



## **Submission No 23**

### **Inquiry into Australia's Relationship with Malaysia**

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**Department of Agriculture, Fisheries and Forestry**

**Submission**

**by**

**The Australian Government Department of  
Agriculture, Fisheries and Forestry**

**to the**

**Inquiry into Australia's Relationship with Malaysia**

**by the**

**Joint Standing Committee on  
Foreign Affairs, Defence and Trade**

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**DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY**

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## Executive Summary

### At a Glance

**Malaysia is among our top five markets for dairy, horticulture products, wheat and sugar.**

**Major portfolio imports from Malaysia include forest products, oil and fat, and seafood.**

- **Portfolio exports to Malaysia were valued at \$956 million in 2005-06.**
- **Portfolio imports from Malaysia were valued at \$409 million in 2005-06.**

**Australia and Malaysia have a positive bilateral relationship on issues relevant to the DAFF portfolio and cooperate in a range of areas, including regional sanitary and phytosanitary capacity building.**

**Opportunities for portfolio exports to Malaysia should improve under the Malaysia-Australia Free Trade Agreement, currently under negotiation.**

The bilateral agricultural relationship between Australia and Malaysia is a positive one, supported by constructive working relationships between government officials and cooperative engagement at the Ministerial level. The Australian Government Department of Agriculture, Fisheries and Forestry (DAFF) contributes to the bilateral relationship through a range of consultative and cooperative mechanisms with Malaysia and regional capacity building activities in sanitary and phytosanitary (SPS)-related areas.

The Malaysia-Australia Free Trade Agreement (MAFTA) negotiations, launched in April 2005, provide an important opportunity to gain preferential access to the Malaysian market, as well as address a number of other issues that affect our trade with Malaysia. MAFTA will further develop trade between Australia and Malaysia in the agricultural, food, fisheries, and forestry sectors.

Ministerial engagement on bilateral portfolio issues and cooperation is very active with a number of successful visits by both Malaysian and Australian portfolio Ministers over recent years that have further strengthened the growing ties between our two countries.

At officials' level, there are a range of consultative mechanisms which facilitate open dialogue, improved understanding and cooperation. DAFF officials engage constructively with their Malaysian counterparts on a broad range of portfolio issues, including biosecurity, SPS capacity building and international trade issues. Consultation and cooperation is carried out through both formal arrangements and informal networks. A major cooperative mechanism is the Malaysia-Australia Agricultural Cooperation Working Group, an important forum for progressing agricultural trade and market access issues which contributes to the positive bilateral agricultural relationship. Australia and Malaysia also engage in annual technical discussions at officials' level regarding bilateral plant quarantine and market access issues.

While Australia has an overall trade deficit with Malaysia, Australia has a significant trade surplus with Malaysia in agriculture and food. Australian agricultural and food exports (including fish and seafood) to Malaysia were valued at over \$910 million in 2005-06, comprising approximately 40 percent of Australia's total exports to Malaysia. The major products exported were sugar, dairy and grains. Malaysian agricultural and food exports to

Australia were valued at \$228 million in 2005-06, the major exports being oil and fat (\$117 million) and seafood (\$26 million).

While Malaysia exports considerably more forest products to Australia than Australia exports to Malaysia (\$181 million vs \$46.4 million in 2005-06), Malaysia's net importer status of paper and paper products represents a significant market opportunity for Australia.

Although Malaysia and Australia share a broadly positive bilateral agricultural relationship, there are a small number of areas where improvements could further facilitate trade in portfolio products. These include tariffs, Malaysia's proposed implementation of tariff rate quotas, Halal certification and import licensing. MAFTA negotiations provide an opportunity to address these issues.

DAFF is also involved in a number of regional capacity building activities in SPS-related areas that benefit Malaysia's agriculture sector. Cooperative efforts in this area facilitate closer relationships between Australian and Malaysian officials on technical issues. Technical cooperation and capacity building activities also have a positive impact on the overall bilateral relationship.

## **1. Bilateral Government Relations**

Australia and Malaysia have a positive bilateral relationship on issues relevant to the agriculture, fisheries and forestry portfolio, supported by constructive working relationships between government officials and cooperative engagement and mutual goodwill at the Ministerial level. DAFF is involved in a range of bilateral consultative and cooperative mechanisms with Malaysia at officials' level and supports Ministerial engagement between our two countries.

### **1.1. Ministerial Engagement**

#### **Ministerial Visits**

Over the past two years, during a time of significant resurgence in the bilateral relationship, a range of successful visits by portfolio Australian and Malaysian Ministers has further strengthened the growing ties between our two countries. Malaysia has actively sought to build upon its relationship with Australia and agricultural cooperation has been part of this resurgence.

A clear demonstration of the improved relationship was the visit to Australia in April 2005 by Malaysian Prime Minister Abdullah Badawi, together with key Ministers including Agriculture and Agro-Based Industry Minister, Muhyiddin Yassin.

The then Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss, visited Malaysia in June/July 2005. This was the first visit to Malaysia on record by a portfolio Minister. Minister Truss had bilateral meetings with his Malaysian counterpart, Minister Muhyiddin, as well as the Malaysian Minister of Plantation Industries and Commodities, Peter Chin, and the Malaysian Minister of International Trade and Industry, Rafidah Aziz.

Minister Muhyiddin also visited Australia in March 2006. A key outcome of this visit was the signing by Ministers of the Memorandum of Understanding (MoU) for the Enhancement of Agricultural Cooperation in Canberra. Most recently, the Minister for Agriculture, Fisheries and Forestry, the Hon Peter McGauran MP, met with Minister Muhyiddin during a visit to Malaysia in August 2006.

There has also been Ministerial-level engagement on forestry issues and cooperation including through Minister McGauran's discussions with Minister Chin and relevant officials during his visit to Malaysia in August 2006. The former Minister for Fisheries, Forestry and Conservation, Senator the Hon Ian Macdonald, also had bilateral discussions with Minister Chin in April 2005 during the visit to Canberra by Prime Minister Abdullah and his delegation.

Malaysia has also shown an interest in Australia's approach to water resource management and Minister McGauran and the Minister for the Environment and Heritage, Senator the Hon Ian Campbell, both met with the then Malaysian Minister of Natural Resources and Environment, Adenan Satem, during his visit to Australia in September 2005.

#### **Ministerial-level Forums**

A key bilateral Ministerial Forum of relevance to the portfolio is the Malaysia-Australia Joint Trade Committee (JTC), co-chaired by the Australian Minister for Trade and the Malaysian Minister of International Trade and Industry. The JTC meets annually, providing a high-level consultative mechanism for the discussion of trade and economic issues and to explore avenues for expanding the bilateral trading relationship. The JTC also provides a forum to progress cooperation and work towards resolving particular trade issues.

In relation to portfolio-related bilateral cooperation, JTC initiatives have included: the reactivation of the Malaysia-Australia Agricultural Cooperation Working Group (see below); a

joint Halal Food Production and Marketing Initiative; and processed food seminars for Malaysian exporters.

