

## Trade in goods

### Introduction

- 5.1 This chapter considers the effects of FTAs on selected Australian export industries. The Committee did not receive evidence from all areas of the goods for export sector, but considers that the evidence which was received provides an effective snapshot on these matters.
- 5.2 Australian automotive industry raised concerns that are representative of the manufacturing sector. Those raised by Australian Pork Ltd are representative of niche-market primary producer exporters. These illustrate important dimensions of the export trade, including the various forms of non-tariff barriers that affect Australian trade to ASEAN countries, and the significance of emergent multilateral trade agreements.

### Winners and losers

- 5.3 Over the course of the Inquiry, witnesses and submissions attested to the diversity of Australian exports to ASEAN countries, and the variety of conditions they encountered. In keeping with the proposition that trade liberalisation engages 'offensive' and 'defensive' interests,<sup>1</sup> where

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1 Ms Ruth Gallagher, *Transcript 12 September 2008*, p. 24.

industries expect to gain or lose, witnesses told the Committee of the benefits or deficits they had experienced in trading with ASEAN member countries.

- 5.4 DAFF told the Committee that ASEAN member countries were the 'largest export destination' for Australian agricultural products and were the second-largest source of imports of agricultural products to Australia.<sup>2</sup> DAFF provided the example of Indonesia which was Australia's single biggest export market for beef cattle, making up by far the greatest proportion of Australia's cattle exports – 500,000 head out of a total of 600,000 in 2007.<sup>3</sup>
- 5.5 DIISR told the Committee that Australian pharmaceuticals, chemicals and plastics industries also anticipate positive outcomes from increasing trade liberalisation, particularly from AANZFTA.<sup>4</sup>
- 5.6 Similarly, the Australian Wine and Brandy Corporation (AWBC) argued that AANZFTA was likely to help resolve some difficulties it experienced in dealing with individual ASEAN member countries. AWBC advised that these dealings were hampered by inconsistencies in approach – some ASEAN member countries had defended higher imposts on imported alcohol products on religious grounds, but in practice such measures had protected domestic producers from overseas competition.<sup>5</sup>
- 5.7 On the other hand, DIISR advised the Committee that the removal of protection had resulted in a considerable and ongoing shrinkage of business for the Australian Textile, Clothing and Footwear industries (TCF). There appeared to be few expectations of recovery, in light of the differences in labour costs between Australia and ASEAN countries.<sup>6</sup>
- 5.8 In each of the areas where Australia stands to gain, the successful adoption and implementation of standards is critical to success. This applies to Intellectual Property in the case of pharmaceuticals; and to Country of Origin labelling, and sanitary and phytosanitary standards, for wine, pork and other agricultural products.<sup>7</sup>

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2 Mr Paul Morris, *Transcript 2 October 2008*, p. 2.

3 Mr Paul Morris, *Transcript 2 October 2008*, p. 13.

4 Ms Ruth Gallagher, *Transcript 12 September 2008*, p. 31; Sub.14, p. 8.

5 Australian Wine and Brandy Corporation, *Submission No. 1*, pp. 5-6

6 DIISR, *Submission No. 14*, pp. 171-172; ACTU, *Submission No. 27*, pp. 390-1.

7 Ms Ruth Gallagher, *Transcript 12 September 2008*, p. 31; AWBC, *Submission No. 1*, pp. 7-8; DFAT, *Submission No. 29*, pp. 419-20; Mr Paul Morris, *Transcript 2 October 2008*, pp. 2-3.

## Committee comment

- 5.9 Free trade agreements produce winners and losers amongst domestic industries. Higher labour costs in Australia will continue to represent a point of vulnerability for some industries, such as TCF. While Australian automotive industries face a similar challenge (see below), the Committee expects that these sectors will continue to attempt to meet these challenges through business and product innovation.
- 5.10 The Committee considers that the success or otherwise of an FTA should be judged by the net benefit in the short, medium, and long term. That is not to say that parts of particular sectors should be abandoned because they are considered 'losers' in an FTA. A diverse marketplace is essential to a robust economy. It is the role of the FTA negotiator is to realise benefits as broadly as possible, and the role of government is to assist businesses that may not benefit to find profitable markets in the new environment.

