Submission No 1

Inquiry into Australia's Relations with the Republic of Korea; and Developments on the Korean Peninsula

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18 May 2005

Mr John Carter
Secretary
Foreign Affairs Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
Canberra ACT 2600

Via email: jscfadt@aph.gov.au

Australia's Relationship with the Republic of Korea

Dear John

Thank you for your letter dated 13 April 2005 regarding the Joint Standing Committee on Foreign Affairs, Defence and Trade review of Australia's relations with the Republic of Korea.

We note that the terms of reference require the Committee to review the full range of Australia's relations with Korea and to consider the current situation and opportunities for the future. As Meat & Livestock Australia's (MLA) focus is on red meat issues, our comments relate to this specific industry sector.

Korea represents a vitally important market for Australian red meat and livestock. During 2004, Australia exported 93,310 tonnes of beef, 1,148 tonnes of lamb, 683 tonnes of mutton, 145 tonnes of goat meat and 14,925 tonnes of offal to this market. In total, these exports were valued at approximately A$545 million. In addition, 851 live cattle exported to Korea generated A$1.07 million in export returns.

As the Korean market is forecast to offer ongoing export opportunities for Australian red meat exports, our industry will continue to commit resources in Korea in order to build demand for our products and to improve market access arrangements. These activities are primarily co-ordinated via MLA's representative offices in Seoul and Pusan.

We have attached a submission outlining MLA's views on our trading relationship with Korea. Please don't hesitate to contact Andrew McCallum (MLA's Manager - Trade Policy, Tel 02 9463 9153) or Wendy Voss (MLA' Market Analyst – Korea, Tel 02 9463 9176) should you require clarification of any of the issues raised in the attached document.

Yours sincerely

Mark Spurr
Managing Director

Australia's Red Meat & Livestock Trade with the Republic of Korea

A Submission by Meat & Livestock Australia

This submission has been compiled by Meat & Livestock Australia (MLA) in response to the Joint Standing Committee on Foreign Affairs, Defence and Trade review of Australia's relations with the Republic of Korea.

MLA is a producer-owned company which provides services to the Australian beef, sheepmeat and goat meat industries. MLA adds value to this $15 billion industry through the provision and delivery of innovative services and solutions designed to:

- improve market access;
- build demand via implementing targeted marketing programs; and
- develop a competitive advantage for our products via strategic research & development (R&D).

MLA is funded by:

- transaction levies paid on cattle, sheep and goat sales;
- Federal Government dollar-for-dollar funds for investment in R&D;
- cooperative contributions from individual processors, wholesalers, food service operators and retailers; and
- contributions by processor and live export industry bodies.

The views expressed in this paper are made solely by MLA, although are essentially representative of the broader industry position.

Key issues for the red meat and livestock industries regarding Australia's relationship with Korea:

- Korea is Australia's third largest beef export market offering good prospects for substantial beef import growth over the longer term. While the Korean market has been through a 'rocky' period since beef import liberalisation in 2001, it still appears to have significant development potential providing the market settles following the recent BSE concerns and current weak economic conditions continue to recover.

- Sheepmeat exports (lamb and mutton) are not forecast to grow significantly beyond current volumes in the short term.

- Demand for Australian offal by Korean consumers is expected to remain firm.

- Korea will remain an opportunistic market for Australian live cattle with limited numbers exported.

- Securing market access improvements by lowering existing Korean tariff barriers is an industry priority for the current World Trade Organization Doha Round of trade talks.

- The red meat industry has invested significant producer and exporter funds into strategic trade development and consumer marketing campaigns in order to grow demand for Australian red meat products in Korea. This commitment will continue.

- Ongoing close consultation between the Australian Government and industry has helped capitalise on the burgeoning market potential. Industry will continue to foster this relationship.

1. Australia's Red Meat and Livestock Trade with Korea

1.1 Beef

Korea is far from self-sufficient in beef (around 36%) and relies heavily on imports. The Korean domestic 'Hanwoo' herd reached a peak of 2.84 million head in 1996, but had fallen to 1.4 million head by December 2003. The fall in herd numbers was hastened by rising feed prices during the 97-98 Asian economic crisis and the liberalisation of the beef import market in January 2001 (which resulted in the dismantling of a discriminatory quota system and its replacement with a tariff-based import regime).

However, record farm gate prices for Hanwoo cattle in 2003 encouraged Korean farmers to build herd numbers during 2004. This occurred despite a fall in domestic live cattle prices following the discovery of BSE in the United States at the end of 2003.

