



Submission No 17

Australia's trade and investment relations under the Australia-New Zealand Closer Economic Relations Trade Agreement

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Australian Government

Department of Agriculture, Fisheries and Forestry

Submission

by

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

to the

**Inquiry into Australia and New Zealand
Closer Economic Relations (CER)**

by the

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

Trade Sub-Committee

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Executive Summary

At a Glance

CER has played a major role in the development of portfolio trade and investment between Australia and New Zealand and in enhancing the competitiveness of Australia's agricultural, food, fisheries, and forestry sectors.

Since tariffs and quantitative restrictions on trade were removed under CER in 1990, growth in the value of total portfolio trade between Australia and New Zealand has averaged 10 per cent per annum, with major benefits to Australian industry

- **Portfolio exports to NZ were valued at A\$1.3 billion in 2004-05.**
- **Significant benefits have also arisen from increased bilateral cooperation on food industry regulation and through increased trans-Tasman investment.**

CER provides an excellent example of the benefits to be gained by portfolio industries from concluding a comprehensive Free Trade Agreement (FTA) and provides a model for future FTAs.

The future scope and direction of CER for portfolio sectors will increasingly be influenced by and focussed on global and regional cooperation and issues arising from the closer integration of industry sectors.

The Australian Government Department of Agriculture, Fisheries and Forestry (DAFF) makes a multi-faceted contribution to the Australia – New Zealand bilateral relationship, through close and effective cooperation with New Zealand counterparts and through trade support and facilitation to assist the expanding trade and investment relationship under the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER).

The economic and trade relationship between Australia and New Zealand is shaped by CER, which came into effect on 1 January 1983. The CER is one of the worlds most open and successful free trade agreements (FTA), and as such provides an excellent example of the benefits to be gained from concluding a comprehensive FTA. There are no tariffs and quantitative restrictions on trade in goods and complementary memoranda underpin cooperation across many different aspects of trade.

CER has played a major role in the development of trade between Australia and New Zealand in the agricultural, food, fisheries, and forestry sectors. Since tariffs and quantitative restrictions on trade were removed under CER in 1990, growth in the value of total portfolio trade between Australia and New Zealand has averaged 10 per cent per year. This trade is currently valued at around A\$3.4 billion per annum, made up of over A\$1.3 billion of Australian exports to New Zealand and A\$2.1 billion of New Zealand exports to Australia. The majority of this growth in trade has been in processed food, although there is also now significant trade in forestry products.

Australia and New Zealand have many shared interests in the agriculture, food, fisheries and forestry sectors with the industries being economically important for both countries. However, while trade and investment between the two countries has shown strong growth over a range of products, there are also significant areas in which the two countries compete in third markets, such as meat and dairy. Bilateral technical market

access issues can also be a challenging area of the relationship, albeit these should be seen from the perspective of the overwhelmingly positive broader bilateral relationship in the agriculture, food, fisheries and forestry sectors.

Despite both Australia and New Zealand being major agricultural producers, exporters and competitors, there has been substantial development of trans-Tasman trade in portfolio products as a result of the liberalisation undertaken through the CER and the existence of few obstacles to trade. Key trade includes:

- Trans-Tasman trade in food and beverages worth over A\$1.8 billion annually, with Australian food and beverage exports worth A\$860 million in 2004-05 (a doubling in value over the past decade) and imports from New Zealand worth A\$970 million (also doubling over the last decade).
- Two-way trade in forestry products in 2004-05 worth over AUD\$1.1 billion, with Australian exports to New Zealand of wood and paper products worth A\$365 million and New Zealand exports to Australia valued at A\$776 million in 2004-05
- Two-way fruit and vegetable trade worth over A\$360 million in 2004-05 with Australian exports to New Zealand valued at A\$137 million and New Zealand exports to Australia valued at A\$225 million
- Two-way trade in dairy products worth A\$280 million in 2004-05, with Australian dairy exports to New Zealand valued at around A\$40 million and New Zealand exports to Australia worth over A\$240 million
- Two-way trade in wine worth A\$176 million in 2004-05, with Australian exports to New Zealand worth A\$96 million and imports from New Zealand worth A\$80 million
- Two-way trade in seafood worth \$A173 million in 2004-05, with Australian seafood exports to New Zealand valued at A\$19.5 million and New Zealand seafood exports to Australia worth A\$159 million
- Australian raw sugar exports to New Zealand valued at approximately A\$73 million in 2004-05
- Two-way trade in processed meats worth over A\$115 million in 2004-05, with Australian exports to New Zealand worth A\$75 million and New Zealand exports to Australia valued at A\$44 million; and
- Australian exports to New Zealand of broad-acre crops (primarily wheat) valued at A\$86 million in 2004-05.

The CER has also facilitated strong growth in trans-Tasman investment, including in the agriculture, food, fisheries and forestry industries, and this has led to greater integration in some portfolio sectors. In particular, there are a number of firms involved in the production and supply of food and beverage and forestry products which have been able to merge and invest in both the Australian and New Zealand markets. These include:

- Woolworths, Heinz Watties and Metcash Limited in food processing/retailing
- New Zealand's Carter Holt Harvey and Fletcher Building and Australia's Pentarch hold significant trans-Tasman investment in forestry, wood and paper products
- New Zealand's Fonterra dairy cooperative is a major investor in the Australian dairy industry, owning 100 per cent of Bonlac Foods and Western Australia's Peters and Brownes Foods
- Foster's Wine Estates, owned by the Foster's Group, owns vineyards in Australia and New Zealand and includes a multi-beverage group in New Zealand, and

- The New Zealand Sugar Company Ltd (NZSC) is jointly owned by two Australian companies, CSR Sugar and Mackay Sugar.

Australia and New Zealand share a strong and cooperative bilateral relationship in portfolio areas which is underpinned by the continued growth in trade and investment through CER. The relationship is also underpinned by strong shared experiences and objectives in the agriculture, food, fisheries and forestry sectors, both domestically and internationally, as well as through progressive trans-Tasman integration in a number of portfolio sectors and the development of common policy approaches and joint regulatory arrangements.

Both Australia and New Zealand's farm sectors are largely unsubsidised and highly dependent on exports and both have much to gain from a freer and fairer world trading environment. As a result, Australia and New Zealand have a close working relationship on agricultural trade issues, in particular through the Cairns Group, which plays an important role in advocating further international agricultural trade reform, and through our shared interest in seeing a successful and ambitious outcome in the World Trade Organization (WTO) Doha negotiations and in the development of international trade rules and standards which facilitate trade. While the WTO negotiations remain both countries' top priority, both are also pursuing FTAs as a complement to the multilateral trade negotiations and share many objectives in the ASEAN-Australia-New Zealand FTA negotiations, where there is generally a close and collaborative working relationship in portfolio areas of the negotiations.

Both Australia and New Zealand have undertaken extensive structural reform of primary industries over recent decades, focusing on deregulation, competition in marketing of agricultural products and removal of price supports. As a result, both Australian and New Zealand agriculture, food and fisheries receive relatively little government assistance in comparison to other Organisation for Economic Co-operation and Development (OECD) countries, and this has led to a natural shared view on many domestic and international issues which affect our respective industries (see Appendix A for an overview of New Zealand agriculture).

Significant benefits have arisen from cooperation between Australia and New Zealand on food industry regulation, such as through the creation of Food Standards Australia New Zealand (FSANZ) and the Trans-Tasman Mutual Recognition Arrangement (TTMRA). Australia and New Zealand share a joint food regulatory system, as agreed by the Australian and New Zealand Governments in November 2000, which supports the close economic integration of Australian and New Zealand markets. The Trans-Tasman Mutual Recognition Arrangement (TTMRA) also gives effect to a scheme implementing mutual recognition principles between Australia and New Zealand, in order to remove regulatory barriers relating to the sale of goods, including food, consistent with the protection of public health and safety and the environment.

