



Australian Government

Department of Agriculture, Fisheries and Forestry

SECRETARY

26 November 2008

Ms Janelle Saffin
Chair
Joint Standing Committee on Foreign Affairs, Defence and Trade
Trade Sub-Committee, Room R1-120
Parliament House
CANBERRA ACT 2600

Dear Ms Saffin

Thank you for your letter of 29 July 2008 inviting the Department of Agriculture, Fisheries and Forestry (DAFF) to contribute to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's trade and investment relations with Asia, the Pacific and Latin America. I enclose DAFF's submission.

The contact in DAFF for the inquiry is Mr Paul Ross, General Manager, Bilateral Trade (Americas, South East Asia, New Zealand, Sub-continent and Pacific), Trade and Market Access Division. Mr Ross can be contacted on 02 6272 2306 or paul.ross@daff.gov.au.

I trust the enclosed submission is of assistance.

Yours sincerely

A handwritten signature in cursive script that reads "Conall O'Connell".

Conall O'Connell

Enc. Response to The Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's trade and investment relations with Asia, the Pacific and Latin America.



Australian Government

Department of Agriculture, Fisheries and Forestry

Response to

The Joint Standing Committee on Foreign Affairs, Defence and Trade

**Inquiry into Australia's Trade and Investment Relations with Asia, the Pacific
and Latin America**

November 2008

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Executive Summary

Over 50 per cent of Australia's agricultural, fish and forest (agricultural) exports arrive in Asia, the Pacific and Latin America. Those regions include established export destinations for Australian agricultural products such as Japan and Indonesia. The Department of Agriculture, Fisheries and Forestry (the department) is working to ensure that China, Korea and the members of the Association of South East Asian Nations (ASEAN) in particular continue to evolve as established destinations for agricultural products.

The economic growth of Latin America and South Asia, especially India, could yield new opportunities in new markets for Australian agricultural exports. The department, in consultation with agricultural industries, is increasingly focusing on greater engagement with Latin America and South Asia with the objective of expanding Australia's agricultural export base.

Greater engagement in the Pacific through increased trade and capacity building will create greater prosperity for Australia and our Pacific neighbours. In particular, an important element of the development of nations in the Pacific will be their ability to improve agricultural production. In this, the department plays its role in the whole of government strategy for the Pacific.

However, a factor in the ability of Australian farmers, fishers and foresters to compete in these markets will be the extent to which barriers to trade can be eliminated. Agriculture remains one of the most sensitive but distorted sectors of global trade. Subsidies, tariffs, quotas, technical market access issues and so called behind the border measures are barriers to the promise of improved Australian agricultural export performance.

The department undertakes a range of activities aimed at creating and maintaining market access for agricultural products:

- the department plays an important role in the whole of government participation in multilateral trade negotiations. The department provides the Department of Foreign Affairs and Trade (DFAT) with advice on the agricultural negotiations in the current World Trade Organisation Doha round. A successful conclusion to the World Trade Organisation Doha round of negotiations remains the best chance for removing the most trade distorting barriers to free trade in agriculture
- the department also plays a role in Australia's regional and bilateral free trade agreement negotiations by providing advice to DFAT on agricultural tariff offers, and issues relating to animal and plant health standards, quarantine measures and technical barriers to trade
- to maintain existing access, the department monitors technical standards and quarantine measures that may affect agricultural exports. Where those standards create unjustified technical market access barriers the department works to remove those barriers
- the department is active in advocating the adoption of liberalising trade policies by agricultural trading partners
- the department has a network of 15 officers overseas in strategic markets who play a key role in supporting the department's efforts in market access.

Within the Asia Pacific region officers are located in Bangkok, Beijing, New Delhi, Tokyo, Jakarta and Washington.

- the department maintains a range of bilateral mechanisms with key markets to progress sanitary and phytosanitary, technical and other trade issues.
- bilateral relationships can be strengthened through cooperation and accordingly, the department continues to foster cooperative activities in agriculture with our trading partners.

The department aims to continue its valuable work supporting Australian industry to obtain access to new export markets while ensuring access to existing markets is maintained and improved upon.

1. The nature of existing trade and investment relations

Australian agricultural, fisheries and forest (agricultural¹) producers have generated strong exports into Asia, the Pacific and Latin America. The combined gross value of Australia's agricultural production in 2006-07 was \$38.5 billion, representing 2.8 per cent of Australia's Gross Domestic Product (GDP). Of this, two-thirds is exported (around 65 per cent of the value of farm products, 75 per cent of fish products and 60 per cent of forest products). In 2006-07 these agricultural exports were valued at \$27.6 billion and accounted for 16 per cent of Australia's total merchandise exports. Australia is one of the world's largest agricultural export nations for wheat, beef, dairy products, wine and wool.

Asia, the Pacific and Latin America receive over 50 per cent of Australia's total agricultural exports. Although, as detailed below, the majority of these exports flow to Asia.

With this strong focus on exports, most of Australia's agricultural industries are highly export-orientated and reliant on access to overseas markets. Creating new and maintaining existing export market opportunities for Australian agricultural industries is therefore important and the department plays a key role in this area.

This section details the nature of Australia's existing trade relations in agriculture with North Asia², South East Asia³, South Asia⁴, the Pacific, and Latin America.

a) The nature of existing trade and investment relations - North Asia

North Asia is Australia's most valuable destination for agricultural exports. Exports in 2007 were valued at \$8.8 billion, representing 31 per cent of Australia's agricultural exports worldwide. North Asia is the principal destination for key commodities such as wool, beef, cotton and coarse grains and includes three of the top five agricultural export destinations (Japan – first, China – second and the Republic of Korea – fifth). Exports to this region have grown by 18 per cent since 2002-03, reflecting the strengthening of Australia's links to the region and ability to supply quality agricultural products to help meet the demands of large populations.

To support this trade the Department of Agriculture, Fisheries and Forestry (the department) funds five agricultural counsellor positions in the Australian Embassies in Beijing, Tokyo, and Seoul. These agricultural counsellors work to resolve technical market access, biosecurity and quarantine issues that may impede Australian agricultural exports into North Asia.

¹ For simplicity this response refers to agriculture, fisheries and forestry collectively as either: "agriculture" or "agricultural" as the context dictates.

² "North Asia" refers to: China, Japan, Korea, Taiwan and Hong Kong.

³ "South East Asia" refers to the members of the Association of South East Asian Nations (ASEAN) being: Brunei Darussalam, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

⁴ "South Asia" refers to: Bangladesh, India, Pakistan, and Sri Lanka.

Australian Agricultural Exports to North Asia			
Sum of National value (\$AU)	Year		
North Asia	2005	2006	2007
China	\$2,642,426,943	\$2,916,050,799	\$2,924,701,654
Hong Kong, China	\$370,882,492	\$403,362,604	\$392,735,819
Japan	\$4,878,445,315	\$4,675,102,364	\$3,789,039,961
Korea, Republic of	\$1,472,556,716	\$1,838,777,117	\$1,258,789,988
Taiwan (Taipei, Chinese)	\$756,646,914	\$721,219,037	\$475,112,936
North Asia Total	\$10,120,958,380	\$10,554,511,921	\$8,840,380,358
<i>Source: ABS 2007</i>			

Imports of North Asian Agricultural Products to Australia			
Sum of National value (\$AU)	Year		
North Asia	2005	2006	2007
China	\$325,918,006	\$401,212,639	\$471,384,864
Hong Kong, China	\$35,488,316	\$35,436,406	\$34,927,530
Japan	\$45,868,150	\$43,442,995	\$42,991,099
Korea, Republic of	\$44,869,640	\$62,834,505	\$75,928,615
Taiwan (Taipei, Chinese)	\$25,613,743	\$26,334,899	\$26,582,224
North Asia Total	\$477,757,855	\$569,261,444	\$651,814,332
<i>Source: ABS 2007</i>			

Japan

Japan is a long-term, high value agricultural market both in overall export share and price and has been the single largest export market for Australian agriculture products for several decades. Japan accounts for 16.9 per cent of Australia's global agricultural export value. Beef, butter, cheese, wheat and sugar have been Australia's predominant agricultural exports to Japan. Many of Australia's exports are traded as inputs to the Japanese food processing industry (for example, natural cheese is used to manufacture processed cheese; dairy products are inputs to bakery items; special wheat varieties are for udon noodles and sugar is used for confectionery production). The top major commodities, by value, exported to Japan in 2007 were beef and veal (\$2,139 million), forestry products (\$885 million), dairy (\$463 million), wheat (\$329 million), and edible fisheries products (\$329 million).

The department engages in several mechanisms to promote cooperation and information sharing with the Japanese Government. Through the regular beef and dairy talks Japan and Australia share information about key commodity outlooks and the capacity of Australia to meet Japanese supply requirements. The department also holds annual bilateral plant quarantine and annual animal health talks to advance market access issues.

China

Australia's agricultural exports to China have tripled over the past decade to be valued at over \$2.9 billion in 2007, making China the second largest export market for agricultural products by value. Key agricultural exports by value in 2007 included

⁵ Figures relate to the most recent figures available from the Australian Bureau of Statistics (ABS)-2007 calendar year. Accordingly no figures are given for fish or forest products. Where fish products are cited in the text, they are based on FAO statistics which are in fiscal years.

wool (\$1726 million), hides and skins (\$365 million), cotton (\$190 million), grains (\$244 million) and seafood (\$43 million). In the case of wool, Australia's exports to China represent 66 per cent of total wool exports.

Australia's annual agricultural balance of trade surplus with China is \$2.5 billion. Australia's exports generally complement, rather than compete with, China's domestic products. Australian products are favoured for their high quality characteristics or are imported when Chinese domestic production does not meet demand.

For example, China's extensive processing industry continues to benefit from Australian raw product inputs. Australian cotton and wool are imported by China for processing and textile production, much of which is later exported. High quality Australian wool and cotton are often favoured by Chinese processors, despite attracting a higher price than that produced domestically.

In addition to traditional commodity exports, there have been recent increases in China's demand for Australian products to satisfy changing consumption patterns. For example, China's imports of Australian wine rose from \$2.4 million in 2002-03 to \$55.3 million in 2007. Similarly, China's imports of dairy products from Australia have increased significantly in the last decade to be worth more than \$107 million in 2007. At the same time, China has imported Australian dairy breeding cattle to bolster its domestic production capacity.

Involvement by the department in regular bilateral meetings, cooperative activities and capacity-building projects has helped build commercial links and official relationships between Australia and China. These activities have also contributed to improved market access for Australian exports, developed China's ability to meet Australian and international standards and improved the skills and knowledge of Chinese producers. In addition, the presence of two agricultural counsellors at the Australian Embassy in Beijing provides ongoing opportunities to build agricultural links between Australia and China.