## Automotive trade

- 5.11 DIISR advised the Committee that while the two-way automotive trade between Australia and ASEAN countries had markedly increased over the last decade, Australian exports to ASEAN member countries had decreased.<sup>8</sup>
- 5.12 DIISR added that there was a perception that TAFTA had exacerbated Australia's poor balance of trade with Thailand in terms of automotive products. Since TAFTA came into force, Thai automotive imports to Australia had risen by 89%.<sup>9</sup> DFAT told the Committee that in dollar terms vehicle imports to Australia from Thailand had 'almost doubled' between 2005 and 2008.<sup>10</sup>
- 5.13 The Federation of Automotive Products Manufacturers (FAPM) told the Committee of initial enthusiasm by industry toward TAFTA. The Australian automotive industry had expected increased export opportunities, but experience had shown otherwise.<sup>11</sup>

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8 DIISR, *Submission No. 14*, p. 171.

9 DIISR, *Submission No. 14*, p. 171.

10 Mr Peter Woolcott, *Transcript 22 September 2008*, p. 12.

11 Ms Anna Greco, *Transcript 2 October 2008*, p. 52.

- 5.14 The Federal Chamber of Automotive Industries (FCAI) told the Committee of a similar experience:

When the Thai-Australia Free Trade Agreement was negotiated, the automotive industry did support it at that time. We believed that it provided an opportunity to initiate a process with a key ASEAN economy which had a large automotive sector.<sup>12</sup>

- 5.15 FCAI added that 'in practice, the greater proportion of ... benefits have flowed to Thailand'. Moreover, there had been 'a range of non-tariff barriers imposed by the Thais after that agreement was put in place'.<sup>13</sup>

- 5.16 DFAT told the Committee that in theory these could be addressed by TAFTA's 'inbuilt agenda', but in practice, the political situation in Thailand had obstructed this avenue.<sup>14</sup>

## Production volumes

- 5.17 FAPM told the Committee that declining overseas sales would have a significantly negative effect on the sustainability of automotive production in Australia. A characteristic of the automotive industry was that minimum national production thresholds must be achieved; otherwise economies of scale – and therefore viability – would be in doubt. FAPM described this as 'most important constraining factor in the industry'.<sup>15</sup>

- 5.18 In the Australian automotive industry, production volumes have fallen progressively from a high-point of 'just over' 400,000 vehicles per year in 2000,<sup>16</sup> to current production levels at between 300,000 and 333,000 vehicles per year.<sup>17</sup> FAPM told the Committee that this left Australian production volumes 'perilously low', and that 'there is no way our industry can become any more competitive without increasing volumes'.<sup>18</sup>

- 5.19 However, the viability of the Australia automotive industry is not based on raw production volumes alone, but also on the proportion of the domestic market it is able to command. Here too, FCAI told the Committee, matters had deteriorated:

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12 Mr Andrew McKellar, *Transcript 2 October 2008*, p. 53.

13 Mr Andrew McKellar, *Transcript 2 October 2008*, p. 53.

14 Mr Peter Woolcott, *Transcript 12 September 2008*, p. 5.

15 Ms Anna Greco, *Transcript 2 October 2008*, p. 50.

16 Ms Anna Greco, *Transcript 2 October 2008*, p. 59.

17 Mr Andrew McKellar, *Transcript 2 October 2008*, p. 51.

18 Ms Anna Greco, *Transcript 2 October 2008*, p. 50.

The market share of locally produced vehicles is now less than 20 per cent. Five or six years ago it was around the mid-30s, and if you go back to 10 years ago then it would have been 50 per cent or more. So that is the extent of the change in the market that has occurred over a period of a decade. The local manufacturers' market share in their own home market has declined to that extent.<sup>19</sup>

- 5.20 When these two factors are considered together, it is clear that the Australian automotive industry faces considerable challenges in maintaining viability. Speaking of Australia's automotive parts industry, FAPM told the Committee that:

Australia has the second lowest production-to-sales ratio in the world. The only country that has a smaller one is Slovakia, which is producing only about 220,000 vehicles a year. This compares with countries like the US, which produces about 12 million vehicles a year; Japan, 11 million; and Germany, six million. Even Thailand produces 1.2 million vehicles a year. Indonesia and Malaysia also are producing far more vehicles than Australia: they produce well over 500,000.<sup>20</sup>

- 5.21 FAPM identified this last figure as similar to the productive volume necessary to put the Australian industry in a better position. For this, a production volume of 400,000 vehicles per year was considered a minimum, and while 500,000 was 'a much better figure'.<sup>21</sup>

- 5.22 Further, FAPM commented that these factors created a sense of urgency for the Australian automotive industry. TAFTA may provide further avenues for negotiation under the 'embedded process', but in the meantime advantages inadvertently given to off-shore automotive manufacturers were likely to have an impact on the Australian industry. Impacts that were apparently short-term could have significant long-term implications:

The concern for our sector is that the more the Asian suppliers gain share and volume, the more they can invest in innovation – which we like to think is very much where developed countries such as Australia prevail – and the more volume they have over which to amortise those investments.<sup>22</sup>

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19 Mr Andrew McKellar, *Transcript 2 October 2008*, p. 60.

20 Ms Anna Greco, *Transcript 2 October 2008*, p. 50.

21 Ms Anna Greco, *Transcript 2 October 2008*, p. 51.

22 Ms Anna Greco, *Transcript 2 October 2008*, p. 51.

## Committee Comment

- 5.23 From these descriptions it is clear that the Australian automotive industry is far from assured of its sustainability. To become so, it must produce more vehicles and ensure that it is able to market them, successfully, into both export and domestic markets.
- 5.24 There are challenges and opportunities. On one hand, the volume of trade each year in Australia's domestic market now stands at around 1 million vehicles.<sup>23</sup> This represents an opportunity for Australian manufacturers for whom, if they are able to account for a sizeable proportion of these sales, it would form a basis for industry viability and further exports. On the other, Australia is regarded as a high-cost environment for automotive manufacture, making competition with exports more of a challenge.<sup>24</sup>
- 5.25 Under such conditions, and with current variations in world-wide consumer demand, this makes it more important that Australia negotiates the best possible access for its industry to markets in the ASEAN region.
- 5.26 Regarding TAFTA, the Committee is concerned that present settings are in effect a license for other automotive manufacturers wishing to gain special access to the Australian domestic market. Placement of manufacturing operations in Thailand is sufficient to ensure that their products can be landed in Australia tariff-free. In combination with lower production costs in Thailand, this gives off-shore manufacturers the opportunity to sell automotive products that are less expensive than those locally produced.

## Non-tariff barriers

- 5.27 As for other areas of trade considered in this chapter, obtaining good access entails attention to non-tariff barriers. For TAFTA in particular, the progress on tariffs has been overshadowed by non-tariff measures that were introduced after the agreement was concluded.
- 5.28 DIISR advised the Committee that the 'restructuring' of excise on vehicles sold in Thailand, applied relative to engine capacity, was central to Australian concerns. This had resulted in a new price penalty for some Australian vehicles. Although strictly speaking it did not discriminate between nations, the 'excise effectively disadvantages exports of Australian-made vehicles, because Australia produces mainly larger-engine vehicles'. The Ford Territory, for example, is reported under the

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23 Mr Andrew McKellar, *Transcript 2 October 2008*, p. 60.

24 Mr Andrew McKellar, Ms Anna Greco, *Transcript 2 October 2008*, p. 57.

new arrangements to suffer a '30 percent disadvantage over its main competitors'.<sup>25</sup>

