



## Submission No 15

### **Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea**

**Name:** Charles McElhone  
General Manager - Policy

**Organisation:** National Farmers' Federation  
PO Box E10  
Kingston, ACT, 2604



## **National Farmers' Federation**

**Submission to the  
Trade Sub-Committee of the Joint Standing Committee on  
Foreign Affairs, Defence and Trade**

**Inquiry into Australia's trade and investment relationship  
with Japan and the Republic of Korea**

2 August 2011

Prepared by Charles McElhone



National Farmers' Federation

Member Organisations



CANEGROWERS



COTTON AUSTRALIA



Goat Industry Council of Australia Inc.



GrainCorp



RICEGROWERS' ASSOCIATION OF AUSTRALIA INC



RIDLEY



The Pastoralists' Association of West Darling



WOOLPRODUCERS AUSTRALIA



# Contents

---

## Contents

Contents .....	3
<b>1. Introduction</b> .....	4
<b>2. Agriculture’s existing trade relations with Japan and Korea</b> .....	4
The importance of concluding the FTA’s .....	4
Emerging challenges for the world’s farmers .....	5
<b>3. Complementary nature of our agricultural systems</b> .....	6
<b>4. Conclusion</b> .....	7

## 1. Introduction

---

As two of the largest export markets for Australian agriculture, the importance of Japan and South Korea is paramount for Australian farmers.

Adding to the fact that Free Trade Agreement (FTA) negotiations are ongoing between Australia and both countries, the National Farmers' Federation (NFF) is determined to demonstrate its ongoing commitment to improving market access in these countries and building on the existing relationship our agricultural sector has in supplying high quality food and fibre to their consumers.

Often agriculture has been seen as a stumbling block in trade negotiations, and it's true that slow progress at the multilateral level has been very disappointing. But looked at properly, and given the many challenges ahead, there is no reason why this should be the case. The NFF contends that the best contribution that the Australian Government can make to building trade relations with these two markets is to conclude ambitious and comprehensive FTA's with these markets or face being left behind by our competitors.

Over the coming decades, the combined agricultural sectors of Asia and the Pacific will need to provide quality food and fibre to a growing population. Agricultural production will need to increase in difficult times. Factors such as the pressures of climate variability and urbanisation will continue to provide challenges for the whole sector.

This submission highlights how, through Australia's agricultural trade relationship with Japan and Korea, that our farmers can collectively meet these challenges.

## 2. Agriculture's existing trade relations with Japan and Korea

---

As Australia's largest and fifth largest single agricultural export markets respectively, Japan and Korea are vitally important to Australia and Australian farmers. A strong relationship has developed over many decades that has seen the Japanese and Korean consumer and producer benefit from the provision of a high quality and stable supply of goods from Australia.

In return, Japan and Korea have given Australia's farmers a stable, mature and reliable market in which to sell its goods. It has been, and remains today very much a symbiotic relationship with both of these markets. There is no doubt that these relationships will continue to grow and prosper.

### **The importance of concluding the FTA's**

As the negotiations for an FTA between Australia and Japan enters its sixth year, now is a good time to step back to look at some of the major hurdles that are currently preventing progress in our otherwise close trading relationship with Japan. The NFF is acutely aware that the major stumbling block for the Australia-Japan FTA negotiations is the inclusion of agriculture.

The NFF understands that concluding this trade agreement has been very difficult. In fact, in agriculture, it is a misnomer to suggest that we are anywhere near a conclusion. Rather than

hindering the negotiation the NFF contends that agriculture's position should be a central pillar of a better long term deal for both parties.

If we look at the emerging challenges for food and fibre production and the role that Australian agriculture can play in Japan, the NFF does not believe that there is a long term or serious threat to Japan's farmers. However, we do think trade liberalization will change Japanese agriculture.

The trade of many agricultural commodities is a sensitive issue for our Japanese counterparts. The NFF understands why the sensitivities exist and why there are fervent efforts in Japan to protect these sensitivities. But rather than excluding agriculture from an FTA, it is NFF's belief that it needs to be dealt with comprehensively in the negotiations.

Australia's FTA with Korea is facing a separate set of challenges.

Korea has already completed bilateral trade agreements with two of our biggest competitors – the United States and the European Union – those deals, once ratified, will leave Australia's farm exports at a significant competitive disadvantage.

According to the Centre for International Economics (CIE), the US deal with Korea will slash Australia's agricultural and food exports into Korea by 12.4% by 2030 – gouging around \$800 million from our accumulated agricultural and food exports. That is, of course, unless we act quickly to get our own deal with Korea.

The CIE also estimates that an Australia-Korea trade agreement would see our agriculture and food exports into the Korean market increase by 53.3% by 2030 (or around \$700 million), even if the US deal is ratified.

### **Emerging challenges for the world's farmers**

The most obvious emerging challenge for the world is the issue of global food security. The growing demand for food products around the world shows that Japan and Korea's agriculture is going to have to grow and contribute to regional food security whether there is an FTA with these countries or not. The global population will increase by an additional 3 billion people by 2050 and the United Nations expects the growing Asian population to account for over one third of this growth.