## **1.2. Formal and Informal Mechanisms**

Australian and Malaysian officials work together cooperatively through both formal and informal mechanisms to enhance mutually beneficial cooperation and progress specific trade issues.

### **Malaysia-Australia Agricultural Cooperation Working Group**

The Malaysia – Australia Agricultural Cooperation Working Group (MAACWG) provides the mechanism to manage bilateral agricultural and related issues in a systematic and coordinated manner. It is an important forum for progressing agricultural trade and market access issues and contributes to the positive bilateral agricultural relationship. The Group oversees and facilitates regular and comprehensive consultation and cooperation on agriculture, fisheries, agri-food, Sanitary and Phytosanitary (SPS) and operational quarantine matters.

The MAACWG is also the mechanism for implementing activities under the MoU for the Enhancement of Agricultural Cooperation, signed by Minister McGauran and his Malaysian counterpart, Minister Muhyiddin, in March 2006. The MoU encourages mutually beneficial cooperation and implementation of activities that will provide commercial opportunities and/or tangible benefits to the private sectors of both countries.

The MAACWG was established in December 2000 by the then Malaysian Minister of Agriculture, Effendi Norwawi, and the then Australian Minister for Trade, the Hon Mark Vaile, to cooperate in areas of agriculture for mutual benefit. At that time the Group operated on a relatively informal basis, with participation by officials from the Malaysian Ministry of Agriculture and Agro-Based Industry (MoA), related Malaysian agencies and the Australian High Commission in Kuala Lumpur. Three meetings of the Group were held in 2001 and 2002.

The decision by Trade Ministers in 2004 to reactivate the MAACWG reflects the positive developments in the bilateral agricultural relationship. The MAACWG is now co-chaired by senior officials from DAFF and MoA. Industry involvement has been endorsed by Ministers and will be important to the future success of the Group.

Since its revitalisation, two meetings of the MAACWG have been held: in August 2005 in Kuala Lumpur and July 2006 in Canberra. The second meeting included inaugural meetings of sub-working groups on livestock, crops and fisheries. The next meeting of the Group is scheduled to be held in Malaysia in mid-2007.

While forestry lies outside the portfolio responsibilities of MoA, Malaysia has agreed in-principle to discuss forestry issues and cooperation at future meetings of the MAACWG, subject to agreement by relevant Malaysian ministries.

### **Malaysia-Australia Bilateral Plant Quarantine Technical Discussions**

Australia and Malaysia engage in annual technical discussions regarding bilateral plant quarantine and market access issues. Three meetings have been held since 2003, with the most recent being 28-30 November 2005 in Malaysia. The discussions involve senior officials from Biosecurity Australia and the Crop Protection and Plant Quarantine Division of the Malaysian Department of Agriculture. The fourth Technical Discussions are scheduled to be held in Australia in December 2006.

### **Informal Mechanisms**

Outside of the formal mechanisms outlined above, officials from DAFF and the Malaysian Ministry of Agriculture and Agro-Based Industry liaise regularly to progress cooperative initiatives and trade and market access issues. These strong people-to-people links are strengthened and enhanced by the work of officials from the Australian High Commission in Kuala Lumpur and the recent appointment in 2006 of an Agricultural Counsellor to Bangkok, who is also accredited to Malaysia.

### **1.3. Cooperative Activities**

Over recent years, Australia and Malaysia have engaged in a number of portfolio-related cooperative activities and areas for further cooperation are currently under consideration.

The Ninth Malaysia Plan, a comprehensive blueprint approved by the Malaysian Cabinet which outlines how the budget will be allocated to all economic sectors from 2006-2010, identifies agriculture as one of Malaysia's main engines of growth over the next five years. Malaysia is interested in Australian expertise to assist with projects to further develop their agriculture sector and facilitate achievement of these goals.

In line with these objectives, Malaysia proposed a range of cooperative activities at the second meeting of the revitalised MAACWG in July 2006, including in the areas of quarantine, e-certification, pesticide registration, pest collection and livestock identification. DAFF is currently finalising consideration of the proposals with Malaysia, with a view to implementing a first tranche of activities under the MoU for the Enhancement of Agricultural Cooperation prior to the next meeting of the Group (scheduled for mid-2007).

The MAACWG has previously facilitated cooperation activities including quarantine education and training, supply chain management, quality assurance and food safety.

DAFF has also been involved with activities undertaken by visiting Malaysian delegations, such as a successful study tour by officials from the Malaysian Ministry of Agriculture and related agencies to the Leeton/Narranderra rice growing region in 2001, in conjunction with the Australian High Commission in Kuala Lumpur and the Rice Growers Association of Australia; and Australian Quarantine and Inspection Service (AQIS) presentations on Australia's Halal food certification system.

A key area of DAFF's involvement in bilateral cooperation with Malaysia is in the area of SPS-related technical cooperation and capacity-building. Activities in this area include the Australian Fumigation Accreditation Scheme – Malaysia, the SPS Capacity Building Programme and collaboration on Screw Worm Fly research and development. These activities are discussed under **Section 3. Scientific Cooperation**. Australian industry has also engaged in mutually beneficial cooperative activities with Malaysia. Examples of such activities are discussed under **Section 2.4 Portfolio Industry Cooperation**.

### **1.4. Shared Engagement through Multilateral Fora**

Australia and Malaysia are both proponents of multilateral trade liberalisation for agricultural products and also work cooperatively in a number of international standard setting bodies (in relation to food standards and quarantine) which impact on agriculture and food trade.

#### **World Trade Organization and Cairns Group**

Malaysia is a strong proponent of the World Trade Organization (WTO) rules-based system and both Australia and Malaysia are members of the Cairns Group, which plays an important role in



advocating further international agricultural trade reform in WTO negotiations. Both countries share the view that the greatest prospects for agricultural trade liberalisation will come from an ambitious outcome from the WTO Doha Round of negotiations (currently suspended) and so share a major stake in an early resumption to the negotiations.

A delegation of senior Malaysian officials, including the Deputy Secretary General (Development) of the Ministry of Agriculture and Agro-Based Industry, attended the recent 20th Anniversary meeting of the Cairns Group, held 20-22 September 2006 in Cairns.

### **United Nations Food and Agriculture Organisation**

In addition to common interests in the WTO, as Cairns Group members, Australia and Malaysia also cooperate closely in other international fora on primary industry issues, including the Food and Agriculture Organisation (FAO) of the United Nations. This includes through the international standard-setting bodies of FAO, such as the Codex Alimentarius Commission (Codex) and International Plant Protection Convention (IPPC), whose standard-setting in relation to food safety and plant quarantine impacts on global trade.