Republic of Korea

Korea is a trading partner of increasing importance. It is Australia's fifth most important individual agricultural export market. Beef exports have increased exponentially since the discovery of bovine spongiform encephalopathy in the United States - it is Australia's third largest beef export market behind Japan and the United States. The top major agricultural commodities exported to Korea in 2007 were beef and veal (\$758 million); wheat (\$301 million)⁶; sugar (\$204 million); cotton (\$93 million); dairy (\$83 million); offal (\$83 million) and edible fisheries products (\$105 million).

Although 65 per cent of Korea is forested land, 60 per cent of these forests are 40 years or younger. Korea therefore imports over 90 per cent of its timber. Korea is Australia's fourth largest market for forest products.

⁶ Export figures for wheat are confidential, so references to wheat are the department's estimates only.

Australia's bilateral sanitary and phytosanitary engagement mechanisms with the Republic of Korea have been developing in importance as the trading relationship grows. The department engages in annual Bilateral Plant Quarantine Technical meetings with Korea, the most recent meeting held in July 2008. A Memorandum of Understanding on Cooperation in Animal Health and Quarantine Matters between Korea's National Veterinary Research and Quarantine Service and the Australian Quarantine and Inspection Service was signed earlier in 2008.

Taiwan

In 2007, Australia's agricultural exports to Taiwan were valued at \$638 million and imports from Taiwan totalled \$71 million. Key Australian exports by value to Taiwan are beef, dairy products and cereals.

The trade is underpinned by the good working relationship the department maintains with Taiwan's Council of Agriculture (CoA) and Bureau of Animal and Plant Health, Inspection and Quarantine (BAPHIQ).

The Australia-Taiwan relationship involves regular meetings between the department and Taiwanese counterparts. These meetings have cultivated information exchange on both a technical and policy level.

Hong Kong

Hong Kong is an important destination for many Australian agricultural products. Agricultural exports to Hong Kong in 2007 were valued at \$393 million (excluding seafood), much of which is destined for the hotel and restaurant sector. In contrast, agricultural imports from Hong Kong (excluding seafood) were valued at \$35 million in 2007.

Significantly, Hong Kong is the principal export destination for Australian seafood including rock lobsters (\$234 million in 2006-07), abalone (\$149 million in 2006-07) and scallops (\$21 million in 2006-07).⁷

Australia and Hong Kong have a well-established trading relationship with few market access issues. Departmental officials make occasional visits to Hong Kong to audit facilities, promote Australian products and explain Australian production processes.

b) The nature of existing trade and investment relations – South East Asia

South East Asia is Australia's second largest export destination for agricultural products, behind North Asia, and the second largest source of agricultural imports. Australia's agricultural trade with ASEAN is primarily export-focused with the total value of exports outweighing imports by almost four to one. Total two-way trade in agricultural products with ASEAN was valued at \$4 billion in 2007. It is anticipated

⁷ Source: FAO Fisheries Statistics, 2008

that this trade will expand due to income growth in ASEAN and through implementation of the ASEAN – Australia – New Zealand FTA.

Australian Agricultural Exports to South East Asia			
Sum of National Value (\$AU)	Year		
Southeast Asia	2005	2006	2007
Cambodia	\$4,817,841	\$8,972,082	\$13,833,279
Indonesia	\$989,225,828	\$1,212,878,975	\$1,042,981,906
Malaysia	\$700,238,816	\$723,768,816	\$534,724,633
Myanmar	\$29,058,489	\$24,529,140	\$28,123,995
Philippines	\$258,711,130	\$267,965,835	\$267,782,890
Singapore	\$528,903,839	\$632,808,326	\$620,799,350
Thailand	\$447,911,177	\$499,668,313	\$418,427,762
Viet Nam	\$142,474,927	\$195,989,324	\$240,980,229
Southeast Asia Total	\$3,101,342,047	\$3,566,580,811	\$3,167,654,044
<i>Source: ABS 2007</i>			

Imports of South East Asian Agricultural Products to Australia			
Sum of National Value (\$AU)	Year		
Southeast Asia	2005	2006	2007
Cambodia	\$178,193	\$12,471	\$42,305
Malaysia	\$205,480,674	\$242,961,749	\$311,262,219
Myanmar	\$23,635	\$147,381	\$231,541
Philippines	\$50,146,123	\$43,094,895	\$44,339,635
Singapore	\$175,624,770	\$153,777,452	\$152,967,349
Thailand	\$228,753,814	\$247,421,171	\$266,801,235
Viet Nam	\$105,961,783	\$119,050,306	\$107,797,113
Southeast Asia Total	\$766,168,992	\$806,465,425	\$883,441,397
<i>Source: ABS 2007</i>			

Significant exports to the region in 2007 were meat and live animals (\$998 million), dairy products (\$857 million), and cereals, crops and pulses (\$828 million).

Seafood accounts for approximately 37 per cent of total imports from ASEAN for the period 2000-01 to 2006-07 (\$523 million in 2006-07)⁸. Other major imports from the region in 2007 included fruit and vegetables (\$378 million) and other food (\$172 million).

Agricultural imports from ASEAN countries have increased steadily over the past seven years, while exports have recently recovered after drought affected the value of exports between 2002 and 2004.

The department has extensive and well developed relations with many countries in South East Asia. The high level of Australian trade to this region is complemented by major trade policy developments such as the upcoming finalisation of the ASEAN – Australia – New Zealand FTA. This will form an important means of expanding portfolio exports to the South East Asian region.

⁸ Source: FAO Fisheries Statistics, 2008

Singapore

Major agricultural exports to Singapore were worth approximately \$621 million in 2007. Due to its size and lack of agricultural land, Singapore imports virtually all its fruit and vegetables (approximately 90 per cent). Australia's proximity has ensured that Australia is seen as a natural supplier, particularly during the northern hemisphere's off-season.

Singapore is an important destination for Australian horticultural products, with some temperate fruits (eg. apples and pears), re-exported to neighbouring countries such as Malaysia, Thailand and Brunei Darussalam. Major exports are dairy products (\$210 million), meat and offal (\$162 million), alcoholic beverages (\$53 million) and sugar (\$49 million). 2007 trade in agricultural imports from Singapore was valued at \$152.9 million. Major agricultural imports from Singapore are cocoa (\$46 million) and processed foods (\$30 million).

The Australia- Singapore Free Trade Agreement (SAFTA) came into force in July 2003 and, while Singapore already had a very low level of tariff protection, SAFTA removed the few remaining tariffs. As illustrated above, Singapore is a major destination for agricultural exports and, from the department's perspective, the relationship with Singapore is excellent. The sectoral annexes to the SAFTA chapter on Technical Regulations and Sanitary and Phytosanitary measures have been beneficial in streamlining the import and export of food and horticultural products, including the acceptance of phytosanitary certificates and reduction of duplication between the parties on pre-export quarantine and post-arrival quarantine measures.

Thailand

Australian agricultural exports to Thailand were worth approximately \$440 million in 2007. Major export items are dairy products (\$103 million), cotton (\$83 million), wheat (\$39 million), wool (\$35 million) and beef (\$14 million).

Agricultural imports were valued at \$430 million for 2007. Major agricultural imports from Thailand are prepared and preserved fish (\$199 million), crustaceans and molluscs (\$68 million)⁹, rice (\$47 million), animal feed (\$44 million) and processed food (\$41 million).

The Thailand Australia Free Trade Agreement (TAFTA) has produced noticeable improvements in trade volumes and lower tariffs since implementation. Major Australian agricultural exports (by value) to Thailand which have benefited from preferential tariffs under TAFTA include:

- alcohol exports increased by 60 per cent (\$7.6m in 2004 to \$12.3m in 2007)
- malt exports increased by 176 per cent (\$22m in 2004 to \$61m in 2007)
- cheese exports increased by 98 per cent (\$4.2m in 2004 to \$8.3m in 2007)
- fresh grape exports increased by 53 per cent (\$4.9m in 2004 to \$7.6m in 2007)
- beef exports increased by 57 per cent (\$9.2m in 2004 to \$14.6m in 2007)

⁹ Source: FAO Fisheries Statistics, 2008

- sheep meat exports increased by 22 per cent (\$3.4m in 2004 to \$4.2m in 2007)
- pork offal exports increased by 472 per cent (\$0.2m in 2004 to \$1.1m in 2007).

However, the department, in conjunction with other government agencies, is seeking even further tariff concessions to match or exceed the outcomes that Thailand has since negotiated with China and New Zealand. The department is looking to the inbuilt agenda within TAFTA to seek improved market access for horticulture and sugar. Through this process, the department is also seeking improvement of the conditions under which a range of commodities are traded including milk powder, cheese, beef and horticultural products.

TAFTA created the Expert Group on Sanitary and Phytosanitary Measures and Food Standards which allows the department and Thailand to pursue technical market access issues which affect trade in agricultural products.

Indonesia

Australia and Indonesia are major economic partners and regional neighbours. 2007 agricultural exports were valued at \$1.49 billion. Major exports to Indonesia are wheat (\$464 million), live cattle (\$339 million), dairy products (\$184 million) and cotton (\$158 million).

In 2007 agricultural imports were valued at \$143 million. Major imports from Indonesia are cocoa butter (\$44 million), coffee (\$16 million) and vegetable oil (\$11 million).

To strengthen what is already a positive relationship in agriculture with Indonesia the department engages with Indonesia in the Australia – Indonesia Working Group on Agriculture, Food and Forestry Cooperation. The Working Group gives the department an opportunity to discuss sanitary and phytosanitary measures, technical market access, capacity building and agricultural policy in a cooperative forum.

The Indonesian Quarantine Strengthening Project (IQSP) is a two-year project which is funded by AusAID and implemented by the Northern Australian Quarantine Strategy, which is a part of the Australian Quarantine and Inspection Service (AQIS). The main goal of the IQSP is to strengthen the Indonesian Agricultural Quarantine Agency's ability to mitigate local quarantine risks associated with major diseases of quarantine concern, including highly pathogenic avian influenza. Strengthening the quarantine capacity of neighbouring countries can effectively move Australia's quarantine border outwards, enabling early warning and improved response to emerging quarantine threats.

Malaysia

Agricultural exports to Malaysia totalled approximately \$606 million in 2007. Major exports are milk and cream (\$171 million), wheat (\$66 million), non bovine meat (\$40 million), live animals (\$35 million) and fruit and nuts (\$28 million).

Major agricultural imports from Malaysia are vegetable oils (\$121 million), other oils (\$40 million) and cocoa oil and powder (\$36 million).

The recommencement of negotiations with Malaysia on a free trade agreement was recently announced and the department will be involved in those negotiations. The department engages with Malaysia on agriculture mainly through the Malaysia – Australia Agricultural Cooperation Working Group which meets annually.