At the same time, due to economic growth and increasing disposable incomes, we are already seeing a shift in demand towards high protein western style diets within an increasingly affluent sector of many developing nations. Therefore, within our region we will need to produce more food with less inputs and we will need to produce different foods. There is no new Green Revolution on the horizon so there are real and immediate challenges.

Like our Japanese and Korean counterparts, Australian agriculture faces climate variability, urban encroachment on arable lands, competing resource demand from urban growth, mining and the environment, escalating costs of inputs and increasing regulatory requirements.

Our consumers also are changing. Agricultural producers will need to contend with changing consumer preferences over and above the safety attributes that are now taken for granted, expectations in areas such as carbon footprints, water use, biodiversity retention, animal

welfare and the list goes on. We will also need to reduce food waste and improve the movement of food from areas of food surplus to areas of food need. This is where more open trade arrangements are important.

No single agricultural system or nation of farmers can realistically meet this diverse and expanding regional demand for food and fibre. Farmers throughout the region will all need to play a role.

### **3. Complementary nature of our agricultural systems**

---

An important and often overlooked fact of Australia's relationship with Japan and Korea is the complementary nature of our two agriculture industries that will mean completed trade deals can benefit everybody.

From the outside looking in, it appears that future demand for food in Japan and Korea, like in many nations around the world, is trending towards being more variable than it has ever been. There will be urban and rural demand that will be largely locally produced. There will be imported commodities supplied largely on price and there will be an expanding market for a range of foods differentiated on the basis of quality and brand commitments. It is within this latter segment that Australia has a major role to play.

Australia has a reliable and reputable record forged over many years of delivering agricultural product directly targeted to the needs of our Japanese and Korean customers. Australian farmers are acutely aware of what our customers in Japan and Korea are looking for and have developed systems to ensure we deliver high quality and high value added products that have integrity and that are subject to international best practice quality systems.

We also have a reputation for our clean and natural supply systems. The use of fumigants and insecticides are heavily regulated and monitored by government authorities. The National Residue Survey (NRS) is funded by farmer levies to test for residues in over 50 agricultural commodities. Australian farmers can deliver a very convincing value proposition to Japanese and Korean consumers and give them confidence in the quality of our produce.

There are also strong seasonal synergies between Australian and North Asian production. At the broadest level, Australian production based around southern hemisphere seasons is available in the 'off season' for our Japanese and Korean trading partners, particularly in sectors such as horticulture. These complementarities in seasonal supply will grow in importance as consumers in Japan, Korea and Australia expect year round supply.

In addition, there are many instances where Australian products are differentiated from Japanese and Korean local produce and service different market segments. This will increase with the increasing popularity of western style cuisines.

For example, in the Japanese grain sector, due to climatic and physical constraints, it is recognised that Japan does not produce sufficient quantities of the grades of wheat necessary to make high quality grain based foods such as udon and alkali noodles. In this case, Australian grain exports are not replacing locally grown product but are complementary to domestic grain production and are producing new products to meet new local consumer tastes.

---

Similarly, Australian dairy exports provide Japanese dairy companies and other food manufacturers with cheese for processing and other vital ingredients that they need to continue their business and provide safe quality food for Japanese consumers. These imports complement local production rather than competing in markets such as fresh milk which accounts for the bulk of Japanese milk production.

In Korea, beef producers have secured differentiated positioning for their domestic Hanwoo beef product. This has seen Hanwoo beef command a significant price premium. In contrast, the majority of Australian beef exported to the Republic of Korea is leaner and generally purchased for everyday consumption. Australian beef competes in a clearly defined imported market segment and is not considered to be a close substitute to Hanwoo beef.

In sugar production as well, while the Republic of Korea lacks a market for domestic sugarcane or sugar beet production it has an active sugar refining industry. As such, imports of raw sugar from Australia are important raw materials for sugar refiners in the Republic of Korea.

Realities such as these are often conveniently forgotten yet collectively paint a very compelling picture to demonstrate how complementary Australian agricultural production is with that of our Japanese and Korean markets. Rather than being a threat to domestic agricultural production, Australian farmers are filling a void in the expanding and changing market that domestic suppliers are either unable or unwilling to supply.

It is a fine example of how trade can work to the mutual benefit of two economies, in this case, within the same sector – agriculture.

#### **4. Conclusion**

---

There is no denying that agriculture is complex and is seen as a hurdle that has resulted in Australia's FTA's with Japan and Korea being difficult to conclude. Yet in the context of increasing global demand for food, it is in the interests of the Japanese and Korean economies and the wider population to increase domestic food choice and security by allowing Australian export markets to function without impediment and encouraging a closer integration of food and fibre supply chains. This liberalization will require change from within.

The NFF believes that it is in the interests of Japanese and Korean business to see this change come about so that their own agricultural systems are not hampered by outdated and slow-to-respond systems.