CER has also proven instrumental in facilitating cooperation at the Governmental level. There are a broad range of consultative mechanisms at both Ministerial and officials level which facilitate a strong and open dialogue and foster improved trans-Tasman business interaction. These include formal Australian Federal/State Ministerial Councils in relation to Primary Industries, Natural Resource Management and Food Regulation, all of which include New Zealand, as well as the annual CER Ministerial Meeting. DAFF also cooperates extensively with New Zealand counterparts at officials level on a broad range of portfolio issues, including biosecurity issues, SPS capacity building, food safety, forestry and fisheries management and governance arrangements, as well as on international trade issues. Consultation and cooperation is carried out through both formal arrangements and informal networks.

DAFF also works to facilitate improved trans-Tasman industry dialogue where there are potential benefits to be achieved. Over recent years a business dialogue involving representatives of Australian and New Zealand industry has been held in parallel with the annual CER Ministerial Forum, providing an opportunity to identify and progress areas where cooperation and collaboration between Australian and New Zealand industry and Government would be mutually beneficial. The forestry and food and beverages sectors are two key sectors subject to these dialogues. Australia and New Zealand have also recently cooperated in amending ANZCERTA by altering the method by which rules for preferential market access is determined. This was done in close consultation with Australian and New Zealand industry and will reduce the compliance costs for agriculture and food exporters.

With CER having achieved much of what it set out to do, the future scope and direction of cooperation under the treaty in portfolio areas will be increasingly influenced by and focussed on both Australia and New Zealand's regional and global priorities, including through WTO Doha negotiations, FTA negotiations in our immediate region (ASEAN-ANZFTA), as well as in access to third country markets where we may share interests.

Issues arising from the closer integration of a number of industry sectors between Australia and New Zealand will also be key factors which will influence Australian and New Zealand industry and Government approaches in the future, including in relation to shared approaches in third markets and international negotiations, and through shared domestic regulatory and industry objectives. In relation to shared industry objectives, this is already occurring with the progressive integration of the Australian and New Zealand dairy industries due to the success of the large New Zealand cooperatively-owned firm Fonterra, and the recognition at an industry level of the value in shared approaches to issues relating to animal welfare, environment and research and development in order to improve productivity and competitiveness in the dairy sector.

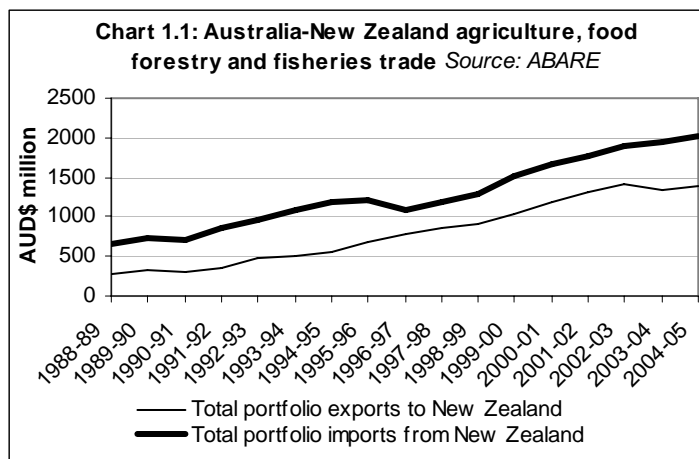
The softwood sectors of the forest industries in both countries have also identified potential areas where further trans-Tasman collaboration and government assistance would benefit the industry, including in relation to strategic industry development; trade policy; and education and training. At an industry level there has also been agreement to share information and to support joint research as well as to cooperate on representations made on behalf of the forestry industry to trade negotiation authorities. Likewise in the food and beverage sectors, the increased integration through cross-Tasman trade and investment will also likely lead to increased recognition by industry and Government of potential benefits from collaboration on domestic and international regulatory and other issues where Australia and New Zealand industries may share common interests.

1. Overview of Trade and Investment Relationships

1.1. Trans-Tasman Trade and Investment

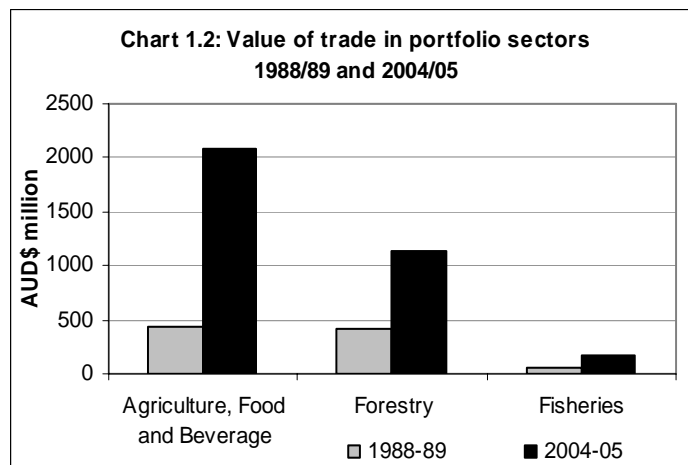
1.1.1 Portfolio trade

Both Australia and New Zealand (NZ) are open economies with very low tariff levels for agriculture, food, fisheries and forestry products. With all tariffs and quantitative restrictions on trade in goods prohibited under the Australia NZ Closer Economic Relations Trade Agreement (ANZCERTA or CER) since 1990, zero tariffs apply to trade in goods between Australia and NZ. That is, as long as goods traded between the two countries meet the CER rules of origin (ROO) requirements, they are able to claim the



preferential tariff rate of zero per cent. Currently, only 1 per cent of trade by value from NZ is subject to a tariff greater than zero due to the rules of origin requirements. As a result, CER is regarded as one of the most successful and comprehensive free trade agreements in the world.

The extent of economic integration between Australia and NZ under CER is reflected in the significant levels of total portfolio trade in each others' market. In fact, CER has played a major role in the development of trade between Australia and NZ in the agricultural, food, fisheries, and forestry sectors. Chart 1.1¹ illustrates the strong growth in total portfolio trade (agriculture, food, fisheries and forestry) between Australia and NZ. Since tariffs and quantitative restrictions on



trade were removed under CER in 1990, growth in the value of total portfolio trade between Australia and NZ has averaged 10 per cent per year. This trade is currently valued at around A\$3.4 billion per year, made up of over A\$1.3 billion of Australian exports to NZ and A\$2.1 billion of NZ exports to Australia. Chart 1.2 clearly illustrates the significant increase in the value of two-way trade in agriculture, food and beverage; forestry; and to a lesser extent fisheries products² between 1988/89 (prior to the removal of tariffs and quantitative restrictions) and 2004/05. The majority of this growth is in processed food, although there is also now significant trade in forestry products.

¹ Note that graphs are based on nominal data.

² Note that agricultural products include minimally transformed products; food and beverage products are substantially transformed products fit for human consumption; and fisheries products include both edible and non-edible products.

While CER provides for a liberal and open trading environment for portfolio products, there nevertheless remains some barriers to access on both sides of the Tasman arising from the conservative approach both countries take to quarantine in order to protect their animal and plant health status, and this can impact on which products are able to be traded trans-Tasman.