### **Cooperation in International Forestry Fora**

Australia and Malaysia are both members of a number of international forestry fora including:

- United Nations Forum on Forests (UNFF);
- International Tropical Timber Organisation (ITTO);
- Asia Forest Partnership (AFP);
- Asia-Pacific Forestry Commission (AFPC) of the FAO; and
- Asia Forest Law Enforcement and Governance Task Force (Asia FLEG).

Although these are multilateral fora, Australia works with Malaysia on a range of issues within them. As a donor, Australia has contributed to the funding of a range of Malaysian forestry projects through the ITTO, including one on improving furniture manufacturing in Malaysia in 2005.

### **Cooperation in International Fisheries and Aquaculture**

Australia and Malaysia have a positive relationship on fisheries and aquaculture issues. There are four multilateral fisheries and aquaculture multilateral fora where both Australia and Malaysia are members:

- Indian Ocean Tuna Commission (IOTC);
- Network of Aquaculture Centres in the Asia Pacific (NACA);
- APEC Fisheries Working Group; and
- Fisheries Support Unit, which is constituted under the auspices of the Indian Ocean Rim – Association for Regional Co-operation.

The principal focus of these fora is the sustainable development of wild capture fisheries and aquaculture in the Indian Ocean and the Asia-Pacific region. These fora are responsible for conservation and management of resources, development of cooperative activities and capacity building through education and training, research and communication networks. Malaysia has also been approached to engage in a regional forum on Illegal, Unreported and Unregulated fishing to be convened in 2007. Malaysia has a large aquaculture sector and, through NACA, Australia is working with Malaysia to increase the productivity of that sector.

## 2. Trade Relationship

### 2.1 Bilateral Portfolio Trade

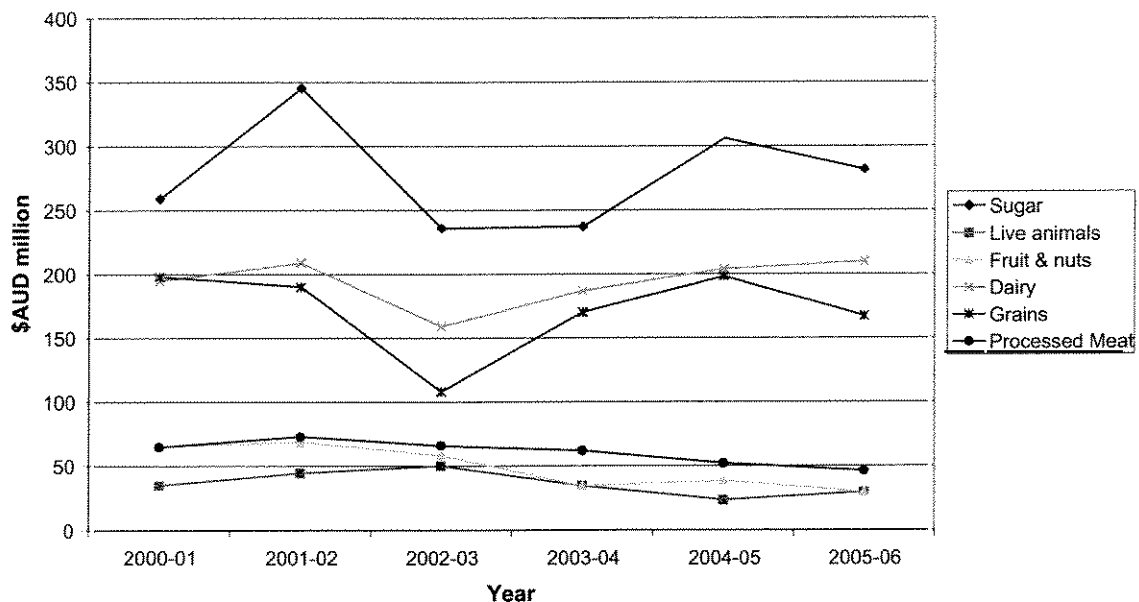
Although Australia had an overall trade deficit with Malaysia of approximately \$4,212 million in 2005-06, Australia has a significant trade surplus with Malaysia in agriculture and food. This surplus was approximately \$682 million in 2005-06.

#### Australian Agricultural and Food Exports to Malaysia

Malaysia is an important regional market for Australian agricultural products and is among our top five markets for dairy, horticulture products, wheat and sugar. Australian agricultural and food exports (including fish and seafood) to Malaysia were valued at over \$910 million in 2005-06, comprising approximately 40 percent of Australia's total exports to Malaysia. Of these exports, sugar was the largest component (estimated at \$281 million), followed by dairy (\$210 million), grains (\$167 million), and processed meat (\$46 million).

Malaysian food and agricultural exports to Australia were worth \$228 million in 2005-06, including oil and fat (\$117 million) and seafood (\$26 million).

Major Australian Agricultural and Food Exports to Malaysia



Source: ABARE (2006)

#### Trade in Sugar

Australia is a major supplier of raw sugar to Malaysia and Malaysia was Australia's principal market in the 2003-04 and 2004-05 financial years.

Sugar imports into Malaysia operate under an import licensing arrangement managed by the Malaysian Ministry of International Trade and Industry (MITI). Imports are partly under long term sugar contracts (LTCs) and partly spot sales. LTCs are negotiated by MITI on behalf of the four Malaysian sugar refiners. For a number of years, Malaysia has maintained LTCs with Australia, Thailand and Fiji. In recent years Brazil (or traders sourcing from Brazil) and South Africa have entered the market.

Malaysia's sugar industry is characterised by upward trending consumption spurred by a rapidly growing food processing industry and a small domestic sugar cane based production sector that appears unlikely to expand. With excess refining capacity, some imports of raw cane sugar are refined and re-exported to regional markets. Malaysia exports over 200,000 metric tonnes of refined sugar to the region annually, including to Australia and New Zealand. In 2005-06, Australia imported refined sugar from Malaysia worth approximately \$2.14 million.

### Trade in Dairy Products

Malaysia was Australia's second most valuable export market in 2004-05, importing \$205 million worth of Australian dairy products, with 80 per cent in the form of milk powders.