Consumer loyalty to the locally produced product (which is grainfed and generally well marbled) is strong, with Hanwoo beef prices commanding a premium over imported beef (around 2.5 times higher). Koreans generally believe that the beef of their native cattle breed is superior to imported beef.

Korean consumers are, however, particularly sensitive to disease scares, and with the announcement of a case of BSE in the United States (previously a major supplier to the market) overall beef consumption (especially imported beef) saw a sharp decline. While the consumption of domestic beef has recovered to pre-BSE levels, imported beef consumption is yet to recover fully, as limited supply has resulted in high prices.

As a consequence, Korean consumers have continued to favour lower priced pork as their preferred protein with consumption totalling around 17.9kg (boneless) /head compared to beef at 6.8 kg/head and chicken at 6.6kg/head in 2004.

It is estimated that around two-thirds of beef is consumed through the food service sector, with the remaining third consumed at retail.

The Korean diet is becoming increasingly diversified. While Korean-style beef barbeque remains the most popular dish, western-style cuisine is becoming more popular and widely available. Beef is served at western-style restaurants and hotels as well as Chinese, Italian, Japanese and other foreign cuisine restaurants.

Korean meals traditionally consist of steamed rice, soup and a number of meat and vegetable side dishes. The most popular beef menu is barbecue short ribs or *'bulgalbee'* and marinated barbecue chuck roll or *'bulgogi'*.

The import ban imposed on US beef (which accounted for 68% of the total imported beef market) has presented some growth opportunities for Australian product, albeit in a constricted market.

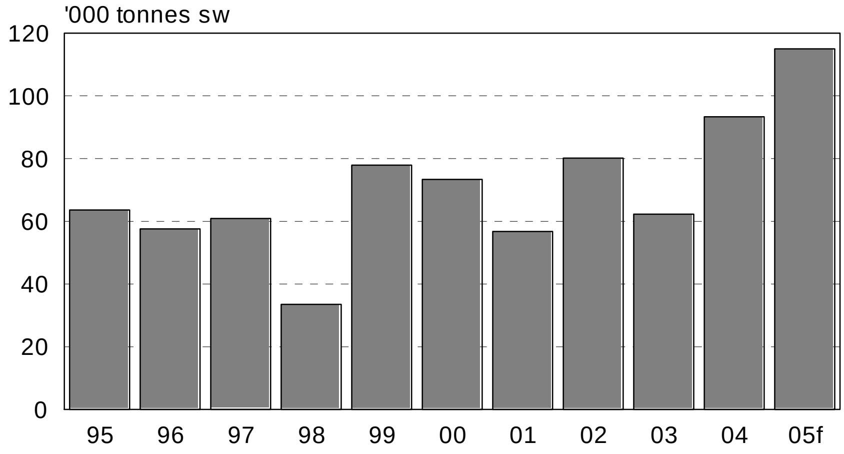
For Australia, Korea represents our third largest export market for beef, behind Japan (393,471 tonnes) and the United States (349,751 tonnes). Exports to Korea have averaged around 78,600 tonnes over the past three years, with a record 93,310 tonnes shipped in 2004 - up 50% on 2003 (Appendix A) and the highest level since 1992.

Post-liberalisation (2001), the volume and product range entering the market has rapidly grown and diversified, with higher valued chilled product exhibiting strong growth in the retail (supermarket and hypermarket) sector to now comprise 13% of the total (up from 10% in 2003).

Australian product is widely utilised by the food service sector. This includes family restaurants such as Outback Steakhouse, quick service outlets such as McDonalds as well as traditional Korean style restaurants. To a lesser extent Australian beef is also used in the processing sector for the manufacture of beef jerky, bulgogi, patties and canned products. As with many markets, price is often the most prominent factor that determines procurement decisions in the food service sector and Australia is well place to capitalise on future growth opportunities given our product price point compared to US grainfed beef.

The volume shipped in 2004 represented 10% of Australia's global beef exports during that year, with the trade valued at approximately A$483 million.

Australian beef exports to Korea



Source: DAFF / MLA

Although recent exports have been strong, Australia has 'suffered' from previous US dominance in the market. Korean consumers' preference for high marbled grain-fed beef (for barbeque cooking) and for two particular beef cuts (short ribs & chuck roll) was readily capitalised on by the giant US beef industry. Australia on the other hand had been relegated to supplying (perceived) lower quality grass-fed quarter beef under the previously regulated import regime and did not have the grainfed (nor grass-fed) production volume to match the capacity of the US in streaming off large volumes of single cuts.