1.1.2 Portfolio investment

While the CER agreement does not include a specific chapter on investment, it has nevertheless facilitated growth in investment by facilitating consistently high levels of trans-Tasman direct investment, including in the agriculture, food, fisheries and forestry industries. In effect, trans-Tasman investment is subject to minimum constraint; currently there is around A\$20 billion worth of Australian foreign direct investment in NZ, making Australia the largest investor in NZ.

In relation to portfolio-related investment, CER has facilitated growth in trans-Tasman investment which has led to greater integration in some portfolio sectors. In particular, there are a number of firms involved in the production and supply of food products which have been able to merge and invest in both the Australian and NZ markets. These include Fonterra, Woolworths, Heinz Watties and Foodland Associated Limited (now a subsidiary of Metcash Limited). There is also considerable trans-Tasman investment in forestry, wood and paper products, involving firms such as NZ's Carter Holt Harvey and Fletcher Building and Australia's Pentarch.

Fonterra, NZ's major dairy cooperative, has also actively engaged in investment in the Australian dairy and food industries. Fonterra has been increasing its share of the Australian market through investments in Bonlac and Peters and Brownes and now controls around 20 per cent of the Australian milk supply. Fonterra defines Australia as a part of its domestic market and has expanded into the Australian market with the aim of creating a company which is able to manufacture and market a variety of dairy products across both countries.

1.1.3 Future trends in trade and investment

Despite both Australia and NZ being major agricultural producers, exporters and competitors, significant trans-Tasman trade in portfolio products does occur. This is due to factors such as differences in product quality, price (including those that can be attributed to efficiencies achieved by economies of scale in production) and product differentiation.

Nevertheless, while both countries are major exporters of agricultural products, neither are large consumers of these products in a global sense. It is important therefore to note that domestic consumption has a relatively smaller influence on Australian and NZ production and export of food and beverages due to the predominant export focus of both the Australian and NZ agriculture, food, forestry and fisheries sectors.

With CER having achieved much of what it set out to do, in terms of removal of impediments to bilateral trade in portfolio areas and closer regulatory alignment in relation to food trade, the future scope and direction of the relationship under the treaty in portfolio areas is increasingly influenced by both Australia and NZ's regional and global priorities, including through WTO Doha negotiations, FTA negotiations in our immediate region (ASEAN-ANZ FTA) and in access to third country markets. Nowhere is this clearer than in the agriculture area. Both Australia and NZ have a heavy reliance on agricultural exports. In Australia, around 65 per cent of agricultural production is exported while in NZ over 80 per cent of the food produced is exported. The fisheries sectors are also similarly export-focused in both Australia and NZ.

Since Australian and NZ agriculture, food, forestry and fisheries sectors have a significant export interest, reductions in tariffs and other barriers to trade in third country markets, as well as reductions in trade distorting domestic support in third countries, can have a major impact on production decision-making. There is therefore considerable incentive for Australia and NZ, as major agricultural, food and fisheries exporters, with significant cross-Tasman trade and investment and with shared interests in fostering growth in our respective agricultural, food, fisheries and forestry sectors, to seek improved market access to third markets and reductions in trade distortions internationally and to work together where appropriate in a range of areas to achieve these aims.

1.2. Food and Beverages

1.2.1 Trans-Tasman trade in food and beverages

Trans-Tasman trade in food and beverages is worth over A\$1.8 billion. Australian exports of food and beverages were worth A\$860 million in 2004-05, representing a



doubling in value over the past decade. Imports from NZ were worth A\$970 million dollars, also doubling over the past decade. NZ is also the dominant source of Australian food imports, accounting for 18 per cent of total food imports, up from 14 per cent in 1990. Chart 1.3 shows the growth of trade in food and beverages between Australia and NZ³.

Growth in food and beverages trade has remained particularly strong over the period 1988/89 – 2004/05 and, while population growth and income growth in both countries has remained steady, trade has been able to increase through manufacturers' ability to create value-added products which cater to differing tastes and preferences, as well as reflecting the differing export base and comparative advantages of each country.

Major Australian exports include processed cereal products, processed meat and processed fruit and vegetables. Major food and beverage imports from NZ include dairy products, fruit and nuts, wine, non-alcoholic beverages and confectionery.

The food and beverage industry is one of Australia's largest manufacturing sectors and is valued at over A\$65 billion. In 2004-05 food and beverage exports totalled almost A\$25 billion and the industry employed approximately 194 000 people, around 17 per cent of Australia's manufacturing workforce. Food processing makes up more than 20 per cent of the value of the manufacturing sector and is growing faster than the manufacturing sector overall.

Food and beverage manufacturing is NZ's largest and most competitive manufacturing sector, accounting for 5 per cent of gross domestic product (GDP) and 31 per cent of manufacturing GDP. It accounts for 50 per cent of manufacturing exports by value and 34 per cent of total exports by value. Meat and dairy manufacturing are the two largest industries in terms of output, exports and employment.

³ Chart 1.3 is inclusive of trade in substantially and elaborately transformed goods, including wine.

There are few obstacles to trade in the food and beverage sector and this is reflected in the substantial growth in food and beverage exports over the past decade. Nevertheless some exceptions do exist in the area of bilateral quarantine market access which can be a challenging area of the relationship.

1.2.2 Trans-Tasman investment in food and beverages

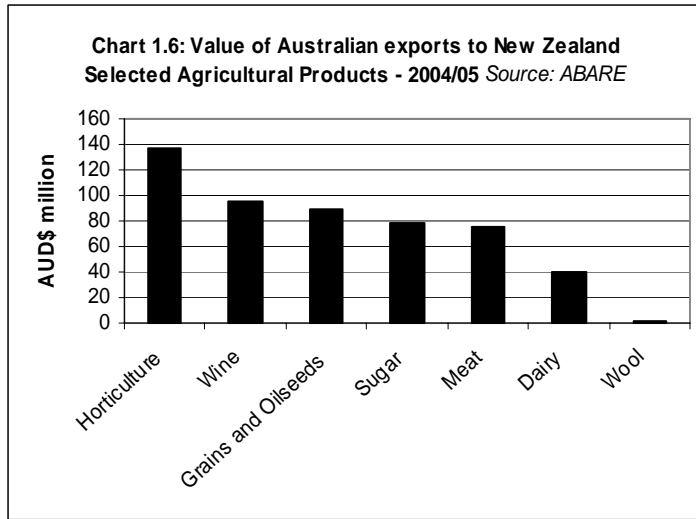
Over recent years there has been increased trans-Tasman integration in the food and beverage sectors with a number of significant mergers, joint ventures and acquisitions. Watties is one of the larger examples of firms merging to become a trans-Tasman entity. Known as Heinz in Australia and Watties in NZ, Heinz Watties supplies a range of food products for both markets and is also a major exporter to the Asia-Pacific region. Heinz recently sold its NZ poultry business, Tegel Foods, which processes and sells fresh poultry, frozen chicken and turkey products, to Australian firm Pacific Equity Partners for around A\$209 million. The sale is part of Heinz's plan to shed its seafood and frozen-foods brands and concentrate on faster-growing businesses, such as sauces (Heinz is the world's largest maker of tomato sauce).

Metcash, a major supermarket operator in Australia also has operations in NZ, mainly in liquor marketing and retailing, and has recently gone into a joint venture with Foodstuffs, a major NZ food retailer. Woolworths Australia Limited also recently acquired Progressive Enterprises, formerly owned by Foodland Australia Limited, which claims 45 per cent of the NZ grocery market through a variety of food retailing outlets, from small specialised chains to larger supermarkets.