- 5.29 The ACTU expressed concerns that the combination of 'tariff elimination on Australia's part' and 'the failure of the FTA to deal appropriately with non-tariff barriers' had led to large trade deficits. In the case of Thailand, the ACTU suggested that this had seen the trade deficit increase by 177% to \$2.8 billion.<sup>26</sup>
- 5.30 DFAT officials responsible for negotiating free trade agreements told the Committee that tariffs remained the 'immediate focus', reflecting the overall approach on such matters.<sup>27</sup> DFAT added, however, that there were concerns over non-tariff barriers, and whether excise provisions in Thailand were in compliance with the agreement. Unfortunately, Thailand's political turmoil had halted further dialogue on these matters.<sup>28</sup>
- 5.31 These factors have a wider significance to the extent that they foreshadow Australia's fortunes in future FTAs. The Committee consistently expressed the view that Australia should take steps to ensure that its experience of non-tariff barriers in the context of TAFTA would not be repeated under AANZFTA or other future agreements.<sup>29</sup>

## Automotive parts

- 5.32 Discussion to this point has focused primarily on the export and import of whole vehicles. However, Australia's capacity to manufacture and trade in automotive parts is also critically important to the viability of the Australian automotive industry, and this too is influenced by trade barriers in the ASEAN region.
- 5.33 FAPM told the Committee that parts manufacture makes a significant contribution to the critical mass of the local industry. For most vehicles produced in Australia '75 to 80 per cent of a car is not designed or made by a vehicle manufacturer ... [it] is actually made up by the suppliers of systems and components'.<sup>30</sup>

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25 DIISR, Submission No. 14, p. 172.

26 ACTU, Submission No. 27, p. 390.

27 Mr Michael Mugliston, *Transcript 12 September 2008*, p. 8.

28 Mr Peter Woolcott, *Transcript 22 September 2008*, p. 11.

29 *Transcript 22 September 2008*, p. 12.

30 Ms Anna Greco, *Transcript 2 October 2008*, p. 50.

- 5.34 FAPM added that due to this integral role in the manufacture of new vehicles, structural disadvantage in export markets for Australian automotive parts manufacturers had an impact on automotive manufacturing capacity overall. If parts manufacturers failed, in the face of unfavourable conditions for trade, this would have consequences for other players in the automotive industry, which might put the industry's sustainability further in doubt.<sup>31</sup>
- 5.35 This applies in two senses. First, Australian suppliers lose contracts due to price structures they are unable to match, and this leads to shrinkage of the domestic industry. Second, domestic manufacturers may choose to move overseas to take advantage of lower-cost business conditions. As FAPM told the Committee:
- If the product can be produced, let's say in Thailand, and then imported into Australia without any tariff, and you have got a cheaper country in which to operate, even for our tier 1s, you say, 'Let's start looking at operating in Thailand; we can't afford to continue producing in Australia.' A number of our tier 1s have set up operations in Thailand where operating costs are so cheap. They have tax holidays and employees' costs and all the other associated costs are so much lower, and then there is no tariff there. It is easier to produce over there and then bring it into Australia and that then becomes the benchmark price.<sup>32</sup>
- 5.36 In either case, FAPM told the Committee that this amounted to a loss of critical mass, with further consequences for other businesses and the industry as a whole:
- Every contract lost to an overseas supplier weakens the local industry. If this trend is not arrested, it will lead to large component suppliers' local operations not being viable, which will mean my closure too.<sup>33</sup>

### Parts and non-tariff barriers

- 5.37 A variety of non-tariff influences that contribute to unfavourable trading conditions were identified by FAPM, including:
- 'custom regulations' requiring 'excessively detailed classifications';
  - a lack of time-limits on customs clearance;

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31 Ms Anna Greco, *Transcript 2 October 2008*, p. 50.

32 Ms Anna Greco, *Transcript 2 October 2008*, p. 55.

33 Ms Anna Greco, *Transcript 2 October 2008*, p. 52.



- 'excessive requirements for paperwork'; and
  - 'cost-downs', where 'the Thai price [is] used as a benchmark and local suppliers have to either meet or beat that benchmark, irrespective of any other costs – operating costs or supply input costs'.<sup>34</sup>
- 5.38 Importantly, non-tariff barriers encountered by Australian automotive parts exporters also involved levels of 'assistance' that were significantly higher than those provided by Australia. The Committee noted that assistance for automotive products from Thailand were much greater (\$18,000) than those for Australian products (\$3,000), on a per-car basis.<sup>35</sup>