To address this situation, MLA has worked extensively with importers, retailers and with the food service sector to encourage the use of non-traditional cuts. This effort has been particularly successful in dishes such as bulgogi, where a number of alternative cuts, including blade and rump, are now regularly utilised.

While the image of Australian product has altered dramatically, Australian supply constraints and prices in alternative export markets (particularly Japan) have restricted Australia's capacity to capture all of the market vacated by the US. Nevertheless, exports are forecast to increase further in 2005, to 115,000 tonnes with an expected value in excess of $A555 million.

1.2 Sheepmeat

Korea represents a relatively small volume market for Australian sheepmeat.

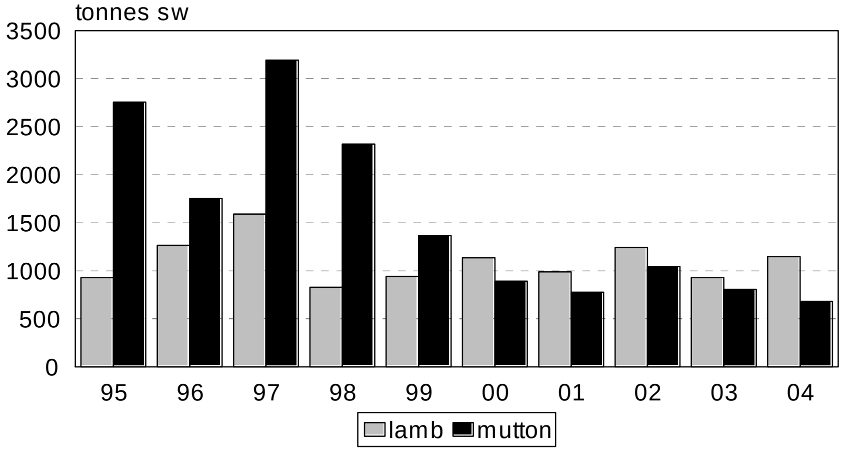
Lamb exports have averaged around 1,100 tonnes over the past three years, with 1,148 tonnes shipped in 2004 (Appendix A). The majority (98%) of this product was frozen and predominantly comprised shank and shoulder cuts entering the retail and food service sectors. The volume shipped in 2004 represented only 1% of Australia's global lamb exports during that year, with the trade valued at approximately A$5.9 million.

Australian mutton exports to Korea decreased by 15% (from 807 tonnes to 683 tonnes) in response to relatively higher prices. These exports were valued at approximately A$3.1 million in 2004, with 50% of the volume comprising frozen carcases and the remainder being a mix of frozen trunk meat and assorted cuts. This volume represented only 0.5% of Australia's global mutton exports during 2004.

1.3 Goat meat

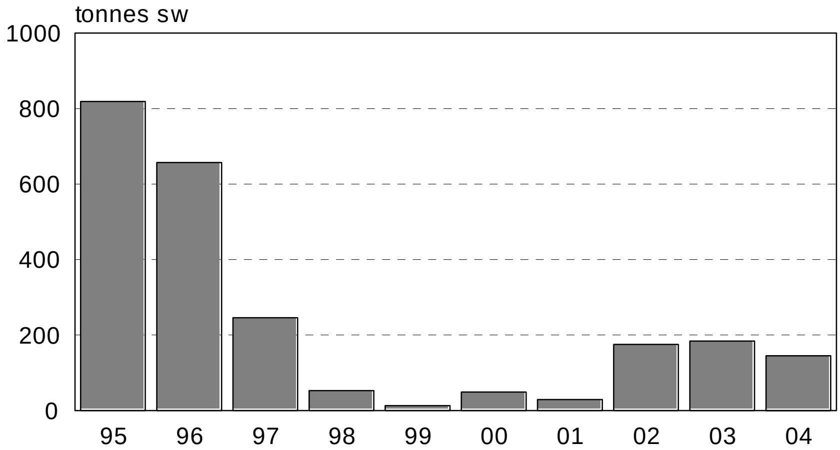
Goat meat is perceived to have some advantageous health properties in Korea and as a result a relatively steady volume (albeit only 170 tonnes) of goat meat is imported annually from Australia. This quantity was worth approximately A$730,000 in export returns to the Australian industry. This meat trade is also supplemented by a live goat trade (Appendix B).