In March 2006, Pacific Equity Partners announced it has agreed to acquire NZ snack foods business Griffin's Foods Ltd from French food giant Danone Asia Pte Ltd. Griffin's Foods Ltd owns brands in both biscuits and savoury snacks and has net sales revenue of more than A\$150 million. Pacific Equity Partners owns food companies including Collins Foods, which operates and franchises Sizzler restaurants worldwide and KFC restaurants in Australia.

1.3. Overview of Agricultural Products

1.3.1 Trans-Tasman trade in agricultural products



Since 1988-89, two-way bilateral agricultural trade has achieved steady and significant growth, more than quadrupling in size, and it is currently valued at over A\$1.14 billion per annum. Two-way trade in horticulture, dairy, wine and meat are all worth over A\$100 million each. In 2004-05 NZ exported A\$633 million worth of agricultural goods to Australia, while Australia exported over A\$514 million worth of agricultural goods to NZ.

Chart 1.6 shows the value of selected Australian agricultural product exports to NZ. Australia's major agricultural exports to NZ are horticulture (A\$137 million in 2004/05), wine (A\$96 million in 2004/05) and grains and oilseeds (A\$89 million in 2004/05).

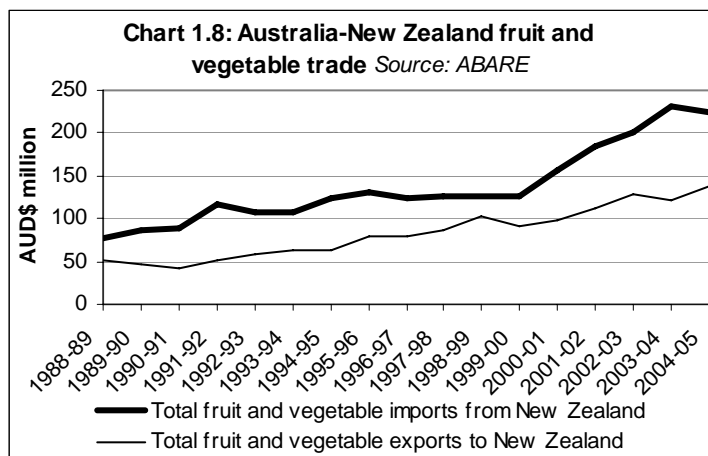
1.3.2 Trans-Tasman investment in agricultural products

The majority of trans-Tasman investment in agricultural sectors occurs in the dairy and wine sectors, with a smaller amount of trans-Tasman investment in the wool industry. NZ's giant dairy producer and exporter, Fonterra, has holdings in Australia generating A\$1.9 billion in revenue, while multi-beverage firms the Foster's Group and Lion Nathan own vineyards and wineries in both Australia and NZ. In the wool sector, the Australian Wool Testing Authority and Wool Equities Ltd (a NZ investment company) jointly own the NZ Wool Testing Authority.

1.4. Horticulture

1.4.1 Trans-Tasman horticulture trade

In 2004-05 two-way fruit and vegetable trade was worth over A\$360 million with Australian exports to NZ valued at A\$137 million and NZ exports to Australia valued at



A\$225 million. Chart 1.8⁴ shows trade in horticultural products between Australia and NZ. Australia provides 18 per cent of NZ's total fruit imports and 37 per cent of total NZ vegetable imports.

The Australian horticultural industry is also looking to develop new markets in NZ for a number of products which are subject to import quarantine approvals by NZ, in particular

stone fruit is a priority for Australian industry. In addition, Australian industry are also seeking market access for tropical fruits (custard apple, longan, lychee, mangosteen and rambutan), as well as mushrooms and bananas. Access to NZ was achieved for mango in March 2004 and papaya in January 2006.

NZ is also a significant horticulture producer and a strong competitor in both Australia and third country markets. Major NZ fruit and vegetable exports to Australia include kiwifruit (A\$29 million); avocados (A\$24 million); capsicum (including chillies and peppers - A\$7 million); tomatoes (A\$5 million); and apricots (A\$1 million). Around 57 per cent of fruit and vegetable imports from NZ are minimally transformed, while the remainder are substantially transformed before export. NZ is also interested in gaining market access to the Australian market for a number of horticulture products, including for apples, stonefruit to Western Australia and lettuce. These bilateral quarantine market access issues, and particularly access for apples, remain a challenging area of the relationship.

There has been increased competition from NZ horticultural exporters in the Australian domestic market which puts pressure on the Australian horticultural industry to become more competitive. NZ has a comparative advantage in certain horticulture products with generally larger and more efficient farm sizes. This assists the NZ horticultural industry to compete effectively in Australia's domestic market and it has been able to secure contracts to supply Australian-based firms. Simplot Australia estimates that there is around a 30 per cent price gap between Australia and NZ for potatoes, mainly due to the high cost of Australian labour. Despite this increased competition from NZ for Australian and overseas markets, data from the Australian Vegetable and Potato Growers Association (AUSVEG) indicates that growth in Australian vegetable exports to NZ over the past four years has averaged 7.5 per cent per year.

In recognition of the differences in competitiveness of the Australian and NZ industries, the government has been proactive in assisting the industry to maintain and improve its profitability and sustainability. DAFF has funded a vegetable industry partnership programme project aimed at boosting the vegetable industry's long-term growth and prosperity by developing the vegetable industry's sustainability and profitability.

⁴ Chart 1.8 includes trade in raw and processed fruit and vegetables.

1.5. Wine

1.5.1 Trans-Tasman wine trade



There is significant trade in wine between Australia and NZ. Total two-way trade was worth A\$176 million in 2004-05. Australian exports to NZ were worth A\$96 million while imports from NZ were worth A\$80 million.

Chart 1.9 illustrates the significant growth in trade in wine. As wine is such a specialised product, much of the trade occurs for very specific

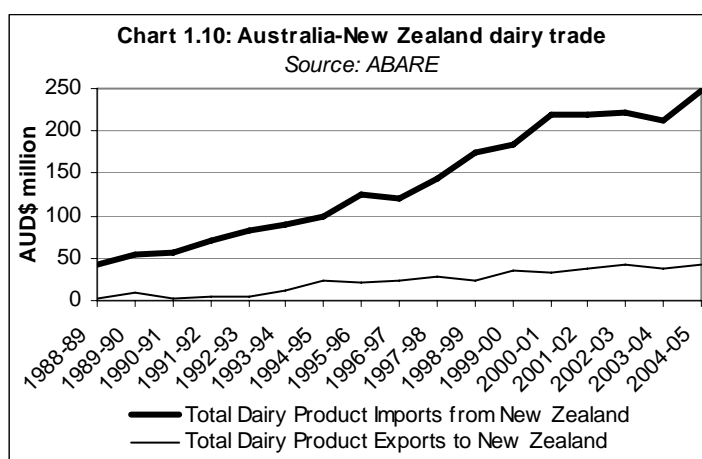
wines. Australia mainly competes in the NZ market for lower-priced wines and is the dominant supplier of imported wine into NZ. Taste and preferences are also significant drivers in the NZ market for wine. AusTrade analysis indicates the strength of taste and preference as a driver of wine demand, as NZ consumers consider NZ whites to be superior to Australian white wine, while Australian red wine is considered superior to NZ red wine.

1.5.2 Trans-Tasman wine investment

There is significant trans-Tasman investment in the wine industry. The Foster's Group is a large Australian-owned multi-beverage firm which owns established brands in alcoholic beverages such as Southcorp and the Carlton and United Breweries (CUB). Foster's Wine Estates, owned by the Foster's Group, owns vineyards in Australia and NZ and includes a multi-beverage group in NZ. Lion Nathan, which was originally based in NZ but has moved its primary stock exchange listing to Australia, has maintained a strong presence in NZ with the Wither Hills winery located in the Marlborough region and owns several major wineries in Australia such as Petaluma. Pernot-Ricard, one of the world's largest wine and spirits groups, originating in France, owns several leading brands in Australia and NZ such as Jacob's Creek, Montana and Stoneleigh.