## Current conditions

- 5.39 Thus far, this chapter has noted the fears and concerns of the Australian automotive sector in the face of current and future FTAs. While valid, they fall short of representing the full scope of current conditions, because current conditions present opportunities, as well as difficulties, for Australian automotive exporters.
- 5.40 The experience of Ford Australia illustrates both sides FTAs. When exported to Thailand, Ford Australia's *Territory* model fell foul of Thailand's excise changes. With a better appreciation of Thai excise arrangements, however, Ford Australia is now preparing to manufacture and export another, smaller capacity, model that will not attract excise when Thailand moves to excise-free settings for smaller-capacity vehicles in 2010.<sup>36</sup> FCAI told the Committee that exports of the new model were scheduled for 2011.<sup>37</sup>
- 5.41 DIISR told the Committee that despite initial problems with exporting to Thailand, Ford Australia was regarded as 'one of the strongest supporters of an agreement within ASEAN'.<sup>38</sup>

## Future directions

- 5.42 Challenges persist in relation to trade liberalisation in the automotive sphere. Allowances for the special needs of developing countries are

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34 Ms Anna Greco, Transcript 2 October 2008, pp. 51-2.

35 Transcript 2 October 2008, p. 59; Ms Anna Greco, Transcript 2 October 2008, p. 52.

36 Ms Ruth Gallagher, Transcript 12 September 2008, pp. 24-5.

37 Mr Andrew McKellar, Transcript 2 October 2008, p. 53.

38 Ms Ruth Gallagher, Transcript 12 September 2008, p. 24.

embedded in a number of frameworks for trade, including the current Doha round of WTO negotiations.<sup>39</sup>

5.43 On the other hand, FCAI told the Committee that AANZFTA is capable of modifying and improving upon current settings for automotive trade between the Australia and Thailand under TAFTA, giving 'Australian automotive manufacturers a greater opportunity to access [the Thai] market over and above what is in the bilateral agreement'.<sup>40</sup>

5.44 Subsequent to it being signed, DFAT told the Committee that AANZFTA contained a response to the kind of difficulties seen for automotive exports under TAFTA. These new measures are 'reciprocal commitments', under which Australia has

... committed to giving our ASEAN negotiating partners zero duties – that is, tariff elimination – on entry into force of the AANZFTA. That is for all ASEAN countries except three: Indonesia, Malaysia and Thailand. In those cases we have made reciprocal commitments.<sup>41</sup>

5.45 DFAT gave an example:

Indonesia has committed to eliminate tariffs on those vehicles in 2019. Therefore, we will not eliminate tariffs on imports from Indonesia on similar small-sized motor vehicles until 2019. In our tariff schedule we have corresponding schedules for Malaysia and Thailand, which are therefore based on reciprocity.<sup>42</sup>

5.46 Regarding Australia's proposed scheme to reduce carbon emissions, FAPM expressed concern that this should not add, unduly, to the other challenges faced by the industry – there was a perception that a marked disparity between the obligations of domestic and overseas manufacturers in this regard would harm the Australian industry. To remedy this, FAPM proposed a 'carbon tax on imports', providing for a level playing field for domestic and imported products under an Australian carbon reduction scheme.<sup>43</sup>

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39 Mr Andrew McKellar, *Transcript 2 October 2008*, p. 54.

