



**Australian Horticultural
Exporters' Association**

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Committee Secretary
Joint Select Committee on Trade and Investment Growth
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Parliament House
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Dear Sir / Madam,

Australian Parliament Inquiry into Australia's Free Trade Agreements

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.

The Joint Select Committee on Trade and Investment in Utilising Free Trade Agreements is currently examining the business experience in utilising Australia's existing FTA's with a view to identifying how Australia might best benefit from the recent and proposed North Asia FTA's.

Thank you for the opportunity to submit, on behalf of the Australian Horticultural Exporters Association (AHEA), to the Joint Select Committee enquiry into the Australia's Free Trade Agreement's (FTAs).

The AHEA was established in 1986. It is the peak industry body representing the interests of Australian exporters and importers of fresh horticultural produce. AHEA's objective is to promote and facilitate the development of horticulture trade. The AHEA represents over 80% of horticultural exports by volume.

Australia exports more than 90 fresh fruit and vegetable products to more than 60 countries. Fresh fruit exports were worth \$622M and fresh vegetables \$168M for the period ending June 2014. The largest destinations are Hong Kong, Japan, USA and Singapore, although many other countries and regions such as Middle East, Pacific Islands and Europe remain significant. It has been estimated that horticulture, including the wine industry, provides 15% of employment in regional Australia.

Firstly, we would like to congratulate the Department of Trade in achieving free trade agreements with Korea, China and Japan. Bringing these agreements to conclusion is by no means a small feat and we applaud everyone involved for their achievements. FTAs play an important role in supporting trade through the elimination of tariffs and quotas.

The removal of tariffs through FTAs in a number of these markets is welcomed, especially where our major southern hemisphere competitors such as Peru, Chile and New Zealand already have zero tariffs and more favourable trade agreements.

It is important that the Joint Select Committee recognise that FTAs represent only one side of a trading relationship. FTAs are worth very little if market access is denied or compromised by commercially untenable phytosanitary measures. Protectionism still exists in trade among countries today, and exporters need to find areas with strong demand that provide commercially viable, market access. However, this often has nothing to do with FTA's. If we don't have access, it renders the FTA unusable. Agriculture has always been a difficult

industry to negotiate into the FTAs; however the recent agreements have been successful for horticulture. Multilateral trade agreements are even more difficult. We hear of Doha and these types of agreements, which are still not ratified and the benefits appear confusing to the horticulture industry.

Trade Background

Horticulture makes up a small percentage of the \$19 trillion in global trade annually. Investment in technology for smaller and developing countries has helped in building trade opportunities for horticulture and we have seen the results of that in spectacular ways in Taiwan, South Korea and, in the last 20 years, China. Withdrawing protection measures, removing tariffs and non-tariff barriers, improving market access drive trade to seize opportunities, and helps industry to be more competitive. We have also seen that comprehensive free trade agreements encapsulate a lot of other areas, including labour and the environment which drives many indirect benefits to horticulture

Fresh Horticulture (fruit and vegetables) formed a smaller portion of agricultural exports from Australia, which are driven primarily by meat and grains, around 70-80% (Bureau of Statistics). Horticulture exports were around 10%, and more than 70% of total exports to China will be iron ore. Japan and the US were other large markets; however, Hong Kong is a 'huge' market for Australian horticulture, representing the opportunities in China. Australia is a small player in this market space. Industry needs transparency in government to know where it stands so that forward strategies can be developed accordingly. One of the key issues is that a number of commodities have no market access or limited market access into some or all of these FTA markets. It is an area often overlooked by the media and across agencies in Canberra. There is no point having tariff concessions if we do not have market access. They need to be negotiated hand in hand.

In response to the specific enquiry on the experience of business in utilising Australia's existing FTAs, I offer the following comments.

Australia-Malaysia

Exports to Malaysia have recently increased 8 per cent by value to \$41.8 million driven mostly by citrus and grapes in fruit and carrots in vegetables.

The horticulture industry believes that Malaysia has brought in archaic labelling requirements, particularly for citrus. The requirements state that the labelling needs to be in two languages to state there is, say 'oranges' in the box. This requires a special labelling run which adds cost. They also have Class 1 and 2 requirements. Australia does not inspect and clear goods on quality criteria. This needs to be re-negotiated.

