitiveness of Australia's processed food exports into key markets.

While there are a range of benefits from trade agreements with initiatives to streamline import requirements and processes, and mechanisms to resolve disputes, there are a range of non-tariff barriers to trade which impact heavily on Australia's exports.

Non-tariff barriers include a range of regulations and requirements which hinder trade through added cost and complexity. All countries maintain a range of measures to protect human, plant and animal health however other measures are driven by protectionist sentiments or 'fear of imports'.

Australia's agri-food exports are affected by a range of non-tariff barriers in key export markets. Soon to be published research by the Australian Food and Grocery Council highlights that companies consider non-tariff barriers a significant and increasing impediment to international trade. Barriers in Asia are a key concern, closely followed by concerns about the Middle East, Europe and North America. Across the range of agri-food exports, common issues identified include quarantine, product registration and product labelling issues.

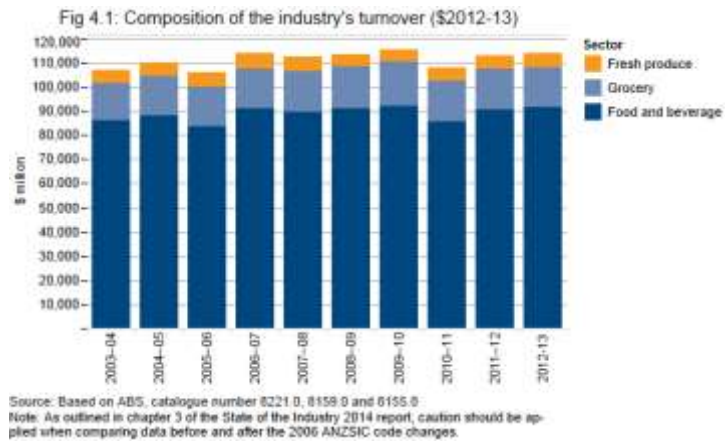
The lack of knowledge of trade agreements and the opportunities available provides an opening for government to assist industry. The government's outreach activities underway and built on in the federal budget will assist Australian companies to better engage with the opportunities under recently completed trade agreements.

One additional element which might be considered is more of a focus on professional services firms that provide legal, customs, transport and logistics, documentation and/or regulatory advice to exporters. The range of professional service firms in Australia are key enablers for Australian exporters and often form the core knowledge and expertise, particularly for smaller companies.

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.



With an annual turnover in the 2013-14 financial year of \$114 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 is Australia's largest manufacturing industry. Representing 27.5 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 27,469 businesses and accounts for over \$55.9 billion of the nation's international trade in 2013-14. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. Industry spends \$541.8 million in 2011-12 on research and development.

The food and grocery manufacturing sector employs more than 299,731 Australians, representing about 3 per cent of all employed people in Australia, paying around \$12.1 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. 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.

BENEFITS OF TRADE AGREEMENTS

The Australian Food and Grocery Council (AFGC) consistently receives feedback that Australia's trade agreements are providing commercial advantage to Australian exporters of agri-food products. While there are many suggestions for improvements, Australia's trade agreements are vital in providing exporters with an advantage in market, or catching up on foreign competitors who have the advantage of an earlier negotiated agreement.

In 2013-14, the AFGC undertook a research project looking at Australian export opportunities for snacks, beverages, condiments and baked goods into China, Malaysia and Thailand. Through this project, foreign retailers, importers and other market players made it clear that tariff reductions under Australia's trade agreements were key to the competitiveness of Australia's processed food exports into key markets.

Australia's high cost economy results in our processed food products competing at the highly priced end of imported product into Malaysia and Thailand. Tariff reductions provide some price/margin relief and allow Australian products to compete more effectively.

This is borne out by anecdotal reports from Australian processed food exporters who saw significant increases in sales with the final tariff reductions under the Thailand and ASEAN trade agreements. While tariff reductions are only one piece of the puzzle to navigate when companies are exporting, the tariff reductions certainly provide an incentive and opportunity.

More recently, a range of companies are reporting an increase in strategic planning to take advantage of the opportunities presented by the China, Japan and Korea trade agreements. Key considerations include the impact of the tariff reduction on the final sale price of the good in market, and the comparative advantage against other imported products (for example from US, NZ, Canada and Europe).

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CHALLENGES

NON-TARIFF BARRIERS TO TRADE

Non-tariff barriers include a range of regulations and requirements which hinder trade through added cost and complexity. All countries maintain a range of measures to protect human, plant and animal health however other measures are driven by protectionist sentiments or 'fear of imports'.