Australian lamb and mutton exports to Korea



Source: DAFF

Australian goat meat exports Korea

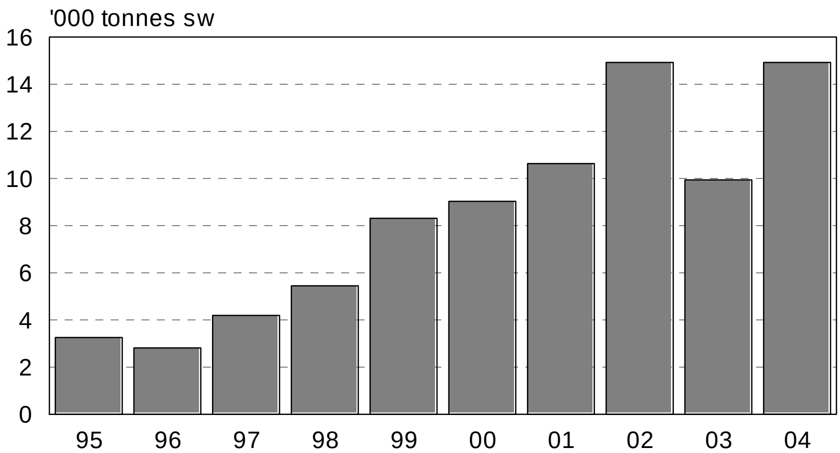


Source: DAFF

1.4 Offal

Offal exports to Korea totalled 14,925 tonnes (valued at A$52 million) in 2004 up 50% on the quantity shipped in 2003 (Appendix A). The key items included beef tails (for winter soups and stews) and beef cheek meat and skirts (for barbequing and hotpot dishes).

Australian offal exports to Korea



Source: DAFF

1.5 Livestock

Australia has a limited live cattle trade with Korea, with annual shipments averaging 1500 head over the past four years (Appendix B). Despite some shipments being the target of protests by local farmers (concerned about imports competing with the domestic cattle industry), the trade has presented some lucrative opportunities for the Australian industry. To put this volume in perspective, it represented just 0.1% of total Australian live cattle exports to all destinations in 2004.

There is also a small Australian live goat trade with Korea (2200 head shipped in both 2002 and 2003), although there were no live goat shipments in 2004 (Appendix B). This trade represented an average 2% of total Australian live goat exports in those years.

2. Market Access

MLA undertakes an ongoing trade advocacy program with a focus on ensuring existing rights of access for Australian red meat to international markets are at least maintained and where possible improvements to access conditions are secured. This necessitates uncovering and overcoming threats and barriers to entry as well as developing strategies to enhance market access opportunities.

As a major exporting sector, a change in access to overseas markets materially affects the profitability of individual producers and meat processors.

2.1 Overarching market access objective

- Unencumbered access for Australian beef, sheepmeat, goat meat, offal, processed red meat and livestock exports to the Republic of Korea.

2.2 Import tariffs

As a staunch supporter of free trade, the Australian red meat industry advocates the reduction of trade barriers in all markets. In particular, commercial opportunities will be enhanced if tariffs and non-tariff barriers are removed, while standards conformance and customs harmonisation will also be advantageous to the trading environment.

Importantly, trade liberalisation will facilitate reliable access to a wider range of products for end-users / consumers of our products.

The tariff applicable to Australian beef (Appendix C) entering Korea is 40% - one of the highest levels in Asia (although on par with the impost in Japan [38.5%] and Thailand [albeit a level reduced from 51% in 2004 as a consequence of the Australia-Thailand FTA]).

Sheepmeat tariffs are less of an impost at 22.5%, but are an unwarranted barrier nevertheless. Goat meat faces similar tariff imposts (Appendix C).

The tariffs applicable to offal products range from 18% to 27% (Appendix C).

Imports of value-added, manufactured or preserved items are limited by high tariff rates. Hamburger patties for example attract a 72% tariff while sausages attract a lower 18% tariff.

Live exports have an advantage over meat products with tariff rates of between 0% and 8%.

The reduction of these tariffs, particularly the 40% impost on beef, is a key objective for the Australian red meat industry in the current World Trade Organization (WTO) Doha Round of trade talks – which continues to offer some prospects for trade reform.

Should the Australian Government move to consider the merits of a bilateral preferential trade relationship with Korea (i.e. a Free Trade Agreement), the Australian red meat industry would be supportive, providing any such arrangement was comprehensive and delivered meaningful reductions in barriers and thus real trade flows for the industry.