1.6. Dairy

1.6.1 Trans-Tasman dairy trade



In 2004-05, total two-way trade in dairy products was worth A\$280 million. NZ exported over A\$240 million of dairy products to Australia, while Australian exports to NZ were valued at around A\$40 million. For the calendar year 2005, approximately half of NZ's total dairy imports came from Australia. Chart 1.10 indicates the strength of NZ dairy exports to Australia over time with

imports from NZ increasing five-fold over the period.

Australia and NZ are both major exporters of dairy products and are therefore competitors in many overseas markets. While there is a strong NZ presence in the Australian dairy market, there is less scope for significant Australian expansion into the NZ market with the exception of highly specialised and value-added dairy produce. Nevertheless, there has been a global increase in demand for dairy products, led by the emerging markets of China, Middle East and North Africa, as well as in Asia. A rise in incomes, changing food consumption habits and an increase in urbanisation has led to a strong boost in demand for milk and dairy products in these countries and so to opportunities for Australian and NZ dairy industries.

As key players in the global dairy market, both Australia and NZ's continuing competitiveness is dependent on the ability of farmers to enhance productivity. Australian and NZ dairy farmers are therefore increasing their cooperation and have agreed to develop shared policy approaches to issues relating to environmental, animal welfare and R & D policy. Dialogue has been conducted between Australia and NZ at an industry level with the aim of meeting common challenges facing both industries and to increase cooperation in representing low-cost dairy exporters.

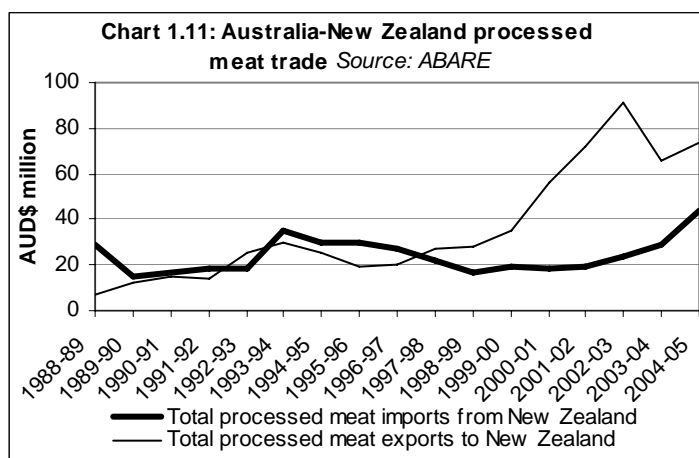
1.6.2 Trans-Tasman dairy investment

Changes to the Australian dairy industry following deregulation in 2000 have increased opportunities for closer commercial cooperation between the Australian and NZ dairy industries, with overseas companies given the chance to invest in and work with a more commercially-focused Australian dairy industry free of regulatory intervention.

NZ (effectively Fonterra) is the world's largest exporter of dairy products, supplying over one third of all global dairy exports. Fonterra is a strong competitor in Australia's key dairy markets in Asia and a major investor in the Australian dairy industry, owning 100 per cent of Bonlac Foods and Western Australia's Peters and Brownes Foods. In Australia, Fonterra has revenues of A\$1.9 billion, processes 21 per cent of Australia's milk and employs over 2 000 people. Its major brands include Bega, Brownes, Connoisseur, Mainland, Perfect Italiano and Western Star. The majority of industry sees this external investment in Australia as beneficial and necessary for the industry's development.

1.7. Meat

1.7.1 Trans-Tasman meat trade



In 2004-05 total two-way trade in processed meats was worth over A\$115 million with Australian exports to NZ worth A\$75 million per year and NZ exports to Australia worth A\$44 million. Chart 1.11 shows the trade in processed meat products⁵.

While NZ is not regarded as a principal export destination for Australian meat products, as exporters focus on the higher

value markets of Europe and Japan, it has nevertheless increased in value to the industry over recent years. There is small, but steady trade in most meat items. Beef and veal exports have been strong, worth A\$15.9 million in 2004, while there has been steadily growing trade in lamb, worth A\$7 million in 2004 and declining exports of mutton.

Pigmeat exports to NZ have been increasing since 2001 and are now worth over A\$40 million per year (for the 12 months ending March 2006), more than beef trade. NZ is now the second largest export market for Australian pigmeat, after Singapore. Live exports of cattle have generally been small and consist mostly of high-value breeding stock, with a small amount exported for meat. Australia provides roughly half of NZ's total imports of meat and offal.

Food processing companies in NZ have also expressed interest in producing ready-to-eat meals in their facilities using Australian chicken meat. Despite considerable effort, no import protocol has been established, largely due to the inability to agree upon methods of demonstrating infectious bursal disease freedom. NZ has also sought access for uncooked chicken meat and uncooked pig meat, but both requests are pending assessment of import quarantine risks by Australian authorities.

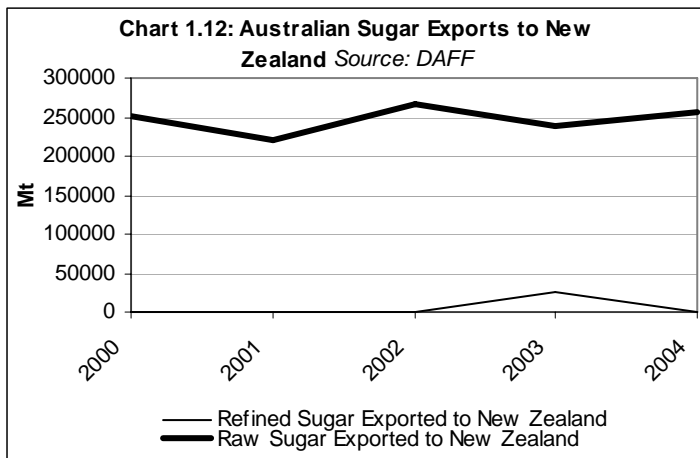
Australia's main interest with NZ in the meat sector is as a competitor in third country markets, particularly for sheepmeat. NZ beef also competes with Australian beef in some key Asian markets, particularly Taiwan and Korea. Much of NZ beef is grass-fed and therefore it does not attract premium prices on the world market. However, due to NZ's small population, the NZ red meat industry is highly export-focused and NZ is a significant exporter of manufacturing-grade beef for hamburgers and like products.

While Australia and NZ are both internationally competitive in pasture-based livestock industries (beef, sheep, livestock and dairy), Australia has a competitive advantage over NZ in feed grain production. This contributes to Australia's higher exports of grain fed beef and the growing exports of Australian pigmeat to NZ.

⁵ Chart 1.11 defines processed meat as including most fresh, chilled and frozen cuts.

1.8. Sugar

1.8.1 Trans-Tasman sugar trade



Given the lack of restrictions on trade under CER, Australian sugar companies presently have no difficulty in exporting both raw and refined sugar to the NZ market.

Over the period 2000-2004, there have been significant levels of raw sugar exports to NZ while refined sugar exports have generally been very low with the exception of 2003.