Australia's agri-food exports are affected by a range of non-tariff barriers in key export markets. Soon to be published research by the Australian Food and Grocery Council highlights that companies consider non-tariff barriers a significant and increasing impediment to international trade. Barriers in Asia are a key concern, closely followed by concerns about the Middle East, Europe and North America. Across the range of agri-food exports, common issues identified include quarantine, product registration and product labelling issues.

The challenges created by non-tariff barriers are not new however there are signs of increasing sophistication and complexity of barriers in Australia's developing country partners, and of institutionalisation of barriers in developed country markets. Addressing these issues requires a coordinated, resourced and focussed effort by the Australian Government and industry. Key elements include better resourcing of the technical market access areas within the Department of Agriculture, more focus on addressing protectionism in foreign markets by the Department of Foreign Affairs and Trade, and better resourcing of the Australian Trade Commission to support companies navigating complex in-market requirements.

The Australian agri-food sector also has an opportunity to continue building on the technical work already completed (in particular by the meat and dairy sectors) to provide clear evidence and information to government agencies. Industry support for government advocacy will be critical to achieving commercially meaningful outcomes.

OVERLAPPING AGREEMENTS

In times past there has been a focus on the 'noodle bowl' of global bilateral trade agreements which creates a range of complexity for companies looking to export. Given the difficulty in achieving a multilateral agreement at the World Trade Organisation it is understandable that countries have focussed on negotiating bilateral and regional trade agreements. However it does create layers of complexity.

For example, Australia has a bilateral trade agreement with Malaysia (MAFTA), Malaysia and Australia are both parties to the ASEAN Australia New Zealand Free Trade Agreement (AANZFTA), and, Malaysia and Australia are part of the Trans Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) negotiations. Where multiple agreements are in place with different levels of liberalisation on different products, companies find it difficult to identify the most beneficial arrangements, and meet the technical requirements of each agreement.

While there may be some scope for negotiators to begin with more of a 'template' for each agreement, it is understood that trade agreements are a negotiated outcome and therefore the

ability to align different agreements is constrained. The opportunity lies in providing information and education to exporters that they might better understand and then take advantage of the opportunities available under different trade agreements.

LOW LEVELS OF KNOWLEDGE

Previous studies have identified low levels of utilisation of free trade agreements (including the Economist Intelligence Unit), while research by the Export Council of Australia and the Australian Chamber of Commerce and Industry have highlighted low levels of knowledge of trade agreements.

There is an opportunity to better understand the utilisation of free trade agreements by reviewing Customs data which identifies which agreements Australia's exports under, and/or reviewing the data on certificates of origin provided by certified industry organisations. Research and claims to date have relied on company responses to qualitative surveys. More focussed and comprehensive research will reveal actual utilisation.

Surveys of industry have consistently revealed low levels of knowledge of trade agreements among companies and broader industry. While Australia's exports may be comprised of a relatively small number of firms (particularly in agri-food) it is concerning that the breadth of Australian industry is not aware of the opportunities available under long standing, and more recently completed, trade agreements.

OPPORTUNITIES

INFORMATION

The lack of knowledge of trade agreements and the opportunities available provides an opening for government to assist industry. The government's outreach activities underway and built on in the federal budget will assist Australian companies to better engage with the opportunities under recently completed trade agreements.

Similarly the plans for an online 'FTA dashboard' will provide the range of requirements of an agreement in a more accessible and user-friendly format for individual companies. The challenge is to ensure that face-to-face communications, the FTA dashboard and the activities of other organisations are at least consistent and hopefully more coordinated and mutually reinforcing.

SUPPORTING SERVICE FIRMS

One additional element which might be considered is more of a focus on professional services firms that provide legal, customs, transport and logistics, documentation and/or regulatory advice to exporters. The range of professional service firms in Australia are key enablers for Australian exporters and often form the core knowledge and expertise, particularly for smaller companies.

Government outreach and education of professional service firms has the potential to benefit a large number of Australian exporters. Understanding the tension of governments providing information to service firms who might charge for advice, the focus must be on maximising outcomes for Australian industry.

PRODUCT SPECIFIC OUTREACH

A specific additional element is holding outreach events which provide detailed information to a group of companies exporting similar products. An example might be an event focussed on providing advice to chocolate manufacturers on the detail of opportunities for chocolate exports under new and longstanding trade agreements. This approach may result in companies accessing more relevant information which enables immediate commercially meaningful outcomes.