



13 November 2014

Foreign Affairs, Defence and Trade Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Members

Overview

JBS Australia Pty Limited is a leading meat and food processing business with processing operations across five Australian States. We specialise in the manufacturing of grass and grainfed beef along with high quality lamb products for both domestic and international customers. We export to over 50 international markets including Japan where we represent a significant share of total Australian beef exports to this country.

Japan has been a long term consumer of Australian Beef. Historically it has been Australia's number one export destination for beef and offals. In terms of trade, Japan imposes high tariffs of 38.5 per cent on beef. Under certain volumetric safeguards or 'snap back' this tariff can be increased up to 50 per cent.

Based on the Australian beef export figures of \$1.4 billion in 2013, this tariff of 38.5 per cent represents \$500 million being paid to the Japanese Government in tax. This revenue is then redistributed to Japanese agricultural sectors as subsidies.

These Japanese tariffs in our view are extremely high compared to other importing countries and a constraint on trade and cost on Australian beef processors and ultimately the Australian beef producer in servicing this market. The Australian beef processing sector has and continues to face increasing competition in the Japanese market especially from the United States. In addition, Japan is negotiating preferential trade deals with key competitors

Though we have a strong long term relationship with Japan, emerging markets have demonstrated their capacity to pay more in recent times for Australian beef. In a highly competitive international market, demand for beef far outstrips supply capacity and the capacity to pay as a customer, especially in countries with lower tariffs than Japan dictates where Australian beef product will be exported.

In parallel to these market dynamics, Japan is also looking to negotiate other trade deals with our competitors and therefore Australia's ongoing competitive position is not necessarily

guaranteed. Australian beef continues to face strong competition from United States beef in the Japanese market.

JAEPA

JBS Australia has and continues to strongly support the Government's decision to conclude a high-quality bilateral trade agreement with Japan to deliver improved and more cost competitive market access for the Australian beef industry.

The Japan-Australia Economic Partnership Agreement (JAEPA) outcome does deliver lower tariff outcomes especially in the early years of the deal for Australia. Importantly, there are also provisions for a 'Most Favoured Nation' (MFN) clause and timeframes for renegotiation of the agreement should competitors secure better market access to Japan.

The Australian Government is also part of the Trans Pacific Partnership (TPP) negotiations, which may deliver an agreement between the 12 TPP negotiating countries, including Australia and Japan. This may provide benefits for Australia, including additional beef market access in Japan over that JAEPA. We understand from the press that the Federal Government sees that JAEPA as providing a floor for market access into Japan, and that Australia would seek further market access outcomes through the TPP. However, from our perspective we don't yet know how long these negotiations will take to conclude and the quality of the outcomes for Australian beef access above that of the JAEPA. Importantly, we have the provisions in the JAEPA of renegotiation provisions should Japan provide better access for competitors through other bilateral deals.

The WTO Doha Round of trade negotiations has been proceeding for well over a decade and we do not see any outcomes in the near future being achieved, which are superior to the JAEPA.

JBS Australia contends that any negotiation on improved access for Australian beef to Japan was always going to be difficult. The outcome achieved through the JAEPA for the Australian beef industry is:

- Tariffs reduced to 19.5 per cent for frozen beef and 23.5 per cent for fresh/chilled beef over 18 and 15 years with a safe guard set above current trade levels.
- Significant front loading of tariff cuts to provide earlier benefits, 6 and 8 per cent off fresh/chilled and frozen beef on entry into force of the agreement.
- Australia will not face 'snap back' of 50 per cent tariffs.
- Renegotiate after 5 year provisions and MFN covering the situation where a competitor negotiating better access.

Benefits to Australian processors and producers

The outcomes achieved under the JAEPA were solid and will support more efficient trade and also provides scope to achieve parity with those competitors who may negotiate better deals with Japan on beef market access.

Increased and more efficient bilateral trade with Japan will benefit the Australian economy. Improved market access for Australian beef exports will support our terms of trade. The JAEPA does deliver Australian beef processors and producers with a competitive advantage in our major export market over our major competitor being the United States.