Philippines

Australian agricultural exports to the Philippines in 2007 were valued at \$267.7 million. Major agricultural exports are dairy products (\$125 million), barley, malt and oats (\$33 million), meat and offal (\$22 million), wheat (\$16 million) and live animals (\$15 million).

In 2007 agricultural imports from the Philippines were valued at \$44.3 million. Major products are processed food (\$17 million), nuts (\$8 million), vegetable gums (\$4 million) and fruit juices (\$4 million).

Vietnam

Agricultural exports to Vietnam amounted to \$253 million in 2007. Major agricultural exports are wheat (\$102 million), cereals (\$55 million), milk and cream (\$20 million), food and live animals (\$15 million) and wood (\$12 million).

Agricultural imports in 2007 were worth \$177 million. Major agricultural imports from Vietnam are prawns (\$70 million), nuts (\$62 million) and coffee (\$28 million).

c) The nature of existing trade and investment relations - South Asia

Australia's agricultural exports to South Asia have historically been modest and lower than exports to other parts of Asia. High levels of protection for domestic agricultural industries, including high tariffs, in South Asia have made it difficult to access these markets. This is slowly changing, particularly as the region, including India, liberalises and opens-up to increased trade. With a population of almost 1.5 billion people, South Asia has the potential to be a significant market for Australian agricultural products.

Australian Agricultural Exports to South Asia			
Sum of Total value (\$A)	Year		
	2005	2006	2007
South Asia			
Bangladesh	\$155,960,528	\$109,569,630	\$111,331,946
Bhutan			\$3,045
India	\$229,054,523	\$751,679,906	\$416,022,947
Maldives	\$4,109,633	\$5,392,136	\$5,620,507
Nepal	\$4,914,340	\$4,340,793	\$4,216,284
Pakistan	\$265,864,878	\$150,812,116	\$87,989,746
Sri Lanka	\$90,563,410	\$103,820,897	\$73,684,549
South Asia Total	\$750,467,312	\$1,125,615,478	\$698,869,024
<i>Source: ABS 2007</i>			

Imports of South Asian Agricultural Products to Australia			
Sum of Total value (\$A)	Year		
	2005	2006	2007
South Asia			
Bangladesh	\$250,870	\$391,320	\$457,952
India	\$104,056,076	\$121,128,956	\$146,593,693
Maldives	\$15,352		
Nepal	\$224,725	\$185,238	\$56,626
Pakistan	\$13,328,873	\$15,024,855	\$21,530,734
Sri Lanka	\$30,995,638	\$33,227,065	\$33,458,987
South Asia Total	\$148,871,534	\$169,957,434	\$202,097,992
<i>Source: ABS 2007</i>			

Principal Australian agricultural exports to South Asia in 2007 were horticultural products (\$250 million), meat and livestock (\$197 million), and cereals, crops and pulses (\$178 million). Notably, India is Australia's third largest market for wool and was worth over \$151 million in 2007. India and Bangladesh are also key markets for pulses, with exports valued at about \$70 million and \$47 million respectively in 2007. South Asia, particularly India and Pakistan, have also been significant markets for wheat in the past.

At the bilateral level, the department's interaction and dialogue with South Asian countries is increasing, with a particular emphasis on India.

India

India is by far Australia's most significant export market for agricultural products in South Asia and in recent years has accounted for a third to a half of Australia's exports of these products to the region. In 2007, agricultural exports to India were valued at over \$416 million representing about 60 per cent of Australia's total agricultural exports to South Asia.

Interaction and dialogue between the department and Indian authorities on agriculture is increasing. A Counsellor (Agriculture) position to India was established in 2006 which has increased understanding of both countries' agricultural industries and policies and enables productive engagement on market access issues.

The department also has regular bilateral discussions with Indian authorities on bilateral technical market access and sanitary and phytosanitary issues. Additionally, the department participates in the annual Australia – India Joint Ministerial Commission process (attended by Trade Ministers), particularly on issues such as technical market access, sanitary and phytosanitary issues and agricultural cooperation.

Pakistan

In 2007, agricultural exports to Pakistan were worth about \$88 million. The department has an increasing level of interaction with Pakistani authorities on agriculture. While dialogue is generally focused on bilateral issues as they emerge, the department has been pursuing increased understanding of Pakistan's agricultural policies and practices.

Other South Asian Countries

Bangladesh is Australia's second most significant market in South Asia with agricultural exports valued at over \$111 million. Sri Lanka is also a significant market with exports worth almost \$74 million in 2007.

The department's interaction with these and the other remaining South Asian countries is largely focused on bilateral agricultural issues as they emerge. In most instances, dialogue between the department and these countries is handled by Australia's diplomatic missions.

d) The nature of existing trade and investment relations - the Pacific

Australia shares an important relationship with the Pacific, based on geographical proximity, historical ties and special responsibilities in the region. Australia's engagement with the Pacific region is primarily geared to improving economic prosperity and stability through strengthened governance and broad based growth. The strength of this commitment is reflected in the fact that Australia is the leading aid donor to the Pacific, supporting sustainable economic and social development through bilateral and regional programs.

Australian Agricultural Exports to the Pacific			
Sum of Total value (\$A)	Year		
Pacific	2005	2006	2007
Christmas Island	\$1,266,957	\$1,652,138	\$1,477,417
Cocos (Keeling) Islands	\$519,065	\$512,731	\$504,741
Cook Islands	\$1,463,305	\$1,805,183	\$2,264,955
Fiji	\$85,896,968	\$107,582,834	\$99,918,679
French Polynesia	\$34,430,516	\$32,758,905	\$36,407,421
Kiribati	\$11,975,335	\$9,450,031	\$11,392,319
Marshall Islands	\$1,247,051	\$1,556,977	\$1,787,252
Micronesia, Federated States of	\$2,224,785	\$5,610,940	\$4,825,048
Nauru	\$2,069,665	\$2,938,802	\$2,479,430
New Caledonia	\$40,901,077	\$44,335,566	\$52,578,678
Palau	\$708,026	\$386,705	\$264,151
Papua New Guinea	\$145,620,110	\$148,026,610	\$171,479,510
Samoa	\$4,189,175	\$6,292,094	\$6,078,994
Samoa, American	\$6,226,509	\$4,485,104	\$3,810,718
Solomon Islands	\$6,108,848	\$8,109,374	\$11,188,994
Tonga	\$1,037,174	\$3,213,289	\$4,736,759
Tuvalu	\$1,270,412	\$1,606,061	\$1,614,900
Vanuatu	\$9,906,064	\$9,865,354	\$11,722,252
Pacific Total	\$357,061,042	\$390,188,698	\$424,532,218
<i>Source: ABS 2007</i>			

Imports of Pacific Agricultural Products to Australia			
Sum of Total value (\$A)	Year		
Pacific	2005	2006	2007
Cook Islands	\$40,536	\$42,595	
Fiji	\$25,707,256	\$26,457,537	\$27,865,422
French Polynesia	\$174,728	\$91,112	\$45,715
Kiribati	\$137,814	\$1,152,500	\$472,805
Nauru		\$28,517	\$39,063
New Caledonia	\$180,140	\$103,726	\$70,890
Papua New Guinea	\$37,916,386	\$40,234,207	\$38,721,165
Samoa	\$584,934	\$485,310	\$463,158
Samoa, American	\$251	\$4,113	\$51,355
Solomon Islands	\$255,616	\$224,362	\$339,691
Tonga	\$441,385	\$462,765	\$443,559
Tuvalu	\$11,025	\$27,686	
Vanuatu	\$2,764,613	\$1,580,086	\$1,666,302
Pacific Total	\$68,214,684	\$70,894,516	\$70,179,125
<i>Source: ABS 2007</i>			

Australia's agricultural exports to the Pacific have historically been low when compared with total exports to the region and agriculture exports to other regions of the world. Total Australian agricultural exports to the Pacific in 2007 totalled nearly \$425 million. This represents approximately 18 per cent of total Australian exports to the region, and approximately 1.5 per cent of Australia's total agricultural exports to the world. Australia's most significant agricultural trading partner in the Pacific is Papua New Guinea (PNG). In 2007 approximately 40 per cent (\$171 million) of Australia's total agricultural exports to the Pacific went to PNG. Meat, livestock and animal products (\$62 million), cereals, crops & pulses (\$62 million) and horticultural products (\$16 million) are the largest Australian agricultural export items to the PNG.

Currently the department's major focus in the Pacific relates to the sustainable management of fisheries and forestry resources, and the biosecurity and quarantine capacity of Pacific Island countries. For a number of years the department has been involved in a range of capacity building activities in Pacific Island countries to manage biosecurity risks. The focus for the department is on cooperation rather than development assistance, although development objectives are often achieved as part of the department's work.

The department actively pursues improved fisheries management and conservation in the Pacific through global, regional and bilateral forums to secure strengthened regional management measures to ensure fisheries resources (particularly tuna) continue to be a source of long-term economic benefits and food security for the region.

e) The nature of existing trade and investment relations – Latin America

Australia and Latin American countries share strong, export driven, agricultural, fisheries and forestry sectors. In addition, Australia and many Latin American countries have worked together towards the liberalisation of global agricultural markets (10 of the Cairns Group's 19 members are Latin American).

Despite sharing strong agricultural sectors, two way trade between Australia and Latin America in agricultural products is dominated by Latin American exports. Two-way trade in agricultural products was worth approximately \$815 million in 2007, of which, \$623 million was Latin American agricultural exports to Australia. Australia exported \$191 million worth of agricultural products to Latin America in the same year.