A preferential tariff rate will enable the Australian red meat industry to respond to the growing consumer demand for high quality product at a more competitive price.

To date, Korea has only negotiated one bilateral free trade agreement – with Chile in April 2004 – which enables Chilean products to enter Korea at a preferential rate. For example, the tariff applicable under the Korea-Chile FTA on sheepmeat is currently 19% (with further liberalisation to come) compared to the 22.5% tariff applicable to Australian sheepmeat.

Reportedly, the Korean Government is trying to secure preferential trade deals with Japan and Singapore, and to open discussions with Mexico, Canada, India and other Asian countries.

MLA position

- A reduction in tariffs on unprocessed and processed beef, sheepmeat, goat meat, offal and livestock is an industry priority in the current WTO Doha Round. MLA / industry are working closely with Government to achieve this outcome.
- The elimination of existing import tariffs impacting unprocessed and processed Australian red meat (& associated products) and Australian livestock exports, should be a necessary component of any future preferential trade deal.
- Assessing the commercial opportunities and challenges of trade reform requires close consultation between industry and the Australian Government. Continuous dialogue is recommended.

3. Food Regulations / Standards

Regulations governing food standards, food hygiene, food import and export and labelling requirements, while not currently restrictive for Australian products, are increasingly being tightened by Government agencies. Regulatory frameworks pertaining to the production, marketing and distribution of food and agricultural products – including imported products are also under constant review.

While MLA will assist industry via its representation in the market, an ongoing industry / Australian Government / Korean agency partnership will be beneficial in ensuring compliance and effective operation of current and future food regulations.

MLA is therefore fully supportive of the Australian Government's presence in the Korean market, and appreciates the assistance provided in developing the market to date.

MLA position

- Ongoing joint industry / Australian Government / Korean Government monitoring and consultation regarding new or enhanced food regulations is advocated.

4. MLA's Key Market Development / Marketing Activities

MLA implements market development / marketing programs in Korea (on behalf of the Australian red meat industry) to build demand for our products. The focus is on beef with a small targeted sheepmeat program.

The key strategic elements are to:
1. Hold market share growth achieved in the absence of US beef in the market; and
2. Maintain the clean and safe image the industry has built and move to highlight the delicious and nutritious attributes of Australian beef at retail, food service and trade levels.

MLA works on a co-operative basis with both Australian and Korean industry participants in implementing these programs. Additionally, on ground representation is used to foster trade relations, monitor market access arrangements and expand networks and relationships with the Korean Government / agencies – the latter activities being implemented in close conjunction with the Australian Embassy in Seoul.

In February 2002, MLA launched a marketing logo for Australian beef in Korea called *Hojuchungjungwoo* (HCW), literally "Australian Clean & Safe Beef." The brand is used to raise consumer awareness of high quality Australian beef and support export beef brands in the market.

The HCW brand is prominent in nearly all major supermarket and hypermarket chains around Korea. MLA provides support with in-store tasting and point of sale materials. Major campaigns are conducted during the peak consumption periods of Lunar New Year (Jan-Feb) and Korean Thanksgiving, *Chusok*, (Aug-Sep) when beef gift sets are a popular sales item.

The (HCW) brand is also visible at a number of popular family restaurant chains (on the menus and in-store campaign materials), where MLA conducts joint promotions with food service operators.

MLA has also developed two unique brands for the Korean retail market to promote the consumption of Australian beef - Sydney Galbee (short ribs) and Sydney Bulgogi (chuck roll). The products are specific cuts that were developed for the Korean market. The cuts are promoted as ideal for the steamed and stewed side dishes and soups that are commonly cooked in Korean homes.

The ongoing investment in the above positioning is an indication of the Australian beef industry's commitment to the future development of the Korean market. However, the suspension of US beef imports provides both opportunities and threats to the industry. Although in the short term demand is relatively firm the overall imported Korean beef market has contracted. If sales are not to suffer, effort must be applied to stimulating demand both now and once the US beef import suspension is lifted.

In conjunction with industry, MLA will continue optimise Australia's beef export market position in Korea.

MLA position

- The Australian red meat industry is committed to further optimising the potential for Australian product in the Korean market.
- Close liaison with Australian Government agencies such as AQIS, AFFA and DFAT and an ongoing working relationship as MLA implements business development activities will be necessary to ensure that the red meat industry's interests in Korea are further advanced.