We as a major beef export nation need to continue to work with the Federal Government on more efficient market access. Moving from 38.5 per cent to 19.5 and 23.5 per cent respectively, along with the elimination and eliminating the risks of 50 per cent around 'snap back' is a good outcome.

JAEPA technical details for beef

The tariff on frozen beef will be cut to 19.5 per cent over 18 years. However, as previously detailed there will be significant front-end loading, with an eight percentage point cut in the first year, two in the second year and one in the third year.

The tariff on fresh beef will be cut to 23.5 per cent over 15 years. These cuts will also be frontloaded. The tariff will be cut by six percentage points in the first year, followed by two annual one percentage point cuts. In technical terms Australian beef will be subject to a safeguard where if the volume of Australian beef exceeds a given trigger level in any given year the tariff will revert to a maximum of the current tariff of 38.5 per cent.

There are different safeguard volumes levels for fresh and frozen beef, with both safeguard volume levels above current trade levels and include annual growth for ten years before they are subject to automatic renegotiation, including explicit consideration of the complete removal of the safeguards.

The safeguard trigger for frozen beef starts at 195,000 tonnes (14.5 per cent above 2013 imports of Australian fresh beef of approximately 170,000 tonnes) and grows to 210,000 tonnes over ten years, and the safeguard trigger for fresh beef starts at 130,000 (12 per cent above 2013 imports of Australian frozen beef of approximately 116,000 tonnes) and grows to 145,000 tonnes over ten years.

Based on international demand we are comfortable that the Australian beef industry will be able to work within these safeguard arrangements and this is underpinned with the arrangements within the JAEPA, which includes:

- Agreement to review and renegotiate the outcome on beef. This includes a review triggered immediately if Japan provides another country a better deal on beef, aimed at providing Australia equivalent treatment; and an automatic review aimed at improving access five years after entry into force.
- The safeguard mechanisms are to be reviewed after ten years to consider abolishing the safeguard or increasing the safeguard trigger levels.

Beef offals

Japan is also a vital market for Australian beef offal. Offal faces high tariffs of between 12.8 per cent and 50 per cent.

Under the JAEPA it has been agreed that Japan will reduce tariffs immediately by 40 per cent for beef offal under a growing quota starting at 17,000 tonnes and growing to 21,000 tonnes over ten years. Based on a long run average Australia has exported between 21,000 and 24,000 tonnes of beef offal to Japan per year.

The net impact is that based on historical performance volume, exported over the 17,000 tonnes in year one will attract the existing 12.8 per cent tariff. Therefore, the impact will be that this disadvantages those such as JBS who produce high quality and high value offals to supply Japan 52 weeks of the year as opposed to other who export into this market on a speculative basis.

JAEPA allows for automatic renegotiation of market access for beef offal five years after entry into force, with a view to improving access. If Japan provides another country a better deal, a review will be automatically triggered with the aim of providing Australia the same treatment.

Recommendation - offal

Under the JAEPA, an offal quota to Japan will be treated as a country to country quota allocation administered by the Federal Government through the Department of Agriculture, Fisheries and Forestry (DAFF). This was not clear to industry at the end of the JAEPA negotiations.

It is JBS Australia's commercial view that:

- ***In order to maximise the economic value of the quota to Australia and the Australian beef producer that the offal quota be in the hands of those who both own the processing assets and also ship the product to add maximum value to that product.***
- ***The basis for annual offal allocation including the year one of the JAEPA quota for offal must be allocated at a company level based on performance over the past 3 year rolling average of offal into Japan.***

Conclusion

JBS Australia commends the efforts of the Federal Government and specifically the strong leadership shown by Minister Robb to achieve the JAEPA. Importantly, Australian beef has a strong quality and safe image with Japanese consumers. The outcomes of the JAEPA provides greater opportunities for Australian beef into what is long term and reliable market for our product.

Yours sincerely


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