Australian Agricultural Exports to Latin America			
Sum of national value (\$AU)	Year		
Latin America	2005	2006	2007
Argentina	\$11,524,379	\$10,487,961	\$9,440,231
Belize	\$50,370	\$83,765	\$166,148
Bolivia	\$1,266	\$126,003	\$163,661
Brazil	\$19,682,274	\$13,664,932	\$14,789,267
Chile	\$3,034,411	\$5,144,400	\$4,675,883
Colombia	\$939,547	\$1,038,168	\$1,276,674
Costa Rica	\$1,722,878	\$2,072,242	\$2,276,401
Ecuador	\$297,044	\$208,364	\$564,565
El Salvador	\$8,757,544	\$9,686,087	\$9,266,213
Guatemala	\$12,753,833	\$18,185,027	\$19,477,003
Honduras	\$960,158	\$2,140,085	\$519,397
Mexico	\$145,151,510	\$122,512,585	\$109,758,712
Nicaragua	\$34,701	\$1,758,592	\$220,997
Panama	\$602,797	\$1,584,179	\$1,656,394
Paraguay	\$655,148	\$480,855	\$950,223
Peru	\$10,706,671	\$8,219,210	\$9,073,025
Suriname	\$40,082	\$6,774	\$4,516
Uruguay	\$2,284,302	\$7,598,035	\$6,295,803
Venezuela	\$345,364	\$762,176	\$684,556
Latin America Total	\$219,544,279	\$205,759,440	\$191,259,669
<i>Source: ABS 2007</i>			

Imports of Latin American Agricultural Products to Australia			
Sum of National value (\$AU)	Year		
Latin America	2005	2006	2007
Argentina	\$39,972,094	\$50,693,878	\$152,097,471
Belize	\$72,838	\$124,736	\$314,928
Bolivia	\$2,469,089	\$4,903,385	\$4,257,577
Brazil	\$156,491,708	\$204,800,930	\$273,074,985
Chile	\$21,462,911	\$27,337,042	\$34,718,763
Colombia	\$11,150,661	\$12,381,553	\$13,668,277
Costa Rica	\$3,084,063	\$4,695,833	\$3,939,500
Ecuador	\$3,417,337	\$7,422,382	\$6,218,206
El Salvador	\$574,092	\$1,404,749	\$1,791,784
French Guiana	\$3,152		
Guatemala	\$2,549,951	\$3,391,406	\$3,145,728
Guyana			\$87,129
Honduras	\$6,879,927	\$5,468,525	\$7,515,174
Mexico	\$57,684,166	\$72,869,866	\$89,212,662
Nicaragua	\$2,558,324	\$4,334,200	\$7,468,384
Panama	\$156,938	\$353,214	\$334,859
Paraguay	\$8,513	\$86,518	\$147,768
Peru	\$12,345,551	\$11,810,514	\$14,856,704
Suriname	\$17,727	\$187,230	\$48,654
Uruguay	\$8,455,859	\$12,755,496	\$10,425,251
Venezuela	\$85,505	\$239,107	\$560,797
Latin America Total	\$329,440,406	\$425,260,564	\$623,884,601
<i>Source: ABS 2007</i>			

Australia's key agricultural exports to Latin America are (2007 figures): meat, livestock, and animal products (\$92 million), dairy (\$67 million), cereals, crops and pulses (\$13 million). Whilst Latin America's main agricultural exports to Australia are: horticulture (\$270 million), animal feed, cereals, crops and pulses (\$226 million), alcoholic beverages (\$73 million).

Australia's most significant trading partners in Latin America, measured by two-way trade in agriculture (2007 figures) are: Brazil (\$287 million), Mexico (\$198 million), and Argentina (\$161 million).

Mexico is the main destination in Latin America for Australian agricultural exports. In 2007, Mexico imported \$109 million worth of Australian agricultural exports; representing 57 per cent of Australia's total agricultural exports to Latin America.

Latin America is not an established destination for Australian agricultural products, and a number of factors impede the growth of Australian agricultural exports into the region including:

- the higher tariffs applied by Latin American countries on Australian agricultural imports compared to the preferential tariffs enjoyed by competitors
- transport costs associated with freight to Latin America
- alternative higher value markets for Australian agricultural products. (Although prices are increasing due to the growth of Latin American economies).

Key Latin American countries have a network of FTAs with major trading partners. The tariff advantage that these FTAs offer Australia's competitors shape the agricultural exports that Australia can competitively sell to Latin America. Examples of these agreements include the North American Free Trade Agreement (NAFTA) of which Mexico is a member¹⁰, the Southern Common Market (Mercosur) a customs union incorporating Argentina, Brazil, Uruguay and Paraguay as well as other associate members in Latin America¹¹ and a host of preferential FTAs involving Latin American countries (Mexico alone has free trade agreements with 43 countries).

The tariff advantage held by Australia's competitors in Latin American markets has meant that exporters have had to concentrate on niche areas. For example, Australia has capitalised on weak sheep production in Mexico, and in NAFTA partners the USA and Canada, to meet a gap in supply. Australia now supplies one third of all sheep meat consumed in Mexico.

Conversely the example of beef into Mexico indicates the difficulty in competing without tariff parity. Prior to the implementation of NAFTA in 1994 Australian beef held a 15 per cent share of the beef market in Mexico¹². This share was eliminated almost overnight with the entry into force of NAFTA. Australian beef faced tariffs of 20-25 per cent, whereas beef from the USA and Canada entered Mexico tariff free.

The cost of freight, due to distance and unfavourable shipping schedules, affects prices, and the ability of Australian agricultural exports to compete in Latin America. Whilst the shipping schedules are improving, it can be difficult for Australian agricultural exporters to ship in time for "first come first served" tariff quotas that operate in a number of Latin American countries. In addition some Latin American countries do not have the infrastructure to efficiently transport and store agricultural products, or ensure that products are able to get to markets quickly. The lack of storage facilities for perishable agricultural products is another barrier to trade in some Latin American countries.

Strong growth in Latin American economies, and the increase in consumption that growth brings, have increased the value of Latin American markets for agricultural products. However, the prices on offer in Latin America for agricultural products have not always been as high as they currently are. Accordingly, Australian agricultural exporters have historically sought to sell in higher value markets such as the United States and Japan.

Mexico's agricultural markets illustrate the value on offer for Australian agricultural exporters in Latin America. Mexico is a net importer of agricultural products¹³ and has valuable markets for such commodities. Mexico imported US \$13.4 billion worth

¹⁰ The members of NAFTA are: Mexico, the United States and Canada.

¹¹ The foundation members of MERCOSUR are: Argentina, Brazil, Paraguay and Uruguay. Associate members of MERCOSUR are: Bolivia, Chile, Colombia, Ecuador and Peru. Venezuela is in the process of becoming a full member. Mexico has observer status.

¹² Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Trade with Mexico and the Region*, 2007, page 18.

¹³ OECD, *Agricultural and Fisheries Policies in Mexico*, 2006; pages 47-48.

of agricultural products in the year 2005-2006¹⁴. Mexico is the United States' second largest export market (the United States is the world's largest agricultural exporter). In 2006 the United States exported US \$10.9 billion worth of agricultural products to Mexico¹⁵. Major imports of US agricultural products into Mexico by value are: soybeans (US \$1 billion), beef (US \$800 million), maize (US \$686 million) wheat (US \$599 million) and dairy products (US \$563 million)¹⁶.

One third of Latin America's agricultural exports to Australia in 2007 (\$226 million) were animal feed; the demand for animal feed was caused by the persistent drought conditions across Australia.

2. Likely future trends in those relations

Future trends in trade relations in agriculture with Asia, the Pacific and Latin America will depend, to a large extent, on how well impediments to agricultural trade can be eliminated or managed. Accordingly, a key priority of the department is to maintain and improve international trading arrangements for Australian agricultural products. Agriculture remains one of the most highly-distorted sectors of global trade. In addition to the billions of dollars in subsidies provided by major, developed countries each year, agriculture is plagued with a range of other barriers to trade such as tariffs, quotas, unjustified quarantine measures and 'behind the border' measures. A brief overview of these impediments to trade is provided below, before examining how they might impact on future trends for Australian agricultural producers in the trade relations with Asia, the Pacific and Latin America.

Subsidies

The high protection afforded to agriculture by many of Australia's trading partners through subsidies to agricultural producers continues to be the most distorting aspect of international trade, impeding market access opportunities and reducing potential export earnings for Australian farmers, fishers, and foresters. Subsidies influence global competition and, arguably, can unfairly exclude agricultural producers from entry to international markets where they might otherwise be competitive.

Tariffs

Tariffs for agricultural products remain much higher than those applied to other merchandise products. Tariffs create barriers to entry for Australian agricultural producers. Tariff rate quotas are generally protective mechanisms implemented to limit the exposure of domestic industries to full international competition. They are trade distortionary by nature and can influence exporters' decisions to enter or exit markets and thus affect the free flow of global agricultural trade.

¹⁴ FAOSTAT, *FAO Statistical Yearbook 2005-2006*, 2007; Mexico Country Profile.

¹⁵ Office of the United States Trade Representative, *2006 National Trade Estimate Report on Foreign Trade Barriers*, 2006; page 394.

¹⁶ *ibid*

Technical Market Access

Technical market access refers to the imposition of sanitary and phytosanitary measures or technical standards that affect agricultural imports at the border (through quarantine measures) or behind the border (through technical standards). Australian agricultural exporters face an increasing number of technical market access barriers. This requires a greater level of government and industry resources to maintain existing market access as well as create new opportunities. It is necessary to ensure that the quarantine measures and technical standards imposed by trading partners are for legitimate reasons.

Infrastructure

Well-developed domestic and international infrastructure is critical to Australia's export performance. The capacity to deliver export commodities to Australian ports of departure in a suitable condition and in a timely manner is acknowledged. However, the limitations imposed by unsatisfactory infrastructure and logistical support at the destination market can see the demise of prospective export opportunities.

a) Likely future trends in those relations - North Asia

The significant amount of agricultural exports to the North Asian region belies a range of market impediments including tariffs, sanitary and phytosanitary measures, market regulations and government sensitivities towards agricultural imports. Many of these barriers are not new and the department is addressing them through existing bilateral channels; however, progress can be slow. Technical discussions between officials, bilateral working groups and FTA negotiations with China, Japan and the Republic of Korea contribute to addressing many of these trade impediments. In addition, the department contributes to Australia's pursuit of a trade liberalising outcome in the WTO Doha round of negotiations to further reduce barriers to markets.

North Asia is likely to remain a significant and valuable export destination for Australian agricultural products. Established trade routes, large population centres, opening economies and shifting consumer tastes in the region bode well for Australian agricultural exports. Australia is a significant and reliable exporter of clean, safe agricultural produce, and can take advantage of seasonal complementarities for a range of products in the North Asia region. To overcome the impediments to trade and take advantage of these opportunities, Australia is negotiating FTAs with China and Japan, and has commenced FTA preparatory talks with the Republic of Korea. Australia's aim is to achieve comprehensive and liberalising agreements with each nation. Slow progress in the WTO negotiations, and the rate at which North Asian nations are signing bilateral and regional trade agreements, provide further incentive for Australia to sign its own preferential agreements.

Japan

Japan maintains many tariff and non tariff barriers to trade in the agricultural products. There is a high degree of complex government arrangements and intervention in Japan's agricultural sector. The Ministry of Agriculture, Forestry and

Fisheries operates a Simultaneous Buy-Sell (SBS) system for key agricultural commodities (SBS systems are in place for rice, animal feed, and wheat and feed barley); price mark-ups; and high out-of-quota tariffs. These arrangements restrict supply to keep domestic prices high, and create administrative burdens and costs for Australian exporters.

Despite these impediments, Japan is expected to remain Australia's largest and most significant agricultural export market for many years. Japan is a net food importer and is deeply concerned about food security. Japan's food self-sufficiency ratio is 40 per cent on a calorie basis. The Government wishes to improve the ratio to 45 per cent by 2015. Japan's farming population is rapidly aging: half of Japan's rice farmers were over 70 years old in 2005.