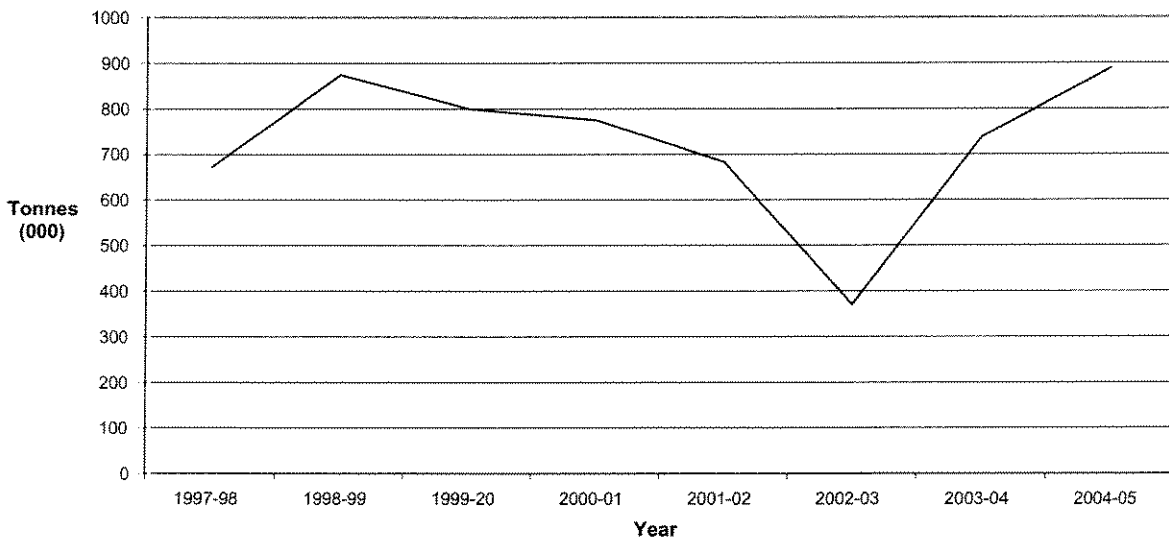
Malaysians are amongst the lowest consumers of dairy produce in Asia, with only 58% of households purchasing any dairy produce. However, the local dairy industry does not produce sufficient quantities of fresh fluid milk to satisfy Malaysia's needs, so fresh milk is supplemented by reconstituted fluid milk and other milk products. Ingredients such as skimmed milk powder, whole milk powder and whey needed to produce condensed milk and other milk products are imported, mainly from Australia and New Zealand.

Although the Malaysian Government aims to increase self-sufficiency in fresh liquid milk production from the current 6 to 10 per cent by 2010, Australian exports of dairy products to Malaysia are still likely to increase as Malaysia's dairy consumption rises.

### Trade in Grains

Malaysia, as with most of the Asian markets, imports wheat from Australia predominately in the form of flour, although small amounts of un-milled wheat is also imported. Malaysia consistently imports over 600,000 tonnes of Australian wheat each year and in 2004-05 was Australia's eighth largest export market for wheat, importing 888,000 tonnes.

Volume of Australian exports of wheat and flour to Malaysia



Source: ABARE (2006)

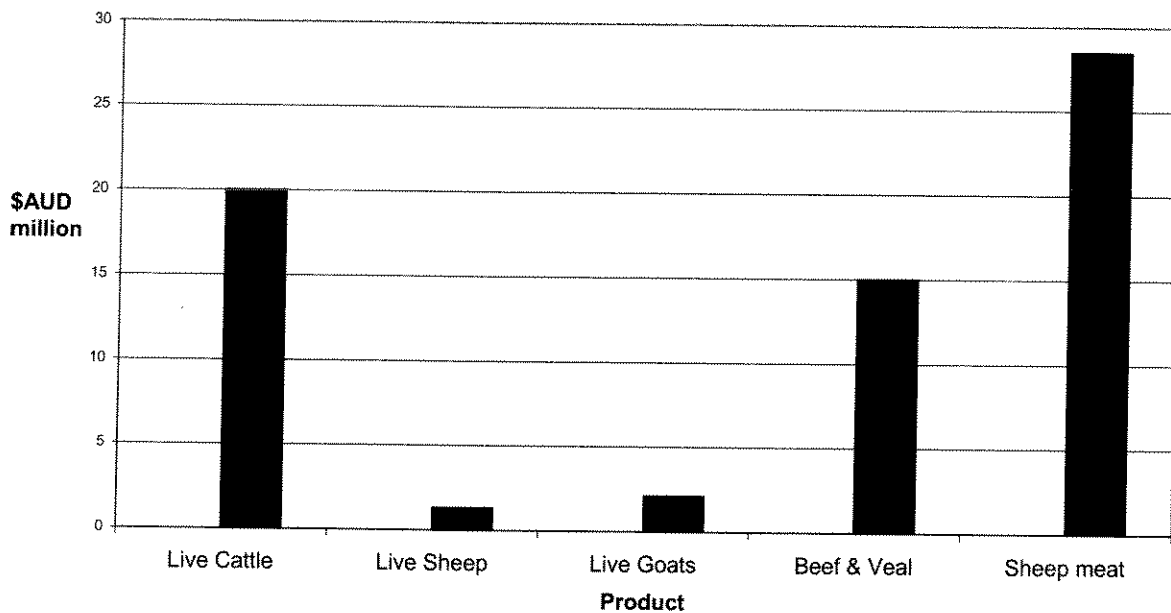
### Trade in Meat and Livestock

Australia enjoys a strong bilateral trading relationship in meat and livestock with Malaysia. While Malaysia is relatively self-sufficient in the production of pork, poultry meat and eggs, it has low levels of self-sufficiency in the production of beef and mutton, thus providing a significant market for Australian meat and livestock exports. Major Australian meat exports to Malaysia in 2005 were sheep meat (8438 tonnes worth approximately \$28.5 million), and beef and veal (4461 tonnes worth approximately \$15 million). Livestock exports to Malaysia totalled \$23.5 million in 2005, including cattle (\$20.1 million), sheep (\$1.3) and goats (\$2.1). Malaysia is Australia's second largest market for exports of live cattle (after Indonesia), with exports of approximately 38,000 head in 2005.

Malaysia's cattle herd is approximately 750,000 head, up from 558,000 head in 1981 and 701,000 head in 1991, compared to the Australian cattle herd which is estimated at 26.5 million head.

FAO figures indicate that the consumption of animal protein, particularly beef, is increasing steadily in Malaysia, with strong demand exceeding production. This, coupled with an increase in income (GDP growth of 6.6 per cent in 2004 and 6 per cent in 2005), will provide a strong consumer market leading to a further growth in beef consumption and therefore increased opportunities for Australian exports.

Australian meat and livestock exports to Malaysia 2005-06



Source: ABS (2006)

### Trade in Horticultural Products

Malaysia has historically been a major market for Australian horticultural produce and in 2005-06 ranked sixth, behind Japan, New Zealand, Hong Kong, the USA and Singapore as an export market for Australia's fresh and processed fruit, nut and vegetable exports.

The value of Australia's fresh and processed fruit, nut and vegetable exports to Malaysia in 2005-2006 was approximately \$59 million. The major exports were oranges (\$15.7 million), grapes (\$11.1 million), carrots (\$7.1 million) and potatoes (\$1.9 million).

While Australian horticultural produce exports have more than halved in the past four years, there may be opportunities to expand exports to Malaysia in the medium to longer term, due to: a decrease in arable land in Malaysia available to grow food; an increasing health consciousness, with consumers buying more fresh produce; trade liberalisation, including negotiations on a free trade agreement; growth in the hypermarket, supermarket, hotel, resort and food service sectors where imported fruit and vegetables tend to be sold; and the fact that Australia can provide quality horticultural products which are counter-seasonal to northern hemisphere products.