40 Mr Andrew McKellar, *Transcript 2 October 2008*, p. 55.

41 Mr Michael Mugliston, *Transcript 16 March 2009*, p. 4.

42 Mr Michael Mugliston, *Transcript 16 March 2009*, p. 4.

43 Ms Anna Greco, *Transcript 2 October 2008*, p. 53.

## Committee comment

- 5.47 The Committee welcomes the advent of the AANZFTA reciprocal commitment mechanism. This will be welcome in areas of Australian industry where tariff imbalances, such as those perceived under TAFTA, have caused concern.
- 5.48 The Committee takes the view that the experience of the Australian automotive industry in exporting to ASEAN member countries shows that trade liberalisation is, and will continue to be, a complex field. Countries often attempt to maximise the benefits of trade liberalisation while at the same time applying layers of protection over elements of the domestic economy.
- 5.49 To date it appears that the policy of applying a greater focus on tariff barriers in trade negotiations, leaving a 'tail' of negotiation for non-tariff barriers, has not always worked to Australia's satisfaction with regard to its automotive industry, and alternatives must be considered. It would be enormously beneficial if a common measure or denominator were to be developed that would allow calculations of the relative benefits or costs of liberalising agreements regardless of whether particular settings were regarded as tariff or non-tariff barriers (see Recommendation 1).
- 5.50 Australia's experience of automotive trade with ASEAN countries further underscores its complexity. Under such conditions, there is a temptation to identify a particular instrument as the best means of achieving progress. The skill required by the present situation, however, is to orchestrate the bilateral and multilateral instruments currently in place, and those coming into being, to achieve best results.
- 5.51 For this reason, Australia should welcome the advent of AANZFTA, making the best use of its possibilities in order to modify trade relationships that have at times caused anguish in Australia.
- 5.52 It is noteworthy that the rapid growth experienced by the Thai automotive industry over the last decade is not solely attributable to trade barriers. Rather, FAPM told the Committee, this growth has occurred because the Thailand has been able to put into place 'industry, tax and trade policies that all align'.<sup>44</sup> This raises the possibility that Australia too could create better conditions for domestic automotive industries through better coordination.

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44 Ms Anna Greco, *Transcript 2 October 2008*, p. 55.

## Pork

- 5.53 The Australia pork export industry also encounters obstacles and opportunities in its trade with ASEAN countries. These illustrate other dimensions of Australia's trade relationships in the region. Local conditions vary from country to country, producing variations in levels of demand for Australian pork and unique challenges for the industry.
- 5.54 Australia's exports of pork into the region rely on the kinds of instruments – particularly those relating to food labelling and safety standards – for which multilateral agreements appear to be best suited. This is notable in view of the facilities available under AANZFTA.

## Level of demand

- 5.55 APL advised the Committee that while Muslim Indonesian and Malaysian consumers did not eat pork, both countries had substantial ethnic Chinese populations who consumed pork like other ethnic Chinese populations in ASEAN countries. Indeed, Indonesia had the highest population of overseas Chinese in the world, and this group's preference for pork and affluence which correlated to meat consumption, meant they were a significant source of demand for Australian pork.<sup>45</sup>
- 5.56 APL added that there was also strong demand from other predominantly non-Muslim ASEAN countries, such as the Philippines, Thailand and Vietnam. Problems with pig diseases in the Philippines and Vietnam reduced the ability of these countries to meet demand from domestic production, and this again created opportunities for the Australian export industry.<sup>46</sup>
- 5.57 The Philippines' rising population also indicated that it would continue to be an important export market. As well, Vietnam relied on imports for 80% of its domestic needs.<sup>47</sup>
- 5.58 APL told the Committee that the outlook for pork demand was positive. Together, pig meat and chicken meat 'dominated' meat production and consumption in the ASEAN region, and levels of demand for meat in

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45 Australian Pork Limited, *Submission No. 26*, p. 355.

46 Australian Pork Limited, *Submission No. 26*, pp. 358, 362.

47 Australian Pork Limited, *Submission No. 26*, pp. 358, 362.

general, were rising in line with GDP growth. Within this picture, pork was significant as a 'widely consumed' source of protein.<sup>48</sup>

## Cultural differences

5.59 Australian Pork Limited (APL) told the Committee that cultural preferences played a large part in determining the level and nature of demand for food imports in ASEAN. Their effects could be unexpected: two prominent members of ASEAN, Indonesia and Malaysia, were predominantly Muslim, and this might be expected to curtail Australian pork exports. While this undoubtedly reduced the overall volume of pork traded to these countries, internal cultural pressures had a downward impact on *domestic* pork production, and this had created opportunities for Australian producers to cater to ethnic minorities.<sup>49</sup>