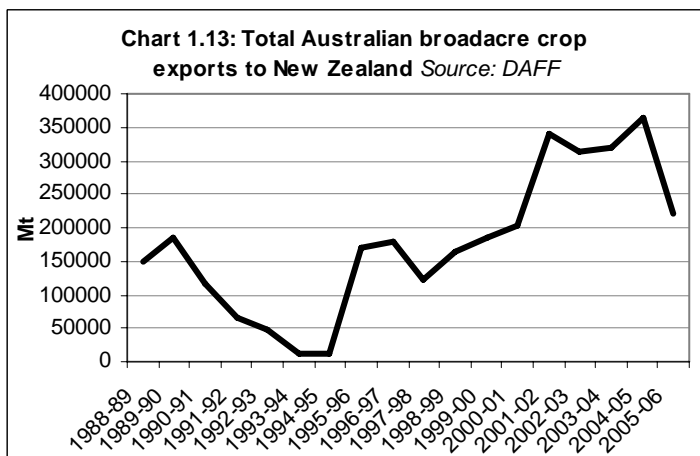
Chart 1.12 shows the volume of sugar exported to NZ over the period 2000-2004. The NZ market for raw sugar has averaged approximately 250,000 metric tonnes per year over this period, with an estimated value of A\$73 million per year. Exports have been consistent over recent years and trade is expected to continue at similar levels. Australia supplies approximately 70 per cent of New Zealand's sugar and sugar confectionery imports.

1.8.2 Trans-Tasman sugar investment

The New Zealand Sugar Company Ltd (NZSC) is jointly owned by two Australian companies, CSR Sugar and Mackay Sugar with Queensland sugar producers the main suppliers of NZSC's raw sugar requirements.

1.9. Crops

1.9.1 Trans-Tasman crop trade



Exports to NZ for broad-acre crops, whilst small in volume, are highly valued. This is due to the logistical advantage of exporting to NZ, as well as the lack of trade restrictions under CER. In 2004-05 Australian grain exports were worth A\$86 million.

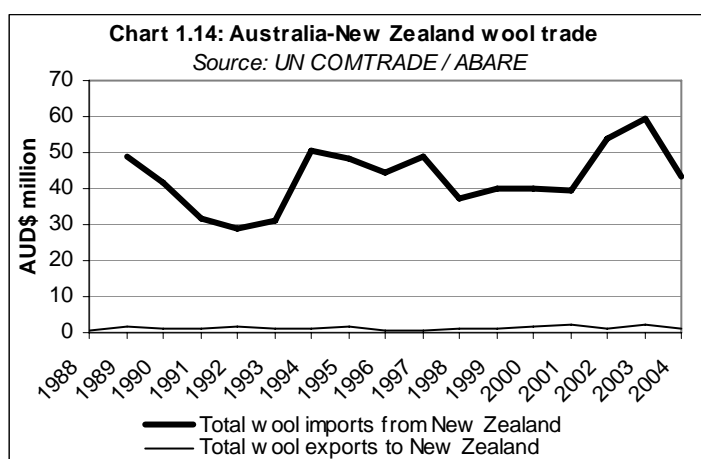
The volume of these commodities exported has been varied as indicated by chart 1.13⁶. Wheat is

overwhelmingly the largest item in trans-Tasman crop trade, with Australia sending 339,000 metric tonnes in 2004/05. Generally, wheat exports have been increasing while exports of other crops have varied year to year. Priority is given to the NZ market as a result of the price premium achieved. Australia does not import any raw cereals from NZ. NZ only exports a very small amount of grain and is not a competitor for Australian grain markets.

⁶ Chart 1.13 includes trade in wheat (including flour), barley, canola, oats and legumes.

1.10. Wool

1.10.1 Trans-Tasman wool trade



Australia and NZ are both major producers and exporters of wool, though product composition differs. These factors mean that bilateral trade between Australia and NZ has tended to be limited. Chart 1.14 shows the total value of trade in wool, with two way trade worth A\$45 million in 2003-04. Australia exported A\$1 million worth of wool to NZ while Australia imported A\$44.5

million of wool from NZ in 2003-04. Australia is the world's largest supplier of wool, producing 42 per cent of the world's greasy wool in 2004-05. In 2004-05, Australia produced around 525 kilotonnes of wool and exports were worth A\$2.8 billion.

Australian sheep flocks have trended toward producing very fine wool for clothing and apparel, 32 per cent of the total wool clip in Australia is now 19 microns or less, up from 13 per cent ten years ago. Overall, NZ produces heavier wool for use in the manufacture of carpets and rugs.

NZ sheep farmers tend to focus more on the production of meat and view wool as a by-product of this activity. However, rising prices for wool have also meant that some NZ farmers are concentrating on the production of fine wool (which makes up 5 per cent of NZ's wool export volume.)

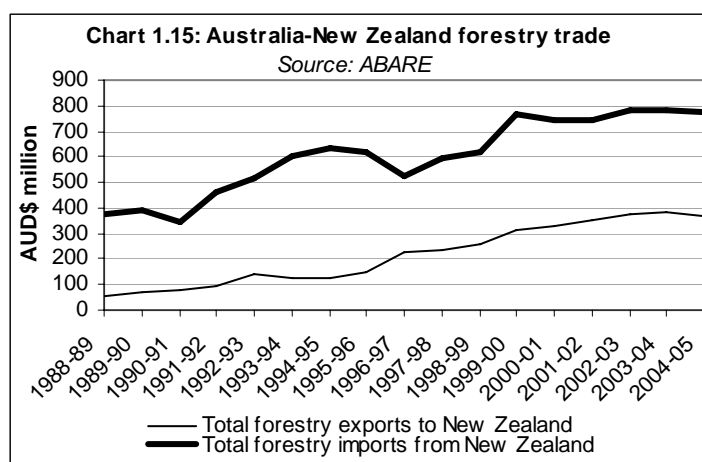
NZ is the world's largest producer and exporter of crossbred wool and is third behind Australia and China in total wool production. NZ exports about 85 to 90 per cent of its annual wool production, valued at NZ\$726 million.

1.10.2 Trans-Tasman wool investment

There is a small amount of trans-Tasman investment in the wool industry. In April 2004 the Australian Wool Testing Authority and Wool Equities Ltd (a NZ investment company) jointly purchased all the shares in the NZ Wool Testing Authority. Additionally, Australian Wool Services holds an 80 per cent share of Andar Holdings Ltd, a NZ firm which specialises in wool processing machinery. New England Wool, which originally operated as a buying company for superfine wool on behalf of Italian clothing manufacturers, has expanded operations to NZ.

1.11. Forestry

1.11.1 Trans-Tasman trade in forestry products



Total two-way trade in forestry products in 2004-05 was worth over A\$1.1 billion. Australia exported A\$365 million in wood and paper products to NZ, representing 18 per cent of Australia's forestry exports. NZ exported A\$776 million in wood and paper products to Australia in 2004-05, representing 25 per cent of NZ forestry exports and 19 per cent of Australian imports of wood

and paper products. Chart 1.15 illustrates the significant trade between Australia and NZ in forestry products.

NZ's main forestry exports to Australia are pulp, newsprint, dressed sawn wood, plywood and some paper and packaging products. Australia's main forestry exports to NZ are packaging and industrial materials, household and sanitary items, and printing and writing materials.

NZ is a leading forest plantation country with about 1.8 million hectares of mainly softwood plantations (greater than 90 percent). Australia has about 1.7 million hectares of plantations, of which approximately 58 percent is softwood and 42 percent is hardwood. NZ is a major exporter of forestry and wood products, while Australia is a net importer.

There have been ongoing decreases in processing capacity in NZ and increases in processing capacity in Australia. Whether the increasing availability of wood from NZ has market impacts in Australia depends on a range of factors including currency exchange rates, freight costs and Australian demand for appearance grade timber. The 2004 CER business dialogue on wood and paper products concluded that there is scope for the Australian and NZ governments to expand official cooperation in areas affecting the industries' future development, including strategic industry development; trade policy; and education and training.