The value of Malaysia's fresh and processed fruit, nut and vegetable exports to Australia in 2005-06 was \$2.8 million of which the main product exported was processed potatoes (\$0.6 million).

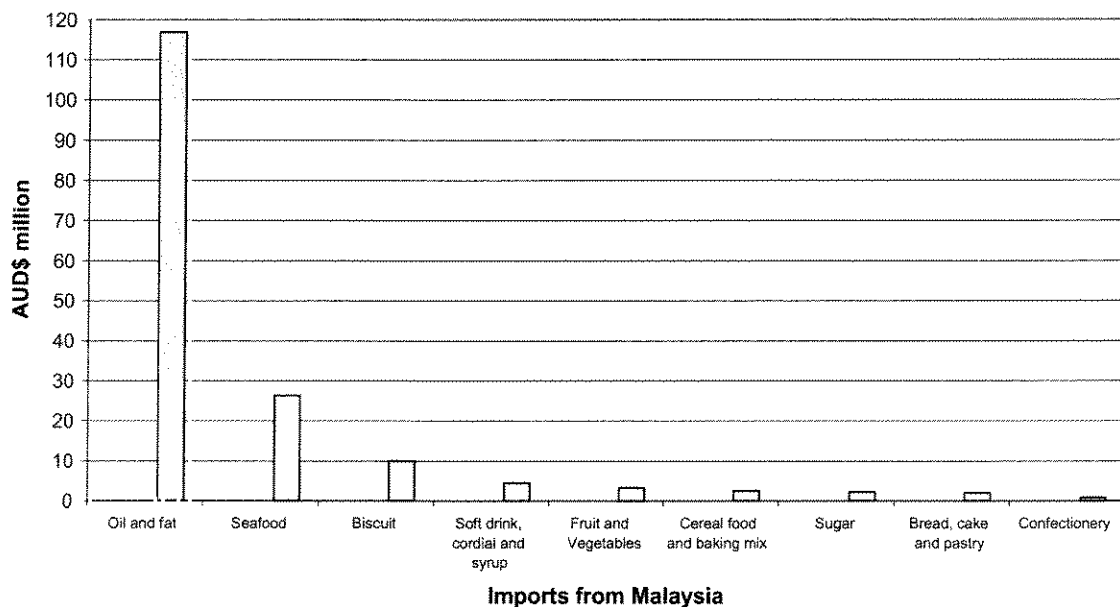
### Trade in Wool

Australian wool exports to Malaysia have grown dramatically over the last two years, both in volume and in value, with a 185.7 per cent increase in actual volume and a 139.6 per cent increase in value since 2004. Malaysia's share of Australian wool exports has grown to 1.8 per cent in 2004-05, compared to 0.5 per cent in 2003-04, making it Australia's eighth largest market in 2005-06. Despite this growth, the Malaysian market is still quite small, valued at approximately \$37.7 million in 2005-06. (China is the predominant destination for Australian wool exports, accounting for 57.9 per cent of exports by volume in 2005-2006).

### Malaysian Agricultural and Food Exports to Australia

Malaysian agricultural and food exports to Australia were valued at \$228 million in 2005-06, comprising approximately 3.4 percent of Malaysia's total exports to Australia. Oil and fat was by far the largest component (\$117 million), reflecting Malaysia's position as the world's leading exporter of palm oil. Other major items included seafood (\$26 million), biscuits (\$10 million), soft drink, cordial and syrup (\$4 million), fruit and vegetables (\$3 million), cereal food and baking mix (\$2 million), sugar (\$1 million), bread, cake and pastry (\$1 million), and confectionery (\$0.5 million).

Major Australian Imports of Malaysian Products (2005-06)

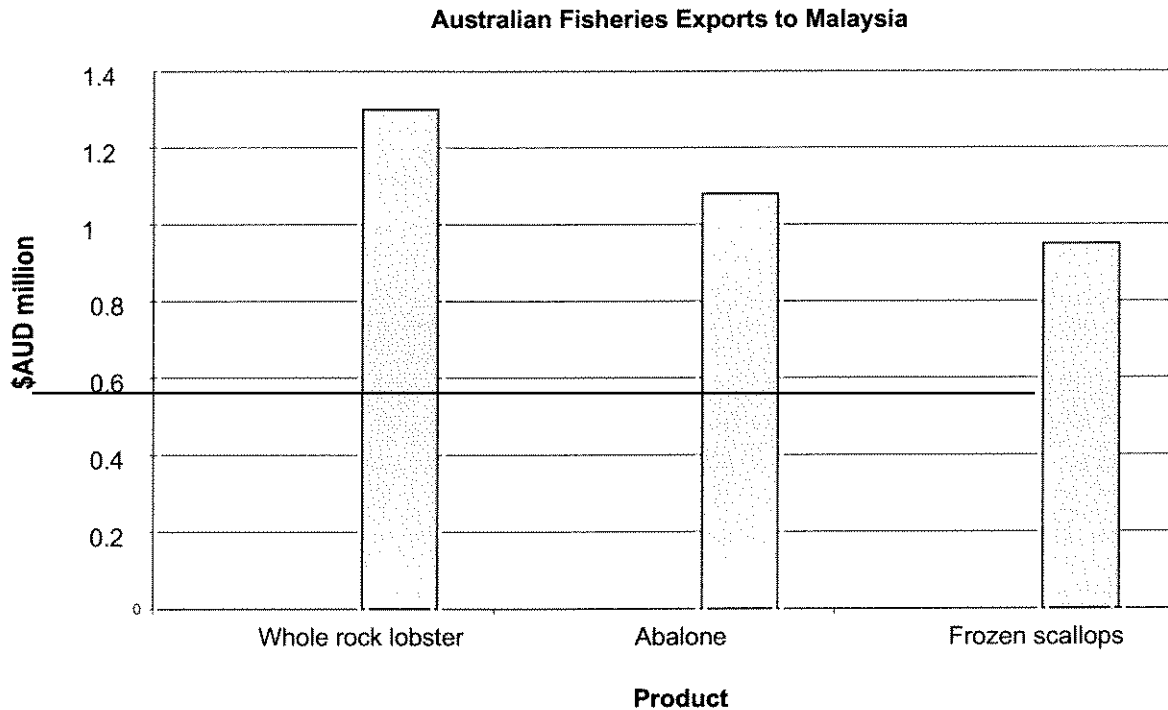


Source: ABARE (2006)

### Bilateral Trade in Fisheries Products

Malaysia is not a significant export market for Australian seafood although an established trading relationship exists in fish and seafood, with edible fish, prawns and canned seafood the major traded commodities.

In 2005-06, Australia exported \$6.14 million of fish and seafood to Malaysia. Of these exports, whole rock lobster (\$1.3 million), prepared or preserved abalone (\$1.08) million and frozen scallops (\$949,000) were the major products exported.



