Australian Government

Department of Agriculture, Water and the Environment

The Department of Agriculture, Water and the Environment submission to the Joint Standing Committee on Trade and Investment Growth

Inquiry into Diversifying Australia's Trade and Investment Profile

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Inquiry into Diversifying Australia's Trade and Investment Profile: Agriculture

Introduction

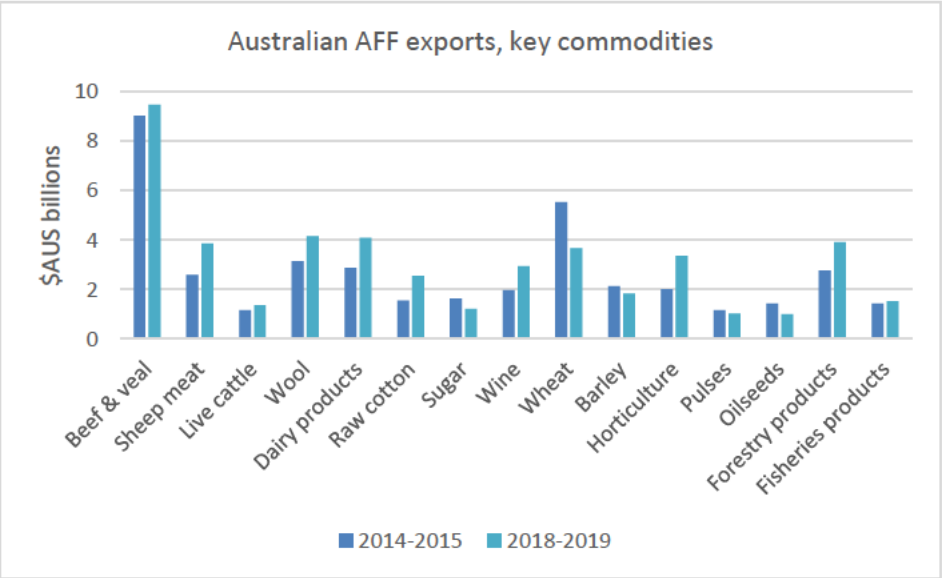
Australian agricultural exports are concentrated in Asia, particularly China. Trade concentration is largely the result of commercial decisions by exporters and is not an inherently negative outcome. For some commodities, diversification of export markets will be a key industry risk management tool, however the decision to diversify will be balanced by industry against other commercial considerations, such as price and demand in alternative markets. The government can and does support opportunities for diversification through the negotiation of bilateral and plurilateral trade agreements and technical market access, cooperation and relationship building activities and market intelligence, especially through the department's Agriculture Counsellor network. The department is supportive of foreign investment in Australian agriculture where it is not contrary to the national interest.

Australia's export trade in agriculture, fisheries and forestry products

Exports are crucial to Australian agriculture. The value of Australian agricultural, fisheries and forestry (AFF) production was $69 billion in 2018-19 (ABS 2020). Australia exports around 70% of the total value of its AFF production, worth over $54 billion in the same period (Jackson, Zammit & Hatfield-Dodds, 2020). Unlike other traditional competitors with large domestic markets, such as the United States of America (US) and the European Union (EU), Australian AFF producers rely on exports, meaning they are particularly exposed to global price movements and trade distorting practices.

The importance of exports varies across commodities. For example, over the three years to 2016-17, exports accounted for 98% of wool and cotton, 76% of beef, 71% of wheat, 41% of dairy and 18% of horticultural earnings (Jackson, Zammit & Hatfield-Dodds, 2020). In 2017-18 half of the total value of Australia's seafood production was exported, however the proportion is much higher for some seafood products, such as rock lobster (ABARES 2020).

Over the last five years, meat and livestock products have been Australia's most valuable AFF export commodity group, however a broad range of commodities contribute to more than $50 billion of AFF exports.