At an industry level, there has been agreement to share information and support joint research on forestry and forest products being conducted by ensis, a joint venture of CSIRO and Scion, a NZ Crown Research Institute. A significant proportion of CSIRO forestry research capabilities is committed to the ensis partnership. The two industries have also agreed to cooperate on representations made on behalf of the forestry industry to trade negotiation authorities.

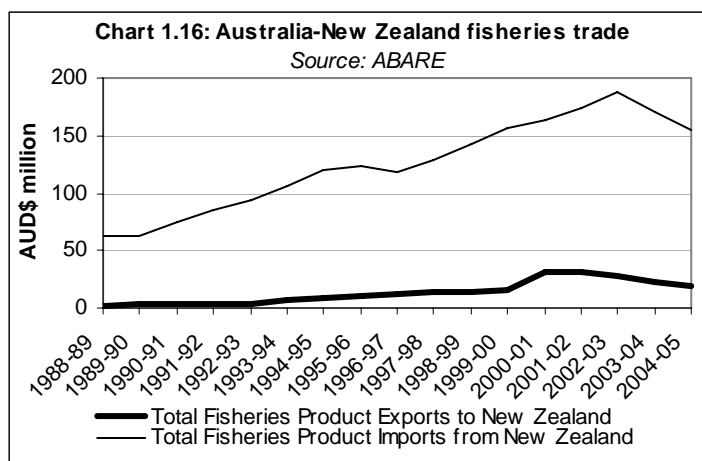
1.11.2 Trans-Tasman forestry investment

There are a number of examples of trans-Tasman investment in forestry, wood and paper products. The NZ company, Carter Holt Harvey, has substantial processing facilities in Australia including a 50 per cent interest in Highland Pine, a joint venture with Boral Timber. It is a key manufacturer of structural timber, plywood, laminated veneer lumber, flooring panels, particleboard and medium density fibreboard in Australia and NZ. Another NZ company, Fletcher Building also has holdings in Australia. The Australian companies Pentarch and Laminex have interests in forestry businesses in NZ.

International wood and paper companies, Weyerhaeuser, Rayonier and Norske Skog also have holdings in both Australia and NZ.

1.12. Fisheries

1.12.1 Trans-Tasman fisheries trade



Two way trade in seafood was worth \$A173 million in 2004-05. NZ exports of seafood to Australia are far greater than our seafood exports to NZ. In 2005, NZ seafood exports to Australia (edible and non-edible) totalled \$A159 million, while Australian seafood exports to NZ (edible and non-edible) totalled A\$19.5 million. NZ accounts for 19 per cent of all Australian imports of edible

fisheries produce and is the second largest exporter of fisheries products to Australia after Thailand.

Chart 1.16 shows the value of trade in fisheries products. Principal NZ seafood exports to Australia in 2004-05 included: frozen fish fillets A\$34 million, fresh or chilled fish A\$26 million, squid A\$11 million, prepared or preserved fish A\$9 million, and products of fish (or other) not for human consumption A\$8 million. Principal Australian seafood exports to NZ in 2004-05 included: flour meals and pellets (fish and other) not for human consumption A\$6 million, prepared or preserved tuna A\$2.5 million, and prepared or preserved salmon A\$1.8 million. NZ is Australia's principal export destination for canned finfish exports, taking over 87 per cent of Australian canned tuna and 97 per cent of Australian canned salmon. Overall, Australia provides around 10 per cent of all NZ fish imports (excluding processed fish products).

1.12.2 Trans-Tasman fisheries investment

There is significant NZ investment in the Australian fisheries industry, with several major NZ companies owning subsidiary firms in Australia. Sealord, which is half owned in NZ, is a global company which supplies canned products into Australian supermarkets as well as fish for restaurants and foodservice companies. The NZ company Sanford Limited owns Ocean Fresh Fisheries, which in turn sells to another Sanford-owned firm, Racovolis Amalgamated Fish Agents, which operate out of the Melbourne wholesale markets.

2. Role of Government in the CER Relationship

2.1. Bilateral Portfolio Cooperation Arrangements with New Zealand

Australia and NZ share a strong and cooperative bilateral relationship in portfolio areas which is underpinned by continued growth in trade and investment through CER. To facilitate this, DAFF engages in a broad range of consultative mechanisms at Ministerial and officials level and also through facilitation of business interaction.

2.1.1 Ministerial-level forums

There are a range of government-to-government mechanisms which enable closer engagement and cooperation at the Ministerial level, including formal Federal/State Ministerial Councils established to address the breadth of portfolio issues, as well as through the annual CER Ministerial Forum.

The **Primary Industries Ministerial Council** (PIMC) involves representatives from the Commonwealth, each of the states and territories of Australia, and NZ (which is a full member of the Council). PIMC is able to facilitate a coordinated response to primary industry issues which are of concern to all states and NZ. The objective of the council is “to develop and promote sustainable, innovative and profitable agriculture, fisheries, aquaculture, and food and forestry industries”. PIMC is supported by the Primary Industries Standing Committee (PISC), consisting of the heads of departments concerned with agriculture, forestry, fisheries, fibre, food and aquaculture. Examples of the issues the Council discusses are joint food regulations, joint animal welfare strategies and trade issues. The Australian Government Minister for Agriculture, Fisheries and Forestry is the current Chair of the Council.

The **Natural Resource Management Ministerial Council** (NRMMC) aims “to promote the conservation and sustainable use of Australia’s natural resources”. It is the principal body for the coordination of natural resource management issues across Australia and NZ, and NZ is a full member of the Council. Issues addressed by the NRMMC include climate change, greenhouse emissions trading and marine pests. The NRMMC is supported by a Standing Committee (NRMSC) comprising heads of departments responsible for natural resource policy. The Australian Government Minister for Agriculture, Fisheries and Forestry co-chairs the Council with the Minister for the Environment and Heritage.

The **Australia and New Zealand Food Regulation Ministerial Council** (ANZFRMC) includes Ministers from the Australian and NZ Governments and Australian state and territory governments and is responsible for developing food regulatory policy. The Food Regulation Standing Committee (FRSC) provides policy advice to the Council. The Committee’s membership reflects the membership of the Council, comprising the heads of departments for which the Ministers represented on the Council have portfolio responsibility, as well as the President of the Australian Local Government Association and Food Standards Australia NZ as observers. The Minister for Agriculture, Fisheries and Forestry is a member of the ANZFRMC, as are the Minister for Health and Ageing and the Parliamentary Secretary to the Minister for Health and Ageing.

2.1.2 Bilateral cooperation arrangements

DAFF officials cooperate with their NZ counterparts on a broad range of bilateral portfolio issues, including biosecurity, sanitary and phytosanitary (SPS) capacity building, food safety, forestry and fisheries management and governance arrangements. Consultation and cooperation are carried out through both formal arrangements and informal networks.

Australia and NZ cooperate on a broad range of biosecurity issues, including under the Protocol on Harmonisation of Quarantine Administrative Procedures to the ANZCERTA, signed in August 1988 (see section 3.3.3 for further information on the Protocol). The Consultative Group on Biosecurity Cooperation (CGBC), established under the Protocol, strengthens trans-Tasman dialogue and encourages greater cooperation between Australia and NZ on biosecurity issues. The Group meets up to twice a year and annual bilateral discussions on plant access issues are also held.