Australia-Taiwan

Trade volume to Taiwan declined 5 per cent by value to \$16 million in 2013/14. Cherries dominate the trade by value with 62 per cent share while table grapes increased trade three fold.

The increase in cherry value was offset by higher unit values against a lower volume which are all exported from Tasmania (recognised pest free area). Mainland has no access.

Since the agreement has been in place, exports to Taiwan have increased significantly. The equivalent of half a million dollars in tariffs have come off the trade value.

Australia-Thailand

Thailand was one of Australia's first major FTAs, and came into force in 2005. Many of the tariffs were at 33% or 43%, and were phased down to zero by 2010. The two exceptions to that, mandarins and tablegrapes, should be tariff free by the end of 2016. This period has been far too long. In that time marketshare has been lost due to other countries negotiating better terms eg NZ negotiated zero duty for many fruits. Australia had a duty on cherries, however NZ was immediately zero so once we had NZ supplies on the market at the same time as Australian cherries they took the market from us and importers stopped ordering

Stonefruit achieved an immediate zero duty under TAFTA , but then Thailand changed the quarantine regulations and the market was completely closed for three years . At the time of closure, all stonefruit and cherries were shipped to Thailand by air. This was no longer possible as Thailand insisted on seafreight,

Thailand maintained the quota on tablegrapes , so after 1,200 tonne was shipped by air and sea from 2005 onwards, we then reverted to the duty regime of 30 % . Given we shipped 4,000 -5,000 tonne of tablegrapes in a season as an industry to this market, the bulk of Australian tablegrapes shipped was subject to a 30 % duty which held back sales. Post 2004, Thailand changed their quarantine laws and no longer allowed airfreighted grapes from Australia . As we were largely an airfreight supplier, we were severely disadvantaged by these changes, negating the benefit of the FTA with Thailand . Fortunately, our competitors such as South Africa did not have access and Chile had difficulty in shipping great quantities of tablegrapes to this market via Singapore . So this meant Australian grapes were still sold because of the reduced competition from alternate southern Hemisphere suppliers.

In Season 2015, the values for fruit exports to Thailand from Australia dipped some 22 per cent last year to A\$ 28 million but should be double this if we were allowed to ship various fruits by air and had a protocol for apples , pears and avocados . These are products previously shipped to this market.

We need airfreight re-instated to Thailand in order to take further advantage of the FTA.

Thailand also requires a packing date on goods for fresh produce. If a shipment is made with an inscrutable importer, they will use it to their advantage. Exporters can fail transfer certificates in moving goods from the farm to inspection as they often do not have matching packing dates. If they do not match, DOA will not inspect. It is an unnecessary complication. We need to have this condition removed from the agreement. It is irrelevant.

Australia-Japan (JAEPA)

Trade to Japan has been important for both fruit and vegetables although dominated by citrus (fruit) and asparagus (vegetables). New access for table grapes this season has seen additional fruit volumes as well when the Japan Australia Economic Partnership Agreement (JAEPA) started to take effect with decreasing tariffs.

Japan is also expected to be duty free when the agreement is fully implemented. Japan has had restrictions on when Australia can deliver fruit. It is required to be delivered into the Japanese market by 31 October to protect their local industry. This is a problem for the tablegrapes industry. Tablegrapes and asparagus make up the bulk of Australia's exports into Japan, with market access only just recently granted for table grapes. Tariffs will increase for those commodities not imported into Japan by the end of February. Oranges are by far the market leader into Japan. We've been developing that market and are the dominant market leaders in our southern season. This is likely to have less of an impact than cherries. It will certainly be better because a 16% tariff will find its way back into the supply chain. Not all buyers will get the benefit but it will take that cost out of the supply chain and make it more affordable.

If there was a shortage and market value opportunity, the duty is prohibitive which contradicts the basic tenants of an FTA. We need to have our market season windows of opportunity supported and maximised.

Australia-New Zealand

Exports of fresh fruit to New Zealand lifted 17 per cent by value in 2013/14 driven by citrus and also melons. Tablegrapes remained the largest category by value.

Access for tomatoes and capsicum was regained during the year though only small volumes have been recorded to date.

Australia-Korea

17 out of 25 tariff lines have been removed from the South Korea and Australia FTA. It will take five to 15 years to get them off, except for cherries. With cherries, there is an immediate reduction of tariffs to zero.