Source: ABARE (2006)

In 2005-06, Malaysia exported \$27.4 million of fish and seafood to Australia. The major products were ornamental fish (\$1.94 million), prepared or preserved shrimps and prawns (\$1.21 million), preserved or prepared fish (\$1.08 million) and molluscs (\$593,000).

Until the mid-1990s, Malaysia was a net exporter of seafood, however now it is the second largest importer of fisheries products in the region, after Thailand. Unlike Thailand, which undertakes processing (eg. canning) of a significant amount of fish for export, most fish products imported into Malaysia are consumed domestically. Such imports are expected to increase because fish is an important food ingredient for all ethnic groups in Malaysia and national production is unlikely to meet increasing demand.

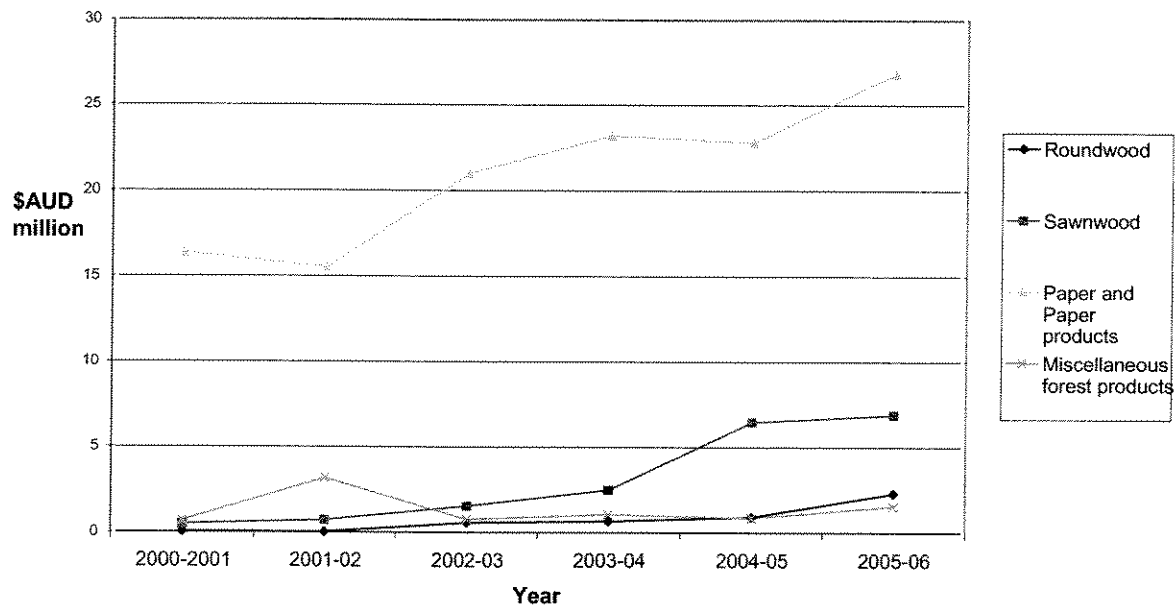
The Malaysian domestic sector is well managed but close to exploitable limits. Sea fishing contributes some 80 per cent of the national catch, however an increasing role is being played by aquaculture production. Malaysia's main aquaculture exports are fresh and frozen fish, prawns and shrimp.

The volume of Malaysian exports of ornamental fish is expected to increase with the government allocating funds to establish, promote, market and develop this field of aquaculture.

### Bilateral Trade in Forest Products

Malaysia and Australia have a healthy bilateral trading relationship in forest products. Australian exports of forest and paper products to Malaysia in 2005-06 were worth \$46.4 million. The main products exported from Australia to Malaysia included paper and paperboard (\$26.8 million), sawn wood (\$6.9 million), round wood (\$2.3 million) and miscellaneous forest products (\$1.5 million). Australia has enjoyed an increase in exports of these products to Malaysia in recent years.

Australian forest product exports to Malaysia



Source: ABARE (2006).

Malaysia is a net exporter of wood products, with the exception of paper and paper products. Exports of Malaysian forest products (not including furniture) to Australia in 2005-06 were worth \$181 million.

Malaysia is also a large exporter of wooden furniture and is ranked amongst the world's top ten exporters of these items. Wooden furniture exports from Malaysia to Australia in 2005 were valued at \$171 million.

Malaysia's net importer status of paper and paper products (Malaysia imported over 1.1 million tonnes of paper and paperboard products processed internationally in 2002 while exporting 149,000 tonnes) represents a significant market opportunity for Australia.

## **2.2. Trade Issues**

While Malaysia and Australia share a broadly positive bilateral agricultural relationship, as in most trading relationships, there are a small number of areas where improvements could be made to further facilitate trade.

### **Tariffs**

Although Malaysia's economy is relatively open to trade and most Australian agricultural exports face very low or zero applied tariffs, dairy products, some horticultural products, processed meat, some seafood, and a range of processed foods face tariffs of between 5 and 30 per cent. Some tropical fruits and alcoholic beverages, notably wine, also face specific rate tariffs.

Australian forest industries face significant barriers exporting to Malaysia, with import tariffs ranging from 0-300 per cent. The tariff level is generally lower on raw materials and increases for those with value-added content or which undergo further processing.

While Malaysia has no tariffs on imports of wool, it does maintain 15-20 per cent tariffs on certain woollen products (suits, trousers, jackets and jumpers).

Although Malaysian tariffs are generally low, further liberalisation in the areas outlined above would improve access for Australian portfolio exports. The principle vehicle to achieve a reduction in tariffs is through the WTO Doha Round (currently suspended). The Malaysia-Australia Free Trade Agreement (MAFTA), currently under negotiation, also provides an opportunity to reduce and eliminate tariffs and enhance bilateral trade in portfolio products.

### **Tariff Rate Quotas**

Malaysia has recently indicated an intention to impose tariff rate quotas (TRQs) on 21 agricultural product tariff lines, in line with their WTO commitments. We are seeking further details from Malaysian authorities and consulting with Australian industry to minimise the impact of the introduction of such a TRQ system. In addition, through MAFTA negotiations we are attempting to have Australian exports exempt from these TRQ arrangements.

### **Halal certification**

#### *Halal Accreditation - Meat*

Meat exports to Malaysia must be Halal and meat plants must be approved by the Malaysian Department of Islamic Development, in order to export nominated products that comply with strict Halal requirements.

Malaysia undertook an audit of fifty Australian meat establishments in 2005. Religious slaughter issues with beef were identified during that audit, and subsequent religious decrees relating to electrical stunning and the timing of the thoracic stick resulted in Malaysia delisting all Australian beef slaughter establishments. There were no issues relating to the religious slaughter of sheep or goats flowing from the audit.

The Australian Quarantine and Inspection Service (AQIS), in consultation with industry and Malaysian officials, subsequently developed a protocol for the use of pneumatic stunning in cattle. A Malaysian delegation audited five establishments against the protocol in March 2006 and three of these gained approval effective from 6 April 2006. Malaysia formally advised AQIS of its acceptance of the Halal protocol on 30 May 2006.