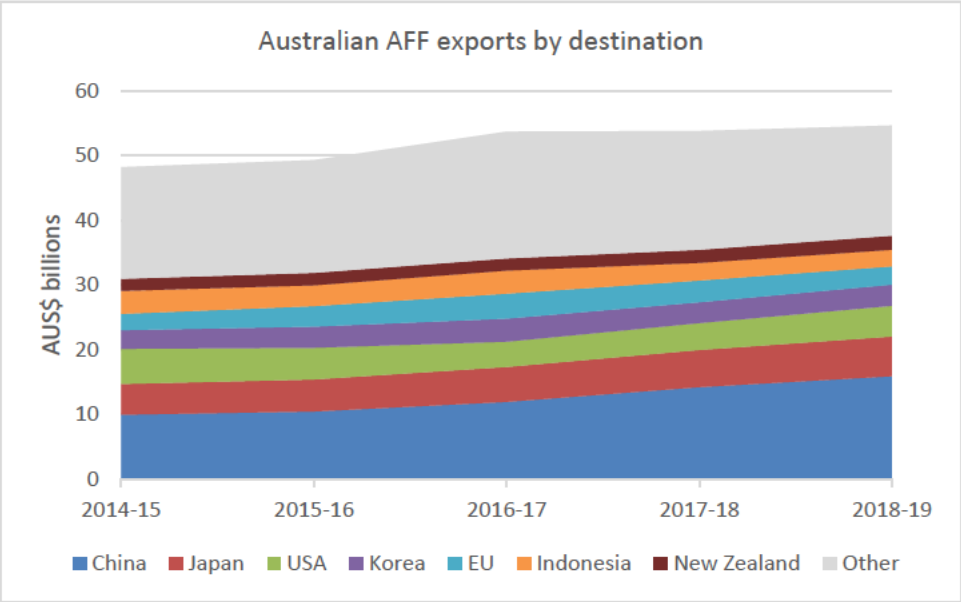
Source: ABS catalogue 9920.0[1]

The value of exports has grown, especially to Asia. The dominant trend for Australian AFF exports over the last two decades has been the increasing importance of Asian markets, led by China. Exports to Australia's eight largest markets in Asia increased 86% to $33 billion over the 20 years to 2018–19 and accounted for 60% of the total value of agriculture, fisheries and forestry exports in 2018–19 (Jackson, Zammit, & Hatfield-Dodds, 2020).

In 2018-19, exports to China accounted for 29% of the total value of Australia's AFF exports, up from 21% in 2014-15. Exports to China are about six times larger than they were in 1999–00 (Jackson, Zammit, & Hatfield-Dodds, 2020). In 2018-19, China accounted for more than 80% of the export earnings for wool, infant formula, rock lobsters, roundwood and skins and hides (ABS 2020).

The current concentration of Australian AFF exports in the China market is similar to the importance of the Japan market in the mid-1990s, which peaked at 27% of Australia's AFF exports in 1992-93 (Fell 2019). Growth in demand for food in China is expected to provide food producers and exporters with significant opportunities over coming decades (Hamshere, *et al.* 2014). Australia's shift from Japan to China provides evidence of Australia's ability to adapt its export flows overtime in response to changing international demand and an altered trade agenda.

[1] Source: Based on Australian Bureau of Statistics (ABS) Catalogue 9920.0 with partial adjustments made on sugar. Several commodities are subject to confidentiality restrictions, which affects the overall trade estimate. See ABS 5372.0.55.001 - International Merchandise Trade: Confidential Commodities List for more information.



Source: ABS catalogue 9920.0

The increasing importance of Asia as an agricultural export market reflects *rising per capita incomes and population growth* throughout much of the region and Australia's reputation as a reliable supplier of safe, clean and sustainable AFF products. Australia has also successfully concluded bilateral and plurilateral free trade agreements (FTAs) in the region, which have provided Australian exporters with improved access and often a competitive advantage over other agricultural exporters. Asian demand for food is projected to double between 2007 and 2050 (Hamshere, *et al.* 2014), providing opportunities for exporters of high value, high-quality agricultural and food products.

While China is Australia's key market, *the direction and concentration of trade and diversity of market options varies across commodities*. For example, in 2018-19, 84% of Australia's tuna exports and 49% of cheese exports went to Japan, 81% of canola seed exports went to the EU and together Indonesia and Vietnam accounted for 77% of all live feeder/slaughter cattle exports (ABS 2020). The USA is Australia's largest market for lamb, accounting for 30% of total export value in 2018-19. Australian wheat exports are well diversified, with the top five destinations accounting for 55% of total wheat exports in 2018-19; the Philippines was the largest market, taking 15% of Australia's wheat exports (ABS 2020).