5.60 Other cultural differences were identified by APL:

- Consumers in a number of ASEAN countries, in contrast to Australia, favoured pork from 'freshly slaughtered animals', sold in 'wet markets'.<sup>50</sup>
- Consumers of pork in ASEAN countries showed a preference for different cuts of pork. Pig offal accounted for a significant component part of demand in Thailand, the Philippines and Vietnam and, as a result, tariffs applied to these products were more significant than if they were consumed at rates similar to those in Australia.<sup>51</sup>
- High levels of cultural variation between ASEAN members resulted in different levels of demand for particular kinds of meat, of which the influence of Islam on demand for pork was only one example. In other countries Buddhist influence had a similar effect on beef consumption.<sup>52</sup>

## Market niche

5.61 APL told the Committee that Australian pork exporters had responded to this complex marketplace by creating a niche in the ASEAN market which

48 Australian Pork Limited, *Submission No. 26*, pp. 345-6, 348. See also FAOSTAT, *Protein Consumption Quantity*, <http://faostat.fao.org/site/610/default.aspx#ancor> accessed 2 February 2009.

49 Australian Pork Limited, *Submission No. 26*, pp. 355, 361.

50 Australian Pork Limited, *Submission No. 26*, p. 358.

51 Australian Pork Limited, *Submission No. 26*, pp. 351, 358, 362.

52 Australian Pork Limited, *Submission No. 26*, pp. 348-9.

matched Australian production capacity. This followed the so-called ‘Singapore model’ – ‘fresh chilled pork, in a niche affluent market, and which is cost efficient to ship’. A number of ASEAN countries were regarded as amenable to this approach, given their proximity to Australia and rising their GDP.<sup>53</sup>

5.62 The niche described by APL entailed a ‘focus on those markets which can be sustained over the cycle of exchange rate fluctuations; and that can support a high quality/high price chilled pork positioning’. In effect, this ‘means primarily focusing on developing and strengthening trade with ASEAN countries who are experiencing sustained economic development’.<sup>54</sup>

5.63 APL added that this approach envisaged high quality rather than high volume for Australian pork exports. This suited Australia’s production capacity, and protected the Australian pork export trade from perceptions that ‘agricultural trade liberal liberalisation will result in a “flood of imported Australian product” into the domestic market.’<sup>55</sup>

## Barriers to trade

5.64 However much this approach is designed to reduce anxiety on the part of domestic producers in ASEAN countries, barriers to trade continue to persist. APL drew attention to the range of barriers that could beset other export industries. These included:

- tariffs;
- ‘financial support’ to producers;
- ‘growing domestic regulatory and compliance requirements’; and
- quotas.<sup>56</sup>

5.65 With regard to tariffs, APL cited Thailand as a problematic case where, under TAFTA, tariff barriers remained high (33 per cent), with long timelines for tariff reduction – TAFTA provided for zero tariffs on pork by 2020. In contrast, lamb and sheep meat reached the same point in 2010. As noted above, pork offal was subject to particular restrictions. This was

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53 Australian Pork Limited, *Submission No. 26*, p. 346.

54 Australian Pork Limited, *Submission No. 26*, pp. 345-6.

55 Australian Pork Limited, *Submission No. 26*, pp. 364-5.

56 Australian Pork Limited, *Submission No. 26*, pp. 342, 352, 358.

compounded by the Most Favoured Nation status applied to some of Thailand's other trading partners.<sup>57</sup>

- 5.66 APL advised the Committee that in the Philippines, tariff mechanisms also interacted with quota arrangements. Further tariffs ('special safeguards' or 'SSGs') were placed on imported product to protect domestic production when a certain level of overseas product came into the market.<sup>58</sup> SSGs, which were intended to protect national industries from flooding by offshore products, were also a feature of the trade in pork with Thailand.<sup>59</sup>
- 5.67 APL also advised the Committee of further non-tariff barriers that were significant to Australia's pork exports to ASEAN countries. These illustrated both the complexity of trade in the region and the promise of avenues currently being pursued.
- 5.68 APL noted the significance of these matters with regard to disease. On one hand, Australia prized its relatively disease-free status with regard to pork production, and industry representatives encouraged a firm position on maintaining biosecurity controls.<sup>60</sup>
- 5.69 On the other hand, APL raised objections that other ASEAN countries, such as the Philippines, reserved the right to exercise a 'broad discretionary power to reject imports when there is perceived to be a risk of disease'. In the absence of further qualification, argued APL, this constituted another form of non-tariff barrier.<sup>61</sup>