Once we take out all the products for which we do not have market access, we only have about five fresh fruit products that have quarantine access into Korea. That brings it back into perspective. There will be no tariff reductions on oranges set to arrive after 1 October. Grapes arriving after 1 May will be subject to the 45% tariff rate. That is significant because it is still near the peak of the season so becomes prohibitive and reduces our season. This needs adjusting. We have no grapes to ship in December and the first part of January. We have to finish by end of March so only have a 7-8 week window. Cherry exports have lifted into South Korea since implementation of the agreement.

Australia-China (yet to enter into force)

Access to China for fruit products is starting to gain momentum though is still small compared to volumes sent to Hong Kong. Tablegrape gains were stopped by phytosanitary issues after the 2013 season which prevented access for most of the 2014 season, however have regained access this season.

There is no measurable trade for vegetables to China either via Hong Kong or direct.

The horticulture industry is yet to fully understand the benefits of the Chinese FTA and would like some transparency before it is agreed in order to fully understand the effect. Again, market access is the issue and needs to be negotiated in line with the FTA.

Australia-India (proposed)

Despite the potential market size of India, Australian fresh produce trade to India remains small. India is a very large vegetable producer and exporter. Consequently, only fruit was exported to India in 2013/14 and this declined 34 per cent by value.

Significantly there were no apples exported last year although table grapes, plums and mandarins increased off small bases.

The horticulture industry is yet to fully understand the benefits of the proposed India FTA and would like some transparency before it is agreed. Again, market access is the issue and needs to be negotiated in line with the FTA to be commercially viable.

Country of Origin

We would like to see the Country of Origin filled out by self proclamation. It has been successfully negotiated in the Japan and Korean FTAs and needs to be negotiated across all countries. Under the Japanese and Korean agreements, industry can use an outside authority but cautious that when produce arrives, it may be rejected. Not worth the risk. The process should be self certification as a norm for all nations. Currently, the parties filling it out have no idea of what the goods are, how they are packaged and don't even see the goods. It is the inspector who completes the phyto that lists the goods which carries far more weight than someone who has nothing to do with the shipment. It is a useless process and another piece of paper required by industry – extra red tape. It is the chamber that issues the certificates that wants them as it is a multi million dollar income. If manufacturing something, there could be a reason for it. In NZ, freight forwarders sign a document certifying that it is country of origin - a practical, commercial approach to things. Our red tape is comparative to India.

TPP Agreement

TPP appears very secretive and the industry does not know the benefits of this multination agreement. We understand that it involves 16 nations around the Pacific and is wide ranging. Industry need to know what we are getting into and understand its advantages.

The Australian public is also concerned about private corporations in USA being able to sue the Australian government ie, it is believed that the TPP opens the way for Phillip Norris to sue the Australian government on the legislation implemented on cigarette packaging. The pharmaceutical industry is also clearly disadvantaged and consumers will be charged more for pharmaceutical products. We believe that there will

be more US rather than local advertising. Rules for local content will be compromised. Australia should learn from other country experiences.

Australia-USA

Trade to the United States is virtually only citrus which increased 16 per cent by value while the volume increased 7 per cent. The only recorded vegetable exports to United States were fresh mushrooms worth \$1.1 million.

It is understood that there are 27 counts where Canada has taken US to court as companies felt disadvantaged in their agreement with the US. The US lost 25 of them. Not many nations have benefited in FTAs with the US.

Australia agriculture has received very little from signing the FTA with the US. The meat industry may have better access; however no other industry has been advantaged. We are in an unbalanced trade in horticulture with the US.

Conclusion

If we have the right produce, right price, promotion and distribution, the FTAs are beneficial. The FTA is a tool which might be able to assist with pricing and relationships. However, if we do not have market access, in terms of quarantine access which is critical when it comes to distribution, then we do not have market access and we do not have trade.

We need to focus on our main point of difference with our competitors such as Chile. It is our proximity to Asia. It is the ability to achieve overnight deliveries to meet market demand or fill market gaps. However, we need to negotiate agreements to support this. This means airfreight access. We have been losing markets rapidly when it comes to airfreight access. This means we can not take advantage of the FTAs and maximise their potential.

The Department of Trade appears to be successful in negotiating the FTAs. Why can't the Department of Trade be negotiating market access in tandem to maximise the results? If this key issue can be addressed, perhaps then the right resources can be applied to increase our horticultural exports.

Yours sincerely,
Australian Horticultural Exporters Association

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