AQIS is seeking a follow-up audit of other slaughter establishments verified by AQIS as meeting the protocol. AQIS will also be seeking consideration by Malaysia for the listing of independent



boning rooms and other further processing establishments. Malaysia has yet to confirm its agreement to the scope or timing of the proposed audit.

#### *Halal Accreditation - Dairy*

Unless a specific claim of Halal is made on the packaging, the Malaysian Government does not require that dairy products have any particular Halal certification. Where Halal claims are made, the Malaysian Islamic authorities recognize certification from Australian-based Islamic authorities.

However, there have been occasions in the past where Muslim countries have called for Halal certification on all dairy products or have only recognised certification by the Islamic authority of the importing country. Malaysia took this approach briefly in 1996 but withdrew following submissions from the Australian Government.

#### **Import licensing**

While most of Malaysia's tariffs are low, there are discretionary import licensing arrangements in many product sectors of interest to Australian exporters. Agricultural products subject to import licensing include sugar, rice and dairy products. Industry has concerns over the uncertainty such discretionary arrangements causes as the basis for granting of import licensing. Through MAFTA negotiations, we are seeking to ensure import licensing is not acting as a barrier to trade for our exports.

#### **Other Non-Tariff Barriers**

##### *Labelling requirements - Wine*

Australian wine exports entering Malaysia are required to include labelling which states the alcohol content in Bahasa Malaysia. Wine imported into Malaysia requires that a bottle from each case of imported wine be taken for analysis, thereby increasing the landed cost of the product. Wines exported from Australia have already undergone analysis by accredited laboratories to ensure they comply with Australian laws. We are seeking to address such issues through MAFTA negotiations.

### **2.3 Malaysia-Australia Free Trade Agreement Negotiations**

Prime Minister John Howard and his Malaysian counterpart, Prime Minister Abdullah Badawi, agreed to launch the Malaysia-Australia Free Trade Agreement negotiations on 7 April 2005 following the completion of parallel scoping studies by both countries. There have been four full rounds of negotiations so far (Kuala Lumpur, May and August 2005, Canberra, March 2006 and Kuala Lumpur, July 2006). Negotiations are expected to conclude in 2007.

A FTA with Malaysia presents a significant opportunity to gain preferential access to the Malaysian market and allow Australian exporters to further utilise their comparative advantage in low freight costs. A FTA may also be capable of addressing ongoing market access concerns, such as Halal certification of Australian meat exports, and provide an opportunity to remove the risk posed by high bound tariff rates and the proposed implementation of TRQs. We are consulting with industry to ensure industry concerns are taken into account in negotiations.

A FTA with Malaysia is likely to facilitate an increase in Australian exports of dairy products, some processed meat products, other processed foods and beverages, including wine and some horticultural products.

Overall, Malaysia is a relatively mature market for Australian exporters and any increases in demand will be in line with the wage growth and economic development of the middle-income

class. Nevertheless, the Malaysian market is becoming increasingly competitive in those sectors where imports can be sourced from South Africa, China and South America in the same season as Australia's suppliers.

## **2.4 Portfolio Industry Cooperation**

As well as government-to-government cooperation, Australian and Malaysian portfolio industries have engaged in cooperative activities and commercial arrangements with mutually beneficial outcomes.

### **Cattle in Oil Palm Plantations**

A key example of such mutually beneficial cooperation is the integration of Australian-born cattle into Malaysian oil palm plantations to assist in weed management and control.

Malaysia is the world's largest producer of palm oil, with about 4 million hectares under plantation, producing approximately 15 million tonnes of crude palm oil in 2005 and employing approximately 365 000 plantation workers. The total volume of Malaysian exports of oil palm products, constituting palm oil, palm kernel oil, palm kernel cake, oleochemicals and finished products was 18.62 million tonnes in 2005, generating export revenue of approximately \$10.21 billion.

Malaysian palm oil plantations are susceptible to weed infestation with weed management costs for plantations in the order of \$43 per hectare per year. The export of Australian Brahman cattle to Malaysia for use as an organic weed control in oil palm plantations has proven very successful, contributing to large cost savings in the order of 80 per cent over four years for large plantations due to reduced chemical and labour costs. The high protein feed has also resulted in good growth rates for the cattle.

Meat and Livestock Australia (MLA) has provided technical support to this initiative, including successful seminars in 2005 with further seminars scheduled for mid-November 2006, involving the Australian Brahman Breeders Association (ABBA) and the Northern Territory Government.

This successful cooperation was featured on the ABC's Landline in July 2006.

### **Restraining Boxes**

A further example of mutually beneficial industry-led cooperation with Malaysia is the installation of restraining boxes to address potential animal welfare concerns. MLA and Livecorp, through the South East Asian Joint Programme, have developed, tested and installed a number of restraining boxes in key Indonesian and Malaysian abattoirs. DAFF has provided funding under the Live Animal Trade Programme to further this initiative to address potential animal welfare concerns around Australian live cattle entering these markets.

Funding has been approved for the installation of fifty restraining boxes over three years. The objective of the project is to install MLA/Livecorp designed restraining boxes in all Indonesian and Malaysian abattoirs receiving Australian cattle.

The project will address animal welfare issues in Indonesia and Malaysia by introducing technologically appropriate and humane slaughter methods for Australian animals exported to Indonesia and Malaysia for consumption.

## **3. Scientific Cooperation**

### **3.1 Technical Cooperation and Capacity Building**

The Australian Government is strongly supportive of regional capacity building in relation to Sanitary and Phytosanitary (SPS) issues as well as zoonotic diseases. DAFF is involved in a number of Australian funded regional capacity building activities in SPS-related areas that benefit Malaysia's agriculture sector. Our work in this area leads to a closer relationship between Australia and Malaysia on technical issues. Benefits include an increased Malaysian understanding of Australia's approach and the importance of having appropriate SPS regimes. In addition, there are potential flow on benefits, including that, as systems improve in countries such as Malaysia, the risk of incursion of exotic pests and diseases into Australia is reduced. Technical cooperation and capacity building also have a positive impact on the overall bilateral relationship.

#### **Australian Fumigation Accreditation Scheme – Malaysia**

In response to the high quarantine risk posed by ineffective fumigation treatments performed offshore, AQIS developed the Australian Fumigation Accreditation Scheme (AFAS) to assist offshore fumigators to meet Australia's quarantine requirements. Malaysia was identified as a country that would benefit from participation in AFAS and was the second country to participate in the AFAS programme after Indonesia.

AFAS involves on-site fumigation training, development and implementation of a registration system for approved fumigation companies, and periodic third party reviews. To successfully implement AFAS in Malaysia, extensive training was delivered to Malaysian fumigation industry personnel and officers from the Malaysian Department of Agriculture (DoA) in best practice fumigation techniques for quarantine purposes. A "train-the-trainer" course was also delivered in November 2005, to allow DoA to provide training to fumigators and relevant DoA staff and to ensure the ongoing success of AFAS in Malaysia.