MLA
May 2005

Appendix A: Australian Red Meat Exports to Korea (tonnes shipped weight)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Beef / veal	63,620	57,601	60,921	33,524	77,898	73,348	56,779	80,153	62,289	93,310
Lamb	930	1,266	1,592	829	943	1,136	989	1,244	930	1,148
Mutton	2,757	1,755	3,195	2,320	1,367	893	778	1,044	807	683
Goat	819	657	246	53	13	49	29	175	184	145
Offal	3,257	2,819	4,194	5,447	8,316	9,033	10,631	14,925	9,945	14,925
TOTAL	71,383	64,098	70,148	42,173	88,537	84,459	69,206	97,541	74,155	110,211

Source: Australian Government Department of Agriculture, Fisheries and Forestry

Appendix B: Australian Livestock Exports to Korea (head)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cattle	0	0	0	0	0	0	1,338	563	3,364	851
Sheep	0	0	0	0	0	2	0	0	0	0
Goats	0	3,022	2,731	0	0	0	146	2,196	2,215	0

Source: Australian Bureau of Statistics

Appendix C: 2005 Korean Harmonized Tariff Schedule

Key Red Meat & Livestock Tariff Lines

Chapter 1: Live Animals

Heading / Sub-Heading	Article Description	Tariff
0102 Live bovine animals		
0102.10.00	Pure-bred breeding animals	0%
0102.90.00	Other	0%
0104 Live sheep		
0104.10.00	Sheep	8%
0104 Live goats		
0104.20.10	Goats	8%
0104.20.90	Milk Goats	8%

Chapter 2: Meat and Edible Meat Offal

Heading / Sub-Heading	Article Description	Tariff
0201 Meat of bovine animals, fresh or chilled		
0201.10.00	Carcases and half-carcasses	40%
0201.20.00	Other cuts (bone-in)	40%
0201.30.00	Boneless	40%
0202 Meat of bovine animals, frozen		
0202.10.00	Carcasses and half carcasses	40%
0202.20.00	Other cuts (bone-in)	40%
0202.30.10	Boneless - minced	40%
0202.30.90	Boneless - other	40%
0204 Meat of sheep, fresh, chilled or frozen		
0204.10.00	Carcasses and half carcasses of lamb, fresh or chilled	22.5%
0204.21.00	Carcasses and half carcasses of other sheepmeat, fresh or chilled	22.5%
0204.22.00	Other sheepmeat cuts, fresh or chilled (bone in)	22.5%
0204.23.00	Other sheepmeat cuts, fresh or chilled (boneless)	22.5%
0204.30.00	Carcasses and half carcasses of lamb, frozen	22.5%
0204.41.00	Carcasses and half carcasses of other sheepmeat, frozen	22.5%
0204.42.00	Other sheepmeat cuts, frozen (bone in)	22.5%
0204.43.00	Other sheepmeat cuts, frozen (boneless)	22.5%
0204 Meat of goats, fresh, chilled or frozen		
0204.50.10	Meat of goats, fresh or chilled	22.5%
0204.50.20	Meat of goats, frozen	22.5%

Chapter 2, Meat and Edible Meat Offal (cont.)

Heading / Sub-Heading	Article Description	Tariff
0206 Edible offal, fresh, chilled or frozen		
0206.10.00	Bovine offal	18%
0206.21.00	Bovine tongues	18%
0206.22.00	Bovine livers	18%
0206.29.10	Bovine tails	18%
0206.29.20	Bovine feet	18%
0206.29.90	Other bovine offal	18%
0206.80.00	Other edible offal (sheep or goats)	18%
0210 Meat and edible offal, salted, in brine, dried or smoked		
0210.20.00	Meat of bovine animals	27%
0210.20.90	Other	27%

Chapter 16: Preparations of Meat

Heading / Sub-Heading	Article Description	Tariff
1601 Sausages and similar products, of meat, meat offal or blood; food preparations based on these products		
1601.00.10	Sausages	18%
1602 Other prepared or preserved meat, meat offal or blood		
1602.10.00	Homogenised preparations	30%
1602.20.10	Of liver of any animal	30%
1602.20.90	Other	30%
1602.50.10	In airtight / sealed containers	72%
1602.50.90	Other	72%
1602.90.10	Other, including preparations of blood	30%
1602.90.90	Other	30%
1603 Extracts and juices of meat		
1603.00.10/20	Meat extracts and meat juices	30%

Source: Korea Customs Service

ends