It is possible that with increasing global competition for resources, Japan will be more and more dependent on reliable, stable, high quality agricultural suppliers like Australia. Japanese foreign direct investment in the agrifood sector continues to be an important strategy to address food security concerns. Despite this, Japan does not target bilateral trade liberalisation as a method to help address food security. Due to the heavily protectionist approach of Japan in relation to agriculture, market access will continue to be a challenge, including in FTA negotiations.

North and South Asia, North America, and Europe, account for 80 per cent of Japan's trade. Japan has a number of long-standing economic partnership agreements, including with countries in the North Asian region, and is the process of negotiating others. It has not yet, however, concluded an agreement which has a bearing on agricultural trade liberalisation and may be concerned about the prospects of doing so with Australia and the precedent it will create.

China

In 2007 China's average applied MFN tariff on imports was 9.7 per cent although specific tariffs ranged from 0 to 65 per cent. For agricultural products, China applied a higher average tariff of 14.5 per cent and also operated tariff rate quotas (TRQs) on wheat, rice, sugar, wool and cotton. Of the TRQ commodities, the most important for Australia was wool. In recent years China's imports of wool almost filled the global quota, reflecting the increased capacity of its wool processing sector.

China is negotiating FTAs with Australia, Iceland and Peru. In addition China has signed preferential trade agreements with Hong Kong, Macao, Chile, Pakistan, Thailand, ASEAN and most recently New Zealand and Singapore. In light of these agreements, it will be important for Australia to continue seeking improved market access for agricultural products into China. As a major competitor with similar agricultural production and exports to that of Australia, New Zealand's gains with China will be of particular interest (and concern) to Australia in the coming years.

Also critical to Australia will be China's ongoing economic growth and shifting consumption patterns. In recent years China has experienced an annual economic growth rate of over 10 per cent and is adjusting to having a burgeoning middle income population. This growth and population shift has fuelled demand for more luxury and western-style goods such as dairy products, red meat and high quality

textiles. Australia's agricultural industry has been well-placed to assist in meeting this demand and will look to continue supplying premium sectors of the Chinese market.

Since its accession to the WTO in 2001 China has increased its focus on introducing and applying sanitary and phytosanitary protocols for a range of imports. The lack of import protocols in areas such as horticulture has restricted Australia's ability to expand exports to China. However, the department and Chinese officials continue to exchange information and expertise to assist the rate at which new market access is achieved. In particular, meetings under the Memorandum of Understanding (MoU) on Cooperation in Sanitary and Phytosanitary Matters, and Plant and Animal Quarantine Technical Discussions, provide useful opportunities to seek progress on Australia's and China's market access requests.

China is currently a net importer of agricultural goods, particularly in the Australia-China trade context. Whilst this balance is unlikely to change dramatically, China has publicly declared its goal to be self-sufficient in many key areas of agricultural production and to seek out export opportunities. China is working to improve its production efficiency, mechanisation in rural areas, animal and plant health management techniques; and food safety systems. To help facilitate the bilateral trading relationship in agriculture, the department is seeking to assist China's capacity to deal with these issues and facilitate ongoing information exchange, including through bilateral meetings and programs including the Australia-China Agricultural Technical Cooperation Program (ATC) which has been in place since 2006 and the Australia-China Agricultural Cooperation Agreement (ACACA) which came into effect in 1984.

ATC enables Australia to share its expertise and capacity with China in areas of need such as supply chain and quarantine management. ACACA facilitates cooperation and enables farmers, agri-businesses, industry groups, rural and regional associations, and educational and research academic institutions to visit locations within China and make business contacts that might otherwise not be possible.

China has also demonstrated a willingness to engage on forestry management issues with Australia. In particular, during the visit of the Hon. Tony Burke, Minister for Agriculture, Fisheries and Forestry, to China in April 2008, Australia and China agreed to pursue development of a memorandum of understanding on illegal logging. The MoU will be progressed at an Australia-China Joint Working Group on Forestry meeting to be held in Beijing in December 2008. In addition, China hosted the first meeting of the Asia-Pacific Network on Sustainable Forest Management and Rehabilitation in September 2008.

On a broader level, despite Australia's production and export capacity being limited by environmental and resource factors, and the complementary nature of Australian imports, China remains sensitive to the potential for increased agricultural imports from Australia competing with domestic produce. In light of these sensitivities, Australia continues to build the bilateral relationship, encourage cooperative activities and promote Australian agricultural products as complementary to Chinese domestic produce.

Korea

At present the simple average bound tariff on agricultural imports to Korea is more than six times that for non-agricultural products. Agricultural tariffs are highest on certain vegetables, fruits and nuts. Tariff rate quotas are used for sensitive agricultural items such as rice.

Korea is seeking to position itself to be a major exporter in the region and be a highly efficient economy. Korea views FTAs as a means to 'lock in' economic reforms and promote more open and competitive domestic markets, spurring innovation in Korean domestic industry. This in turn would support prospects for achieving its vision of becoming the economic and financial hub of northeast Asia. Consistent with this goal, Korea wants to change its agricultural policies from the existing approach of protecting farmers, to more competitive, consumer-oriented policies.

The department considers that a strategic trade priority for Australia is to conclude an FTA with Korea. Korea is the only one of our five top trading partners with whom we have not negotiated or begun the formal process of negotiating an FTA. In an FTA Australia will aim to achieve market equivalency with our major agricultural competitors – the United States, New Zealand and Canada - to ensure that our market position does not decline.

Korea's major trading partners are China and the United States. Korea has negotiated a number of FTAs, including with major world economies such as the United States, although this is yet to be ratified by either side. Korea has concluded FTAs with Chile, Singapore, the European Free Trade Association (Iceland, Norway, Liechtenstein and Switzerland) and ASEAN (excluding Thailand).

The Korean agricultural sector is gradually being reformed to increase its efficiency and competitiveness. While Korea has a number of protectionist agricultural policies, there is not the same degree of government trading in the agricultural market as in Japan and China. Korea's assistance is by way of direct farmer assistance as opposed to in-market arrangements.

Taiwan

Taiwan's average applied most favoured nation tariff on agricultural products of 17.5 per cent exceeds its overall average applied tariff of 6.3 per cent. As part of its 2002 WTO accession, Taiwan also operates a number of TRQs on agricultural products including liquid milk, rice and a range of horticultural products. As part of the accession, Australia secured a country specific rice quota.

As with China, Taiwan's consumption patterns are changing. At the same time its focus on agricultural production is diminishing. Increases in Taiwan's agricultural imports since its WTO accession have motivated the government to work with farmer organisations to convert unprofitable farmland to other uses, consolidate plots into larger areas of land that are easier to farm, and gradually reduce excess farmland. These changes are likely to continue the opportunities for Australian agricultural products in the market, particularly goods such as seafood, dairy and wine.

The Australian Government's recognition of the People's Republic of China as the sole legal government of China has implications for the level of interaction between Australia and Taiwan. In view of these sensitivities, Australia encourages business to pursue trade and investment opportunities with Taiwan, including in expanding agricultural market access

Through the Agriculture Working Group and regular meetings between officials, Australia and Taiwan pursue improved technical market access for a range of agricultural products. Since Taiwan's introduction of new plant quarantine requirements in 2006, most of the department's efforts in this regard have focused on regaining and improving horticultural market access.

Hong Kong

Hong Kong is a free port and does not levy customs tariffs on imports. There is also no tariff quota, surcharge, value added tax or general services tax. Hong Kong applies few restrictive quarantine requirements. These conditions help ensure very few market access issues for Australian exports.

The Hong Kong agricultural industry is small and mainly focused on horticultural products and subsistence farming. As with China, economic growth in the region is likely to further stimulate demand for high quality agricultural produce such as fresh and chilled seafood, premium fruit, nuts and vegetables, dairy products and wine. As tastes continue to develop, Australia is well-placed to supply premium sectors of the market with organic and other niche goods.

b) Likely future trends in those relations - South East Asia

Economic Development

Many South East Asian economies are growing strongly with GDP growth figures in excess of 5 per cent for a number of countries over the last five years (Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam). While growth has been strong for all of these countries, some have struggled to manage the challenge of inflation, with some countries recording annual inflation rates well above 5 per cent. As a means of managing food prices some countries, such as Vietnam and Indonesia, have been lowering tariffs on imported products on a temporary basis in an attempt to manage inflation and this has provided benefits to exporters.

There have been dramatic changes in many South East Asian economies as per capita incomes rise. While inflation remains high, there have been clear indications that real income is rising. This will provide opportunities for Australian agricultural exporters, as imported products become relatively more affordable for consumers. As incomes rise, diets in South East Asia have been changing and there is an increased tendency to substitute western foods, which may also provide opportunity for the expansion of Australian exports.

Vietnam and Cambodia have recently acceded to the WTO, thereby increasing access for Australian agricultural exporters. Laos is in the process of acceding.

The agricultural sector of many South East Asian economies is vitally important - not only for the supply of food - but also in alleviating poverty. The department works closely with other Australian Government agencies such as AusAID and the Australian Centre for International Agricultural Cooperation (ACIAR) on projects which build the capacity of South East Asian governments to meet their own objectives for agricultural development and assist farmers in South East Asia improve their productive capacity.

As agricultural industries develop in South East Asia, this will have a flow-on effect through the development of infrastructure. The department and ACIAR have been involved in many regional countries to improve post-harvest technology to decrease post-harvest loss of perishable crops. A challenge for Australian exporters has been poor local infrastructure, such as the lack of refrigerated supply chains, which has limited the geographic scope of areas to which Australia is able to export perishable products. The development of sound supply chains in South East Asia will assist Australia's ability to increase its penetration of the South East Asian market.

As populations and economies grow, Australia will be able to supplement industry development goals of South East Asian economies. While Australia is a leading exporter of a range of agricultural products, it does not pose a threat to the productive capacity of South East Asia, which caters for the needs of over half a billion people. Agricultural exports tend to be in niche markets and help grow local demand for new products.

In addition to the rapid development of South East Asian economies, the multilateral trade liberalisation process has the potential to provide increased access for Australia to South East Asian markets. In addition, FTAs which support and complement the multilateral process can yield significant benefit to Australian exporters of agriculture, fisheries and forestry products.

Tariffs on Agricultural Imports

Agriculture is a sensitive sector for many South East Asian countries, with many countries protecting this through high tariff barriers. Tariffs have been lowered through FTAs with individual countries such as Singapore and Thailand, and trade within the ASEAN grouping has been liberalised through the internal ASEAN Free Trade Area. Australia has sought to improve its access to the South East Asian market through the ASEAN – Australia – New Zealand FTA which, once signed, will have a strong influence on expanding portfolio exports to ASEAN members.

Sectors which are most highly protected, even within the ASEAN grouping, include rice, sugar and alcohol. The department is continuing to discuss liberalisation of trade in these sectors with ASEAN partners both collectively and individually through standing policy forums as well as in formal FTA negotiations.