Australian AFF producers and exporters already have access to a diverse range of export markets. For example, Australian grain and wine exports have access to over 100 international markets, beef over 80 markets, dairy over 60 markets and horticulture over 30 markets. Trade concentration is typically the result of commercial decisions, such as price and demand, seasonality, or the position of the product in the global supply chain (such as intermediate inputs like wool, animal hides and skins and forestry products). China's position as a market

with high-demand and premium returns for Australian AFF products and a manufacturing hub for intermediate inputs, means that it will likely remain the key market for many Australian commodity exports.

The department is supportive of foreign investment in agriculture where it is in the national interest. Foreign investment in Australian agriculture provides productivity enhancing capital, not available through domestic savings and bank borrowings alone. There are checks and balances in place to ensure this investment is not contrary to the national interest and that it provides flow-on benefits for communities and the national economy. Historically, Australian agriculture has received a small portion of Australia's total foreign investment (Saynal 2014). In 2017-18, the UK was the largest owner of Australia agricultural land (10,239 hectares), followed by China (9,169 hectares) (ATO 2018).

Advantages and disadvantages of trade concentration

In most cases, market concentration is the result of commercial decisions by individual exporters. For example, increased trade with China has both improved returns for existing sectors, such as red meat, and created new premium markets for other products, such as live-seafood, horticulture and infant formula. Over-time, exporters build and reinforce business-to-business relationships, establish brand recognition and formalize logistic chains. Governments may also seek to lessen the regulatory burden, such as lowering tariffs and establishing biosecurity and labelling protocols.

The key disadvantage of trade concentration is that it sharpens the consequences of a disruption in a key market, such as increased competition, a down-turn in demand or changes in government policy. The impact of COVID-19 has highlighted the vulnerabilities from reduced demand and disruptions to global supply chains. It is also possible that concentration may lead to a commodity becoming the target of trade distorting measures by a trading partner wishing to apply pressure on government decision making. The likelihood of a targeted trade disruption is reduced where there is mutual dependence, such as Australia's live cattle exports to Indonesia and Vietnam or in the case of a range of Australia's exports to China.

The risk associated with trade concentration is heightened where there is limited demand in other markets, or Australian AFF producers do not have access to alternative markets, or producers too heavily gear supply chains to one market making them inflexible and preventing a diversion of product to alternative markets. For example, the collapse of demand and supply chain disruptions for seafood in the China market during the COVID-19 outbreak had a significant effect on Australian exports of rock-lobster, with trade effectively stopped during the peak sales period.

Diversifying export markets may be important for industries to manage risks for commodities focussed on a small number of markets. However, exporters will also continue to be driven by commercial considerations to seek premium returns for their products and the capacity of the market to receive the volume.

Analogous issues exist on the import side, with Australian industries, agriculture included, heavily reliant on individual markets as a source for imports.

Opportunities to manage trade risks associated with trade concentration

While recognising that commercial decisions will continue to drive export decisions of individual companies and their choice of markets, awareness of alternative market opportunities and strategies to manage dependence risks are being supported through government efforts. This includes activities to open new markets, raise awareness of alternative opportunities through market information and analysis, and support for trade development and promotion activities by both government and industry in alternative markets.

Australian industry presence in a range of markets has and will continue to assist in sustaining Australia's reputation as a reliable, high quality provider of competitive AFF products and hedge against risks associated with trade concentration. Despite the commercial sector having ultimate responsibility for trading decisions, there are opportunities for government and industry to work together to support diversified market opportunities.

Free trade agreements and technical market access improvements

Free Trade Agreements (FTAs) provide an important mechanism for improving commercial opportunities and competitiveness through tariff and trade barrier elimination and reductions. Australia has secured preferential trade agreements which provide coverage for around 70% of Australia's trade and this is expected to reach 88% once current negotiations are concluded (DFAT 2019). Existing FTAs have provided a wide range new market access opportunities and supported export growth for Australian industry. The greater Australia's FTA coverage, the more opportunities Australian exporters have to reach a wider variety of international markets at more competitive prices. FTAs therefore directly support opportunities for enhanced trade diversification.

Australia has recently concluded trade agreements with Peru (PAFTA) and Indonesia (IA-CEPA) and with ten countries through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Indonesia completed the internal processes required for the implementation of IA-CEPA in May 2020 and the agreement will enter into force on 5 July 2020. Negotiations for the Australia-EU FTA are ongoing, as are negotiations with the 15 other members of the proposed Regional Comprehensive Economic Partnership (RCEP), and with

the Pacific Alliance (Mexico, Colombia, Peru, and Chile). An Australia-UK FTA is also under-development.