AFAS has been in operation in Malaysia since 1 December 2005, following the signing of a MoU in August 2005. There are currently 41 Malaysian fumigation companies registered to conduct treatments for goods destined for Australia.

AQIS is also working in cooperation with the Malaysian DoA, the Indonesian Agricultural Quarantine Agency and the United States Department of Agriculture to progress arrangements for an Asia-Pacific Economic Cooperation (APEC) funded AFAS Symposium.

#### **SPS Capacity Building Programme**

A major programme through which DAFF engages in technical cooperation and capacity building with Malaysia in the area of SPS is the SPS Capacity Building Programme (SPS CBP). This is a three-year programme funded by AusAID and managed by the Office of the Chief Plant Protection Officer (OCPPO) within DAFF.

The programme involves the ten countries of South East Asia and aims to enhance the capacity of ASEAN focal countries (Cambodia, Laos, Myanmar, Vietnam, Thailand, Indonesia and the Philippines) to meet international standards consistent with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement). As a non-focal country, Malaysia is not eligible for funding under this programme and therefore participates in the programme using its own resources. Malaysia often contributes facilities and expertise to programme workshops.

The programme also supports the ASEAN Free Trade Agreement-Closer Economic Relations Closer Economic Partnerships (AFTA-CER CEP) agenda, including the intent outlined in the Ministerial Declaration for Australia and New Zealand to provide capacity building assistance to ASEAN countries.

The programme goal is addressed through three key components, each underpinned with several activities:

1. SPS Trade Linkages - to promote understanding in the South East Asian region of the linkages between the SPS Agreement and trade.
2. Enhanced capacity to construct plant pest and disease lists and conduct pest risk analyses.
3. Strengthening regional capacity to control trans-boundary movement of animal diseases.

Delegates from focal countries participate in activities that help build plant and animal health capacity for international trade. Activities include training in diagnosis of pests and diseases, integrated animal disease zoning, rehabilitation and management of plant pest collection, development and support for database systems to support pest and disease information management.

#### **Southeast Asia Foot-and-Mouth Disease Framework**

Australia also works collaboratively with Malaysia on foot-and-mouth disease (FMD) issues within the Southeast Asia FMD (SEAFMD) framework, as well as through the SPS CBP.

SEAFMD was initiated in 1990 in recognition of the importance of FMD as a regional animal health issue with the potential to spread across international boundaries. It became a formal World Organisation for Animal Health (OIE) programme in 1994 with the formation of a specially established Sub-Commission for FMD in South East Asia. Dr Gardner Murray, the Australian delegate to the OIE is the president of the OIE Regional Sub-Commission for FMD in South East Asia.

The SEAFMD programme is progressing well and the model is being used to support disease management activities in other areas, for example avian influenza. The eight components of the programme have been:

- international coordination and support;
- program management, resources and funding;
- public awareness and communications;
- disease surveillance, diagnosis, reporting and control;
- policy, legislation and standards;
- regional research and technology transfer;
- private sector integration;
- monitoring and evaluation.

#### **Emerging and Resurging Zoonotic Disease Regional Initiative**

In response to outbreaks of H5N1 highly pathogenic avian influenza (HPAI) in the region, AusAID designed a programme of assistance to strengthen the capacity of East Asian countries to identify and respond to outbreaks of AI and other related diseases through a number of scientific collaborative activities between the differing disciplines of human and animal health, as well as between Australian and ASEAN (and its member countries) agencies, including the ASEAN HPAI Taskforce. Malaysia fulfils a number of roles within the ASEAN HPAI Taskforce and coordinates a number of Taskforce activities.

The 3 year, \$5m AusAID-funded 'Emerging and Resurging Zoonotic Disease Regional Initiative 2005—2007' programme aims to address gaps in the areas of surveillance and reporting, human and animal health laboratory diagnostic capacity, and emergency preparedness.

DAFF, through its Product Integrity Animal and Plant Health (PIAPH) Division manages an element of the programme, focusing on surveillance, diagnosis and emergency management.

### **Collaboration on Screw Worm Fly Research and Development**

Australia and Malaysia have also collaborated on research and development (R&D) in relation to Old World Screw Worm Fly (OWS), a serious insect pest of warm-blooded animals, present in Africa, the Middle East, South and South East Asia and Papua New Guinea.

During the 1990s, the Australian Government provided funding for the construction of a facility at Kluang, Johor State, Malaysia, for R&D into the control of OWS under a MoU. This cooperation included technical and engineering technology transfer. At the conclusion of a field trial of the sterile insect technique in July 2000, the facility was handed over to the Malaysian Government in accordance with the MoU.

Australia continued to assist the Malaysian Government with its offer to provide the facility for further international OWS R&D, including through the International Atomic Energy Agency (IAEA) and the Food and Agriculture Organisation (FAO), particularly to countries in the region and to assist efforts against OWS in Iraq.

### **Fruit Fly Research**

Malaysia hosts the South East Asian Regional Fruit Fly Centre, the main hub for a new network of South East Asian laboratories and institutions concerned with research on tropical fruit flies and the management of these serious pests. The Centre aims to coordinate research on pest fruit flies and facilitate the application of research to minimise production losses and enable safe trade in commodities affected by pest fruit fly. The Centre exists under a MoU between Australia's Griffith University and the Malaysian Government, with endorsement by all ASEAN Agriculture Ministers. Malaysia, as host, provides staff, office space and interim laboratory facilities. The Malaysian Government is also building new facilities at Serdang, near Kuala Lumpur, to accommodate the Centre in the long term. Griffith University, through its own Fruit Fly Research Group, provides technical support to the Regional Centre's proposed work programme.

While Australia does not currently contribute toward the core funding of the Centre, the Australian Government has contributed to recent activities that have taken place under the umbrella of the Centre, the regional network or Griffith University's Fruit Fly Research Group. These include: two workshops on fruit fly surveillance and diagnostics funded by AusAID, with in-kind contributions from DAFF; training in fruit fly diagnostics using Departmental funding, and ACIAR-funded projects in Vietnam and Indonesia.

### **Technical Cooperation in Forestry**

Malaysia has proposed technical cooperation with Australia in forestry plantation establishment and management and in wood-working and furniture design. Following discussions with, and correspondence from, the Malaysian Minister of Plantation Industries and Commodities, Peter Chin, in April and May 2005, the then Minister for Fisheries, Forestry and Conservation, Senator the Hon Ian Macdonald, wrote to Minister Chin in July 2005 suggesting that the development of closer links between Australian and Malaysian research and education institutions would benefit both countries and that Malaysian institutions could liaise directly with organisations such as the Forest and Wood Products Research and Development Corporation and CSIRO, to pursue technical cooperation.