Non-tariff measures

While tariff barriers have a significant impact on Australia's capacity to access South East Asian markets, non-tariff measures can have a more substantial impact on trade.

Portfolio trade is at times affected by changes in regulations in individual South East Asian countries. This has occurred with the import of meat products in Indonesia, plant quarantine regulations in Thailand, Malaysia and Vietnam, food safety laws in Indonesia, and religious slaughter requirements for Muslim countries, including Malaysia, Indonesia and Brunei. The department continues to monitor policy developments in South East Asian countries, and works closely with domestic industry groups and foreign governments to respond to import requirements.

These technical issues are often challenging and require significant time and effort on behalf of the department's staff, both in Canberra and overseas missions, to maintain Australian access to these markets.

Accordingly the department has been involved in a range of activities to strengthen South East Asian responses to the effects of devastating pests and diseases. Future developments in quarantine should have a beneficial effect on the management of these diseases, however the threat of a serious incursion remains. Climate change may cause the spread of some tropical diseases, creating challenges for Australia to maintain its favourable animal health status. The department will continue to be involved in capacity building projects in South East Asia to ensure quarantine measures against major pests and diseases remains strong throughout the region.

Australia's favourable animal health status is beneficial for ensuring ongoing access to the South East Asian market. Strong animal health regulations relating to diseases such as bovine spongiform encephalopathy and Foot and Mouth Disease (FMD) have enabled significant growth in Australian exports of meat products to South East Asian markets.

ASEAN – Australia – New Zealand Free Trade Agreement

The department has participated in the negotiation of the ASEAN – Australia – New Zealand FTA and was a co-chair of the Expert Group which negotiated the text of the chapter on sanitary and phytosanitary measures.

While a plurilateral agreement with all ten ASEAN members yields specific benefits for Australian exporters, such as the development of regional rules of origin (which liberalise the conditions under which products may receive tariff preferences within the ASEAN – Australia and New Zealand region), due to the differing levels of development between ASEAN members, far-reaching tariff liberalisation is more difficult.

During negotiations, the department has sought to ensure that there are no additional obligations on sanitary and phytosanitary measures to those of the WTO or any mechanism which would impair Australia's capacity to develop and implement measures necessary for the protection of human, animal or plant life or health. The

department has also sought rules of origin for portfolio products which are consistent with other FTAs Australia is a party to.

Geographic proximity and increasing levels of development within ASEAN mean that the ASEAN – Australia – New Zealand FTA forms an important foundation for the future prosperity of Australian agricultural exporters. After the agreement is signed (expected later this year), the department is optimistic that there will be a range of positive outcomes for portfolio exporters in addition to the development of a dialogue with ASEAN partners on matters of interest to the portfolio.

Other bilateral FTAs

In addition to the ASEAN – Australia – New Zealand FTA, Australia has existing FTAs with Singapore and Thailand. The opportunities to complete further bilateral FTAs with South East Asian countries is welcomed by the department, as the South East Asian region comprises several major export destinations for Australia (including Indonesia and Malaysia). Future bilateral agreements will offer the opportunity to build on the achievements of the ASEAN – Australia – New Zealand FTA, and further expand Australia's presence in the South East Asian region.

Indonesia is party to a number of FTAs including the ASEAN FTA, China–ASEAN FTA, Korea–ASEAN 9 FTA as well as the Japan–ASEAN, India–ASEAN, Australia–New Zealand–ASEAN and EU–ASEAN FTAs that are currently under negotiation.

In July 2007, Australia and Indonesia agreed to commence a joint feasibility study to examine the merits of a bilateral free trade agreement. The Joint Study Group developing the feasibility study met for the first time in December 2007 in Jakarta, the second time in April 2008 and is scheduled to meet again before the end of 2008. The department has been providing input to the study which is being coordinated by DFAT.

Bilateral negotiations with Malaysia were put on hold pending the outcomes of the ASEAN – Australia – New Zealand FTA negotiations, but have recently been reinvigorated.

c) Likely future trends in those relations - South Asia

South Asia, especially India, has the potential over time to develop into an important market for Australian agricultural exports. As the region – led by India – develops, the demand for agricultural products and food will increase, including for high-value and niche products for the growing middle class.

South Asia's increasing urbanisation and changing food consumption patterns will have an impact on the demand for agricultural products. Because South Asia's agricultural industries are not always able to meet domestic demand we are likely to see the region become a more regular importer of food and agricultural commodities. The Australian agriculture sector will be well placed to provide some of these products.

An important point, however, is how barriers to trade will influence growth in the relationship. Australia faces a number of barriers to agricultural and food exports to the region including high tariffs, high levels of domestic support by some South Asian countries and in some cases differing opinions on sanitary and phytosanitary requirements. The department, in collaboration with other Australian Government agencies, is focused on pursuing these issues with South Asian countries for mutually beneficial outcomes.

A counter point to access for Australia's agricultural and food products to South Asian markets is increasing demand for access to the Australian market for their products. For example, Australia recently finalised import conditions for imports of Indian mangoes. India is the largest mango producer in the world and the third largest global exporter.

Another issue that will influence agricultural exports to the region is prices in South Asian markets compared with prices in other markets. It may be that Australian exporters are able to get higher prices for their products in other markets and thus, will not export to South Asia. This is particularly important during times of high world prices driven by factors including drought in Australia, when domestic production, and the amount of product for export, is reduced.

In addition to agricultural trade opportunities, agricultural cooperation is becoming an increasingly important part of Australia's relationship with the South Asia region. Recent cooperation activities include participation by delegates from India and Pakistan in the 2008 Master Class in Agricultural Trade and Biosecurity Policy.

India

India dominates trade, including agricultural trade, to and from the South Asia region. India is developing ties with many of its key trading partners including the United States, China, the Association of South Asian Nations (ASEAN), and other South Asian countries.

India has an active free trade agreement (FTA) agenda and has concluded FTA's (or similar) with Singapore, Sri Lanka, the South Asian Association for Regional Cooperation, Mercosur, Bhutan and Nepal. India also has a number of FTA negotiations underway with Thailand, the European Communities, Republic of Korea, Japan, Indonesia, Malaysia and the Gulf Cooperation Council. In addition, India is undertaking FTA feasibility studies with Chile, the EEFTA (Iceland, Lichtenstein, Norway and Switzerland), New Zealand, China and Australia. Amongst these countries are some of Australia's key competitors in agriculture.

To improve links with India the department has ensured that India participates in the Australian Fumigation and Accreditation Scheme and the department is examining the possibility of undertaking an electronic certification trial with India for paperless trade in agricultural products to India.

The department is also contributing to the ongoing development of a joint feasibility study on the merits of a FTA between Australia and India. High levels of complementarities of Indian and Australian agricultural exports, including the

counter-seasonal nature of agricultural production, the capacity to meet shortfalls in Indian production and opportunities in agricultural services trade, suggest that the substantially liberalising effect of a FTA could significantly benefit both countries. As India's demand for agricultural products expands, Australian imports under an FTA could become an increasingly important part of India's food supply chain.

d) Likely future trends in those relations - The Pacific

Expanding trade in agriculture, fisheries and forestry products from the Pacific faces a number of constraints. These impediments (even for products which have market access) include product quality, consistency of supply, value chain impediments, lack of infrastructure, transport and storage impediments, climate change impacts on agricultural yields and production levels, increased risk of pest and disease incursion, and high fuel and transport costs. The situation is compounded by a lack of capacity to manage and progress market access requests.

Agriculture, fisheries and forestry based industries support up to 85 per cent of the Pacific region's population and provide an important contribution to Pacific island economic activity. The economic development opportunities for many Pacific Island countries rest on the natural resources at their disposal. For many of the Pacific Island countries, particularly the small islands and atolls, the majority of their resources are found in their vast maritime zones and few other opportunities for sustainable economic development exist.

Expanding trade opportunities for agriculture, fisheries and forestry products has the potential to drive economic growth and poverty reduction in the region. For some larger countries with better agricultural conditions higher food prices present opportunities for farmers to remain in, and return to, agriculture.

The European Union is negotiating Economic Partnership Agreement's with several Pacific island nations.

Pacific Agreement on Closer Economic Relations (PACER Plus)

Australia is committed to working with Pacific Island Forum countries to progress a mutually-beneficial free trade agreement through the PACER Plus process. Pacer Plus will include capacity building, trade facilitation and trade promotion programs in addition to traditional free trade agreement objectives of tariff elimination.

At the Pacific Island Forum Leaders' meeting held in August 2008 Leaders' agreed to formulate a detailed road map on PACER Plus with a view to agreeing at the 2009 Forum to commence negotiations.

As previously outlined, expanding trade opportunities for agriculture, fisheries and forestry products has the potential to catalyse economic growth and poverty reduction in the region.

Australia (through the department) is assisting Pacific Island nations to strengthen biosecurity and quarantine capacities through a range of mechanisms including:

- initiatives aimed at reducing spread of pest and diseases, managing biosecurity risks, and controlling/eradicating disease outbreaks
- cooperation in global and regional plant health and safety standard setting by participation in the International Plant Protection Convention and associated regional organisations including the Pacific Plant Protection Organisation
- regional engagement with the Pacific in the work of the Codex Alimentarius Commission through the United Nations Food and Agriculture Organization/World Health Organisation Regional Coordinating Committee
- capacity building in plant and animal genetic resources to assist in maintaining genetic diversity for food security and adaptation to climate change.

Labour mobility – Pacific Seasonal Workers Scheme

A pilot seasonal worker scheme announced by the Australian Government in August 2008 will help Australia's horticulture industry and could also meet the development needs of our Pacific island neighbours. The scheme will provide up to 2,500 visas over three years for workers from Kiribati, PNG, Tonga and Vanuatu.

e) Likely future trends in those relations - Latin America

Key Latin American economies such as Brazil, Argentina, Peru and Chile have experienced GDP growth of between 4-5 per cent over recent years. Whilst Latin America boasts strong export driven agricultural sectors there are significant opportunities for Australian agriculture in Latin America. Detailed below is information on the possible future development of the trade relationship in agriculture between Australia and Mexico, Brazil and Chile. Mexico is Australia's main destination for agricultural exports in Latin America; in addition to being Australia's largest trading partner in Latin America in agricultural products (as measured by two way trade), Brazil has growing influence within the international trading system; and, Australia and Chile have recently concluded a free trade agreement, Australia's first with a Latin American partner.

Mexico

Mexico represents an opportunity for Australian agriculture because of its proximity to the US, its expanding middle class and the developing nature of its agricultural production capability. However Australian agricultural producers will need to overcome the tariff advantage held by our competitors to capitalise on this promise. The department contributed to the Australia-Mexico Joint Experts Group (JEG) which is examining how economic links can be strengthened between the two countries. The JEG is being coordinated through DFAT and is evaluating the possibility of a free trade agreement between Mexico and Australia.