Tariff elimination and reductions through FTAs are complemented by the department's work to negotiate technical market access requirements. While FTAs address tariffs, they do not address technical market access, which is negotiated separately to FTAs. Technical market access covers all non-tariff and non-quota related regulatory requirements imposed by governments on imports such as biosecurity, food safety and traceability requirements. When Australia negotiates for its technical market access interests, it is not uncommon that our trading partner will also be seeking market access to Australia at the same time. Australia does not trade off our biosecurity and food safety requirements in FTA negotiations or in technical market access negotiations.

Technical market access needs to be negotiated separately based on science and risk-based decision making. The process can be lengthy requiring a commitment of specialist resources to complete the risk assessment for imported goods, consult with domestic stakeholders and negotiate with trading partners. This process is essential in achieving Australia's market access objectives.

Between 1 January 2016 and 31 January 2020, Australia has achieved 133 key market access gains or restorations, along with 115 key market access improvements or actions to maintain market access. Recent technical market access gains, such as new access for blanched almonds to the United Arab Emirates and pumpkins and melons to Japan, new access for Australian poultry establishments to export to Singapore and extended shelf life for chilled meat exported to Kuwait, all directly support access to a wide range of markets internationally and directly contribute to diversifying trade.

Cooperation and relationship building

The department also supports cooperation activities with trading partners, which are an opportunity to improve and maintain government and industry relationships in key markets and develop opportunities in alternative markets. Strengthening trade relationships through such approaches can help promote market diversification, particularly in growth and high value markets such as South East Asia and North Asia. In-market support for trade promotion activities can also help support new or expanded opportunities for a range of commodities and contribute to supporting greater trade diversification.

These activities happen both on an ad-hoc basis and through formal mechanisms. The department administers several cooperation programs that benefit Australia through projects that address market risks and opportunities, influence regional and international trade, build business-to-business and government-to-government links and help Australia's agricultural sector to realise export opportunities. These programs facilitate opportunities for trade

diversification through providing funding to both build existing market opportunities as well as supporting new opportunities for trade growth.

Key current programs include the Australia-China Agricultural Cooperation Agreement (ACACA), the Indonesia Australia Red Meat Cattle Partnership, and the Package Assisting Small Exporters (PASE) and Agricultural Trade and Market Access Cooperation (ATMAC) program.

International counsellor network, trade and market intelligence

The department's network of overseas agricultural counsellors plays an important role in opening, improving and maintaining Australia's agriculture trade in a diverse range of markets and meeting the challenges of the global trading environment. Counsellors are located in major established markets, such as the USA, China, Japan and South Korea, and in other established and prospective growth markets, such as Thailand, Malaysia, India, Vietnam, the EU, the UK, the United Arab Emirates, and Central and South America.

The counsellor network supports agricultural export industries' commercial priorities, provides in-market intelligence and works closely with other Australian Government agencies and Australian exporters to develop and consolidate market access opportunities and relationships. Counsellors draw from and work closely with technical, operational and strategic specialists in the department to progress Australia's trade interests. Counsellors provide a central contact point and access to trading partner governments, resolving short-term issues and progressing long-term strategic goals. Embedded in markets across the world, counsellors are well-placed to support commercial decision making around which markets provide alternative opportunities, better returns to producers, or differing political and economic risks, recognising that ultimately decisions will be made by companies on commercial criteria.

The value of the counsellor network has been underscored by the quality of on-the-ground information provided to the government and industry during the COVID-19 outbreak. This information has been critical in the design of responses to mitigate the impact of the outbreak and best position Australian AFF exports to rebound following the resumption of normal conditions.

This market intelligence, along with more detailed and ongoing market and commodity analysis by the department and the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), provides key information that can support informed commercial decisions by commercial enterprises to help inform their market and trade strategies and mitigate risks. During COVID-19, the department and ABARES produced a range of material to help inform industry of specific market developments and impacts arising from COVID-19. Such materials and analysis can be an important resource for industry in supporting

commercial decision making. The department's website provides a range of links to such analysis https://www.agriculture.gov.au/coronavirus/research.

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