## Brand-recognition

- 5.70 A further challenge emerges in connection with product identification and branding, and their relationship with cultural practice. In its submission, APL argued that consumers in Singapore were unlikely to have a clear sense that they were eating Australian pork, even though Singapore represented a very significant market for the Australian product.<sup>62</sup>
- 5.71 APL explained that pork in Singapore was sold through so-called 'wet markets', where un-packaged meat was offered for sale. Consumers were less able to identify Australian product if it was sold without clear packaging and labelling. This opened the possibility of various kinds of

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57 Australian Pork Limited, *Submission No. 26*, p. 351.

58 Australian Pork Limited, *Submission No. 26*, p. 358.

59 Australian Pork Limited, *Submission No. 26*, p. 352.

60 Australian Pork Limited, *Submission No. 26*, p. 365.

61 Australian Pork Limited, *Submission No. 26*, p. 361.

62 Australian Pork Limited, *Submission No. 26*, p. 350.

misrepresentation – in particular, substitution of meat from a cheaper source which was sold as Australian pork, and offering frozen/thawed meat in place of chilled Australian pork meat. These practices reduced the perception of quality associated with Australian pork, and weakened the degree to which Australian meat was clearly identifiable to Singaporean consumers.<sup>63</sup>

## Committee comment

- 5.72 In the view of the Committee, the challenges encountered by Australian pork exporters to the ASEAN region are significant. Important in themselves, they also illustrate the challenges likely to be encountered by other Australian export industries. As for Australian automotive exports, it is clear that non-tariff barriers to Australian pork exports are as or more important than explicit, tariff-based barriers. As such, it is imperative that they become a more central part of trade negotiations.
- 5.73 It is also clear that while the adoption of consistent standards across the region may, on the face of it, appear less important than other dimensions of negotiations on trade they are an important avenue through which to resolve difficulties encountered by Australian exporters, including those in the pork industry.
- 5.74 It is clear, for example, that discussion over standards for disease-protection could descend into claim and counter-claim. The solution is to ensure that a science-based approach is broadly adopted within the region. Australia has a significant role to play in promoting this, particularly through leading by example and strengthening capability within ASEAN (see Chapter 7).
- 5.75 Similarly, the fate of Australian pork in Singapore's wet markets can be resolved through the wider and more consistent adoption of country of origin labelling – a central element of AANZFTA. The present absence of a clear brand for Australian pork, in spite of promotional efforts, is clearly not acceptable.
- 5.76 The Committee considers this a signal example of the way in which local cultural variations can stifle the marketing of Australian products within the ASEAN region. If country of origin labelling is implemented such that it resolves these challenges, it may develop into a useful tool for resolving similar problems with other Australian products.

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63 Australian Pork Limited, *Submission No. 26*, p. 350.



- 5.77 To date, Australia has made significant investment in promoting standards and increasing technical capacity in the ASEAN region, through which to support them. The Committee suggests, on the basis of the experience of Australian pork exporters, that this contribution to the capacity of other countries is indeed a fruitful avenue, through which Australia can further its own interests while making a positive contribution to those of its neighbours.
- 5.78 The Committee notes that Australian pork faces other challenges that are not specific to ASEAN countries, but which have an impact on Australia's pork exports to ASEAN. These stem from Australia's plans to adopt a carbon pollution reduction scheme. Another important influence is the financial support other countries provide to their pork export industries: in particular Canada, the United States and Denmark.<sup>64</sup>
- 5.79 In the view of the Committee, these features underscore the importance of Australia's continued focus on WTO negotiations, at the same time as it continues to focus on current multilateral, bilateral, and follow-up trade negotiations within the ASEAN region. This broader task represents a considerable challenge for Australia in marshalling and applying its resources – even in terms of conducting negotiations alone – while maintaining a sense of perspective and proportionality.

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64 Australian Pork Limited, *Submission No. 26*, pp. 366-7, 364.