Mexico's border with the US is a factor contributing to demand in Mexican agricultural markets sharing highly integrated infrastructure and economic links with the US. Agricultural products and in particular processed food are imported tariff free

into the US¹⁷. Food processors Unilever, Nestle, Parmalat, Danone, and Kraft all have major food production facilities in Mexico to process food for the US market¹⁸.

Because Mexican production cannot meet demand these processors rely on imported agricultural products. Meat and dairy are the main inputs used in the food processing sector¹⁹. Australia is well placed to provide ingredients for the Mexican food processing sector.

Mexico has a population of approximately 109 million people and an expanding middle class. With this expansion comes an increasing appetite of the Mexican middle class which contributes to demand in Mexican agricultural markets.

Whilst the overall value of agricultural products in Mexico has been increasing, the Mexican agricultural sector, as a whole, has been unable to capitalise on these returns due to the developing state of the Mexican agricultural sector²⁰.

Whilst a small percentage of Mexican farmers have commercial operations that produce agricultural products for export and domestic supermarkets, the majority of Mexican farmers own small farms, five hectares or less in size, and produce only subsistence level yields²¹. The productive farms are concentrated in the north of Mexico, and historically (up until 1982) received subsidies to the exclusion of the vast majority of subsistence farmers elsewhere in Mexico²². Productive farming in Mexico focuses on beef²³, poultry and horticultural lines such as: beans, avocados, tomatoes, lemons, green onions, shallots and sunflower seeds²⁴.

Current levels of agricultural trade between Australia and Mexico are not insignificant, but that trade could grow if Australian exporters did not face tariffs into Mexico. Except for geographical distance, Mexican tariff levels are the main trade distorting factor faced by Australian agricultural exporters when compared with Mexico's free trade agreement partners.

In 2007 the average preferential tariff faced by Mexico's FTA partners was between 0-1 per cent²⁵. The applied tariff levels on Australian agricultural products are: beef 20-25 per cent; bovine livestock 0-15 per cent; sheep livestock 0-10 per cent; sheep meat 10 per cent; milk and cream 10-63 per cent; cheese and curd 20-125 per cent²⁶.

¹⁷ USDA Foreign Agricultural Service GAIN Report, *Mexico Food Processing Ingredients Sector Report 2003*, 2003; pages 2, 5 & 6.

¹⁸ Unger and Frankel, *Doing Business in Mexico*, 2002; page 52.

¹⁹ USDA Foreign Agricultural Service GAIN Report, *Mexico Food Processing Ingredients Sector Report 2003*, 2003; page 9.

²⁰ OECD, *Agricultural and Fisheries Policies in Mexico*, 2006; pages 11 & 44. Isidro Morales-Moreno, *Mexico's Agricultural Trade Policies: International Commitments and Domestic Pressure*; page 2.

²¹ OECD, *Agricultural and Fisheries Policies in Mexico*, 2006; page 61.

²² *ibid*

²³ Meat and Livestock Australia, *Market Brief Mexico*, 2006; page 5.

²⁴ FAOSTAT, *FAO Statistical Yearbook 2005-2006*, 2007; Mexico Country Profile. OECD, *Agricultural and Fisheries Policies in Mexico*, 2006; pages 116-117.

²⁵ World Trade Organisation Secretariat, *Trade Policy Review- Report by the Secretariat Mexico*, 2008; page 43.

²⁶ Department of Foreign Affairs and Trade, *Submission to the Inquiry into Australia's Trade and Investment with Mexico and the Region*, 2006; page 24.

Only 15 per cent of imports to Mexico are imported under non-preferential tariffs²⁷. Until Australia achieves tariff parity with competitors going into Mexico, it will be difficult to improve on the current levels of agricultural exports. As already stated, Australia used to enjoy a sizeable share of Mexico's beef market prior to the implementation of NAFTA. If tariff parity could be achieved then Australia could potentially look to re-establishing significant beef and other agricultural commodity trade with Mexico.

Brazil

Brazil is a major competitor of Australia's in agriculture. Brazil is a significant producer of beef, oilseeds, sugar, biofuels and horticultural products. With the world's largest commercial cattle herd, Brazil overtook Australia as the world's largest exporter of beef by volume in 2004. Brazil has been able to maintain strong beef exports despite its foot and mouth disease status. In addition Brazil is the world's largest exporter of sugar²⁸. Given the strength of Brazil's agricultural sector it is difficult to see an increase in direct agricultural commodity trade between Australia and Brazil.

Brazil has emerged as a key player in the World Trade Organisation (WTO) Doha negotiations and shares Australia's vision of multilateral trade reform. Australia and Brazil have worked closely together in the Cairns Group to pursue the multilateral reform and liberalisation of global trade in agricultural commodities. Brazil is a leading member of the G20 and supports food security through trade liberalisation. Brazil, like Australia, has been vocal in advocating trade liberalisation to secure the world's food supply.

Greater cooperation with Brazil in the areas of trade policy and food security could prove beneficial given Brazil's emerging influence. The department has contributed to the development of the Government's proposed Plan of Action for engagement with Brazil.

Chile

Australia and Chile have signed a free trade agreement, which will enter into force on 1 January 2009. The free trade agreement is Australia's first with a Latin American country. The free trade agreement with Chile delivers the most comprehensive tariff reductions negotiated by Australia with an agricultural producing nation since the Closer Economic Relations Agreement with New Zealand. Tariffs on all agricultural lines (except for: selected dairy lines, wheat, wheat flour, and rice) will fall to zero on entry into force of the free trade agreement. The tariffs on selected dairy lines, wheat, wheat flour, and rice will be eliminated over the course of the agreement. Sugar and sugar products are the only products that will not have their tariffs eliminated over the course of the agreement. Australia negotiated the removal of the 6 per cent ad

²⁷ *ibid*, page 25.

²⁸ FAOSTAT, *FAO Statistical Yearbook 2005-2006*, 2007. Australian Farm Institute, *Agricultural Development in Argentina and Brazil*, 2005, page 29.

valorem tariff on sugar but not the variable tariff that Chile imposes²⁹. This outcome is still better than that achieved by the United States in its free trade agreement with Chile and is similar to the conditions that Brazil is offered for sugar trade with Chile.

In 2004 Chile imported approximately US \$2.1 billion worth of agricultural products³⁰. Chile's largest agricultural import was beef. Whilst Australian agricultural exports to Chile have been minimal (less than \$1.5 million in 2007) the schedule of tariff elimination contained in the FTA will deliver Australian agricultural exporters an advantage over, or at least tariff parity with, major competitors such as the United States and New Zealand. It is hoped that the elimination of tariffs will provide the best opportunities and terms of trade for Australian agricultural exporters wishing to pursue trade into Chile. In addition it is possible that any interest surrounding the FTA garners enthusiasm in Chile as a destination for Australian agricultural exports.

The relationship in agriculture between Chile and Australia is strong. Australia and Chile have cooperated on animal and plant quarantine systems, drought policy and water management. Cooperation on these issues can help trade flow more freely. For instance, engendering an understanding of each countries animal and plant quarantine systems is essential for better managing trade related sanitary and phytosanitary issues.

Australia and Chile are progressing two memorandums of understanding: one on cooperation in agriculture and the other on beef grading. On beef grading Chile signed a side letter to the free trade agreement undertaking to negotiate a memorandum of understanding on beef grading. That memorandum of understanding will record Chile's recognition of Australia's beef grading system. This recognition was identified as a priority by the red meat industry and will ensure that beef can be sent to Chile without the expensive requirement that it first be graded in Australia by Chilean meat graders.

3. The role that these countries might play in advancing the Doha Round of multilateral trade negotiations in the WTO

The department considers that key countries within Asia, the Pacific and Latin America can, and do, help advance the Doha Round and the multilateral trading system, particularly in terms of agriculture. The department's engagement with these countries is conducted in-line with Australia's objectives in the Doha Round. That focus is to advance outcomes for Australian agriculture, fisheries and forestry. As one of the world's most efficient producers of many agricultural products, Australia has a clear advantage on global markets. However, in order to fully realise this competitive edge, it is necessary that distortions to global agricultural trade be addressed. Globally, agriculture faces high tariffs that are on average 3 times higher than for manufactured products. Agricultural exports face unfair competition against

²⁹ Chile's sugar tariffs have two components: a 6 per cent ad valorem component, and a variable component which is tied to the world price for sugar. Australia negotiated the removal of the 6 per cent ad valorem tariff but not the variable component.

³⁰ FAOSTAT, *FAO Statistical Yearbook 2005-2006, 2007*; Chile Country Profile.

support afforded by governments to their rural sectors. In 2006, around US\$268 billion was provided in agricultural support, with 90 per cent of this amount provided by the European Union, United States of America (USA) and Japan. Export subsidies, the most trade-distorting form of subsidies, continue to exist despite having been long prohibited in manufacturing.

In tackling these distortions, Australia shares the challenge with many countries in Asia, the Pacific and Latin America. Through their participation within the Cairns Group—a group of 19 agricultural exporting nations comprising Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Uruguay—these countries form a coalition that has maintained pressure on the world's major agricultural protectionists in order to advance agricultural liberalisation that will result in commercial benefits for the entire membership. The Cairns Group, which represents 25 per cent of the world's agricultural exports, has emerged as an unparalleled forum for advancing agriculture in the Doha Round. Its composition of both developed and developing economies, spanning parts of Asia, the Pacific and predominantly Latin America (as well as the African continent) has ensured its relevance despite the emergence of other groups such as the G20 and G33.

Since the Doha Round began in November 2001 the Cairns Group has tabled numerous proposals which have influenced the direction of the agricultural negotiations. These proposals have set out the blue prints for ambitious reforms across the three main areas of the agriculture negotiations: market access, domestic support and export competition. Such work has been beneficial in providing credible foundations which underpin positions and strengthen the group's ability to pursue its liberalisation goal. The department through the Australian Bureau of Agricultural and Resource Economics (ABARE) contributes to the analytical work undertaken by the Cairns Group. As Chair of the group, Australia also provides a leadership role, bringing the group together, and driving its engagement in the Round. Australia's participation in the Doha Round small group process (such as the G7—Australia, Brazil, China, European Communities, India, Japan USA) also ensures the views of the Cairns Group members are reflected in that process. The size and geographical diversity of the group also adds relevance to the positions, making it one of the key, representative, negotiating groups in the Round.

Agriculture remains the key theme uniting Cairns Group members. The position taken by that group differs from that of a number of important other economies in our region, specifically China, Taiwan, Japan and Korea. In those markets agriculture is subject to considerable domestic political influence. Protectionist approaches are a common theme and Australia's ability to promote liberal policies are often more difficult. Despite that, in all those economies, the department maintains Agricultural Counsellors who are primarily focussed on seeking greater agricultural market access and resolving technical trade impediments. Engagement with these markets in this way can also help to advance our wider trade agenda. The Agricultural Counsellors allow the department to support the work of DFAT in advocating Australia's Doha objectives with these countries. Strengthening engagement in these economies through such technical contacts also enables us to become familiar with each other's quarantine, sanitary and phytosanitary regimes (SPS), and build comfort levels that help address technical issues. These efforts also enable Australia to advance our

objectives in these specific areas within the WTO (i.e. the Committee on Sanitary and Phytosanitary Measures, agriculture and rules negotiations). Closer engagement with these countries through a variety of Asia Pacific Economic Cooperation (APEC) confidence-building fora could also help to address resistance to agricultural liberalisation.

Confidence and capacity building measures conducted by Australia can help engender more like-minded approaches to the WTO negotiations. The department operates an annual *Master Class* program which seeks to engage with key policy makers and technocrats of the Asia/Pacific region. This could also be extended to include key Latin American participants. The program brings around 20 participants from the region to Australia to undertake 2 weeks training focussing on agricultural issues including trade reform and quarantine matters. The program has helped to advance Australia's Doha agenda by explaining and promoting our policies. Such practical efforts seek to influence participants' knowledge and appreciation of Australia's approach which in turn can drive policy development in their own countries.

Politically, these countries can also make a major contribution to the Doha Round. Positions held by key countries of the Asia/Pacific/Latin region can immensely influence others, for example: Brazil's role in the G20³¹, Indonesia's role in the G33³² and Japan in the G10.³³ Australian political engagement is imperative in maintaining cooperation. Regional visits, such as the recent 19-22 August 2008 visit to Indonesia by the Hon. Tony Burke MP, helped to encourage further Indonesian participation in the Doha Round and a renewed call for the resumption of negotiations.

Greater engagement with countries within our region, such as the recently concluded ASEAN – Australia – New Zealand FTA negotiations, can also drive agricultural liberalisation and through this, our objectives in the Doha Round. Such agreements may also apply pressure on agricultural protectionists as two-way agricultural trade flows between liberated markets and, over time, may by-pass more difficult countries in favour of more accessible markets. Whilst acknowledging that high valued markets are often preferred, trade barriers impose business costs and – depending on

³¹ The G20 is a group of developing countries formed in August 2003 in the lead-up to the WTO Cancún Ministerial Meeting in September 2003. The G-20 promotes the views of developing countries in the agricultural negotiations and pushes for ambitious agricultural trade reform by developed countries. The membership includes: Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, the Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela and Zimbabwe.

³² The G33 is an agriculture negotiating grouping advocating lesser tariff reductions in the Doha Round and exemption of some commodities for any reduction. It also seeks a very accessible safeguard mechanism to address the food security and rural development needs of developing countries. The membership includes: Antigua & Barbuda, Barbados, Belize, Benin, Bolivia, Botswana, China, Congo, Côte d'Ivoire, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Republic of Korea, Laos, Madagascar, Mauritius, Mongolia, Montserrat, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, the Philippines, St Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe.

³³ The G10 consists of Iceland, Israel, Japan, Republic of Korea, Liechtenstein, Mauritius, Norway and Switzerland. Bulgaria, the 10th member, has stepped away from the group due to EU accession aspirations. The grouping generally has highly protectionist agricultural regimes and opposes reductions.

the size of those costs – low cost destinations may be preferable alternatives. The reduction of trade barriers through FTAs can also increase support for, and make it easier for FTA partners to press for, greater multilateral liberalisation, given trade liberalisation has already occurred under those FTAs. Such new partnerships may offer new opportunities for Australia and for these countries to engage more fully in the areas of trade reform.

Efforts to strengthen the role of the Cairns Group would be supported by the department, including efforts to increase its membership. The group remains a useful forum for bringing forward various views from across the region. The cross-membership of some Cairns Group partners with the G20 and G33 also offer opportunities for advancing the Doha Round and this influence should not be understated. The department will continue its role in supporting the Round through taking every opportunity to provide technical and commodity advice on issues pertinent to Australian agriculture and continue to promote our liberal trade messages in our engagement with the countries of Asia / Pacific and Latin America.

4. The role of the Government in identifying opportunities and assisting Australian companies, especially those in rural and regional areas, to maximise opportunities in these regions.

The department's Trade and Market Access Division supports Australian industries' efforts to create access to new markets for Australian agricultural commodities and to maintain existing market access. The department's efforts are underpinned by technical input from Biosecurity Australia and AQIS. The department's focus is to help Australian companies by working to remove impediments to agricultural trade through multilateral and bilateral government to government liaison and negotiation.

The department's efforts are supported by its network of overseas counsellors. The department's overseas network consists of 15 Agriculture Counsellors posted in 11 countries. The network of Agriculture Counsellors was expanded in 2006 through the placement of departmental officers in Bangkok, Beijing, New Delhi and Jakarta. Through this network some Counsellors focus on advancing Australia's interests within broader trade rules and distortions in global markets, while others have technical expertise to reduce barriers through negotiations at the bilateral level. These counsellors work closely with officers from DFAT, Austrade and other relevant Australian Government agencies by providing agricultural expertise to support Australia's broader trade agenda.

Identification of Opportunities

The department engages in regular consultation with industry groups. In particular, the department maintains market access advisory committees for certain major commodity groups (e.g. red meat, horticulture). The purpose of the Market Access Advisory Committees is to provide a framework for industry representatives to advise the department of new opportunities in overseas markets. The department then pursues market access based on the priorities identified by industry.

In addition, the department monitors economic conditions, trade policy and sanitary and phytosanitary measures in overseas markets. The department's overseas counsellors monitor and report on agricultural policy and technical developments in their respective countries and provide Australian Government representation as required to relevant overseas government and industry organisations.

Pursuit of Opportunities

As noted above, the department is involved in market access negotiations, such as the participation in multilateral trade negotiations and free trade agreement negotiations, as well as bilateral discussions. The department also pursues technical market access issues, works to maintain good bilateral relations with trading partners and is involved in capacity building and technical cooperation with relevant countries.

Multilateral Trade Negotiations

The department's is actively involved with other government agencies in Australia's participation in the WTO Doha Round negotiations. A successful and ambitious conclusion to the Doha Round still remains the best chance for delivering widespread market access opportunities for Australian agricultural producers. The department's primary focus is on agriculture and sanitary and phytosanitary measures.

In addition to the department's participation in WTO trade negotiations, it also participates in other multilateral discussions in the Organisation for Economic Cooperation and Development (OECD), the Cairns Group, and the United Nations Food and Agriculture Organisation (FAO) (for which the department is the lead agency).

Free Trade Agreement Negotiations

Bilateral and regional free trade agreements are an effective method of opening new markets to Australian agricultural producers. FTAs offer opportunities to secure trade liberalisation that can complement gains made through the multilateral process. The department is heavily involved in Australia's free trade agreement negotiations.

The department works with DFAT as the lead on FTA negotiations to ensure the interests of agricultural industries are taken into account in the development of Australian negotiating positions. The department provides advice to DFAT on tariff offers for agricultural commodities, clauses relating to animal and plant health standards, quarantine measures, and technical barriers to trade related to agriculture and leads negotiations in developing sanitary and phytosanitary chapters in FTAs. In addition the department and DFAT work together to consult industry on identifying market access priorities and defensive interests and to keep industry informed of the government's approach to the negotiations.

At present the department is participating in Australia's free trade agreement negotiations with: China, Japan, Malaysia, and the countries of the Gulf Cooperation Council. The department was involved in the negotiations for the recently concluded Chile and ASEAN free trade agreements. The department is also involved in discussions and preliminary work on potential free trade agreements with India, Mexico and Indonesia.

In addition the department manages the implementation of agriculture related aspects of existing FTAs with Thailand, USA, Singapore and New Zealand (CER).

New Market Access Conditions

Even once tariff barriers have been removed, or reduced to levels conducive to trade, access for agricultural products is not assured. Agricultural products must meet sanitary and phytosanitary conditions and measures imposed by importing countries. Biosecurity Australia and AQIS play an important role in ensuring that the conditions for export are favourable to Australian agricultural producers. They do this by sharing scientific information regarding Australia's animal and plant health status with trading partners, negotiating the conditions imposed on Australian agricultural exports as well as the export certification requirements.

Technical Market Access

The benefits of trade reform through multilateral, bilateral and regional mechanisms cannot be fully realised unless Australia is able to remove the technical barriers that often impede market access. Technical market access refers to sanitary and phytosanitary measures, quarantine standards and technical standards. Often technical market access will refer to measures that a country has imposed to protect its animal and plant health status, or the integrity of an agricultural product. The rules governing what is and is not a legitimate technical market access restriction are set out in the WTO Agreement on Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade.

The department assesses the legitimacy of new quarantine arrangements imposed or proposed by trading partners, resolving the use of unjustified quarantine measures or excessive administrative requirements and, where needed, negotiating with quarantine and agriculture authorities in other countries on risk management measures to enable continuation of trade on a commercial basis. The department utilises its network of Agriculture Counsellors posted in key markets to identify and address new and existing measures.

The department also participates in international forums that deal with, in particular, sanitary and phytosanitary measures. For instance, the department participates in the WTO Sanitary and Phytosanitary Committee and other international organisations which have responsibility for international standard setting and harmonisation of international standards for animal and plant health and food safety, including:

- the Codex Alimentarius Commission (Codex)
- the World Organisation for Animal Health (Office International des Epizooties – OIE)
- The International Plant Protection Convention (IPPC).

Relationship Building

The department advocates Australia's agricultural trade policy through a range of forums from senior officials' dialogues, to regular discussions with embassies in

Australia and the department's overseas counterparts. The department also maintains a range of bilateral forums with trading partners such as Working Groups on Agricultural Cooperation with Indonesia, and China, and Malaysia; and mechanisms such as the Standing Technical Working Group and Agriculture Committee under the Australia-USA FTA; and the Sanitary and Phytosanitary Experts Group under TAFTA.

International Cooperation

The department is also engaged in a range of cooperative activities in agriculture with other governments, undertakes bilateral discussions and ensures that trading partners understand Australia's approach to managing pest and disease risks.

The department's International Agricultural Cooperation (IAC) program funds a number of targeted, small-scale projects which aim to build the skills of key developing country trading partners in areas such as quarantine practices, implementation of Sanitary and Phytosanitary (SPS) obligations under WTO agreements, biosecurity, sustainable resource management, animal welfare and trade policy. The department also works closely with other agencies such as AusAID and the Australian Centre for International Agricultural Research on international cooperation activities.

Technical assistance and training in quarantine, import risk assessment and food standards is mutually beneficial in helping to manage plant and disease risks for Australia and also helps to build confidence and engender goodwill between Australia and key trading partners.