Further, DAFF undertakes networking and facilitation to foster better links for research and development for biosecurity through the Cooperative Research Centre on National Plant Biosecurity and the NZ Better Border Biosecurity (B3) Program. DAFF also contributes to the development of a plant pathology curriculum to enhance expertise and technical capacity in plant pathology and NZ is an observer on the Plant Health Committee, which establishes plant health policy and provides strategic policy, technical and regulatory advice to the Primary Industries Steering Committee (PISC) on plant health matters. In addition, Australia and NZ are involved in joint emergency response planning, particularly for forestry pests and diseases such as asian gypsy moth, eucalyptus rust and pine pitch canker.

DAFF works closely with NZ across a range of SPS and food safety activities, including jointly in relation to capacity building activities in developing countries in the SPS area. Australia currently participates in NZAID's Phytosanitary Capacity Building Project for the Mekong Region, representing Australia's SPS Capacity Building Program, which DAFF manages under contract to AusAID. This work includes capacity building through regional training activities, mentoring and equipment. AQIS, the NZ Food Safety Authority and Food Standards Australia NZ also meet through a working group which aims to further reduce trade restrictions on certain food products.

The Trans-Tasman Mutual Recognition Arrangement (TTMRA) relates to mutual recognition of regulations relating to the sale of goods and registration of occupations. The TTMRA impacts on the sale of food products, food regulations and agricultural and veterinary chemicals. DAFF cooperates with NZ authorities on risk foods which are currently exempt from the TTMRA (see section 3.3.2 for further information on the TTMRA).

Australia and NZ also cooperate actively in forestry research and development. The softwood sector of the Australian industry has a close working relationship with the NZ industry, despite being trade competitors. In recent years, CSIRO and NZ's Scion (formally Forest Research) have formed a joint venture, *ensis*, to conduct common research on forestry and forest products. A significant proportion of CSIRO forestry research capabilities is committed to the *ensis* partnership.

Australia and NZ have a strong cooperative relationship in managing the fisheries resources in the high seas areas adjacent to the respective fishing zones of both countries. To facilitate the process of cooperation, bilateral discussions are held on a needs basis, but usually annually. In February 2000, Australia and NZ signed the Arrangement between the Government of Australia and the Government of NZ for the Conservation and Management of Orange Roughy on the South Tasman Rise (an undersea ridge extending south from Tasmania into the Southern Ocean straddling both the Australian Fishing Zone and the high seas). The Arrangement took effect from 1 March 2000 and is of indefinite duration. Both countries also cooperate on the surveillance and enforcement of illegal fishing in the Southern Ocean and Australia is seeking to formalise this cooperation through a proposed bilateral treaty.

2.1.3 Business facilitation – CER business dialogues

Over recent years a business dialogue involving representatives of Australian and NZ industry has been held in parallel with the annual CER Ministerial Forum. The business dialogue provides an opportunity to identify and progress areas where cooperation and collaboration between Australian and NZ industries would be mutually beneficial. The dialogue facilitates industry communication with Ministers on key areas where the industry could be assisted by cooperative efforts between the two governments.

DAFF has been involved in the 2003 business dialogue on biotechnology, the 2004 dialogue with a sectoral focus on wood and paper products, and is working with industry, the Department of Foreign Affairs and Trade and NZ on arrangements for a 2006 business dialogue focusing on the processed food and beverage sector.

Following the 2003 biotechnology business dialogue, NZ accepted an invitation to join an Australia NZ Biotechnology Alliance (ANZBA). At present, the ANZBA is essentially a marketing agreement between the states of Australia (primarily Queensland, New South Wales and Victoria) and NZ to co-promote our biotechnology industries and capabilities in the international arena.

Industry advised Ministers at the 2004 wood and paper products dialogue of their view that there is scope for the two governments to expand official cooperation in areas affecting the industries' future development. The five key areas identified by industry where further trans-Tasman collaboration and government assistance would benefit the industry are: strategic industry development; trade policy; standardisation; promotion of wood products; and education and training.

The 2006 CER business dialogue will focus on the processed food and beverage sector, reflecting the potential scope for cooperation between the Australian and NZ food and beverage industries. Both the Australian and NZ Governments are undertaking formal engagement processes with their respective sectors: in Australia, through the National Food Industry Strategy; and in NZ, through the Food and Beverage Taskforce. There is the potential to extend the partnerships established through these processes to a more collaborative approach between Australia and NZ.

Industry has been involved in planning for the dialogue from an early stage and the Australian and NZ industry co-chairs are in the process of developing an agenda for the dialogue which may include discussion of regulatory issues, innovation, skill development and access to third markets. While the scope of the dialogue and any subsequent cooperation rests with industry, the CER dialogue process provides an effective mechanism to facilitate such outcomes.

2.1.4 Changes to ANZCERTA rules of origin

Australia and NZ recently cooperated to amend the rules of origin (ROO) under ANZCERTA that determine which products are eligible for preferential access. The change from the fifty per cent ex-factory cost method to the change of tariff classification (CTC) approach will reduce compliance costs for agriculture and food exporters. CTC ROO are simpler to administer for government and business and are more cost-effective than the ex-factory regional value content (RVC) approach currently used under ANZCERTA. The move to CTC under ANZCERTA is also consistent with the approach adopted in the Australia-United States FTA and the Thailand-Australia FTA and is Australia's proposed approach to ROO in negotiations underway on other FTAs.

Portfolio industries have been supportive of the change to the CTC method. Where specific concerns were raised that the proposed changes would lead to a loss of tariff preference, the draft rules were amended to include where appropriate RVC tests as an alternative to the CTC ROO. To give industry and importers an adequate period of time

to adjust to the CTC approach under ANZCERTA, a five year grandfathering of the current approach is proposed, with a review of the new ROO to be conducted within three years.

3. Complementary Policy and Regulatory Approaches

3.1. Complementary Policy Approaches

3.1.1 Trade policy

Both Australia and NZ's farm sectors are largely unsubsidised and highly dependent on exports, and both have much to gain from a freer and fairer world trading environment. As a result, Australia and NZ have a close working relationship on agricultural trade issues, in particular through the Cairns Group which plays an important role in advocating further international agricultural trade reform in the WTO negotiations. Both countries also share the view that the greatest prospects for agricultural trade liberalisation will come from an ambitious outcome from the current WTO Doha round of negotiations and so share a major stake in the success of the negotiations.

The predominant export focus of both Australian and NZ agriculture also means that both work closely and cooperatively in a number of international standard setting bodies (in relation to food standards and quarantine) which impact on agriculture and food trade. Australia and NZ also have shared interests in relation to many fisheries trade issues, and both countries are members of the Friends of Fish Group which comprises countries seeking to address fisheries subsidies in the WTO negotiations.

While the WTO negotiations remain both countries' top trade priority, both Australia and NZ are also pursuing FTAs as a complement to the multilateral trade negotiations. The pursuit of FTAs will remain an important area of Australian and NZ trade policy to the extent that there are significant benefits to be gained from concluding comprehensive FTAs with trading partners. NZ, like Australia, has concluded FTAs with Thailand and Singapore and is negotiating with Malaysia and China.

NZ has also concluded negotiations on the plurilateral NZ-Singapore-Chile-Brunei-Darussalam Trans-Pacific Strategic Economic Partnership, and is currently negotiating with Hong Kong. There are also similarities in the approach in most areas that Australia and NZ take on the joint FTA negotiations with the ASEAN countries. The negotiations provide an opportunity for Australia and NZ to secure shared outcomes in a number of areas. While recognising that NZ is a leading competitor in some sectors, cooperation with NZ on third country portfolio-related interests is generally also close and effective.

3.1.2 Industry policy

Both Australia and NZ have undertaken extensive structural reform of primary industry over recent decades, focusing on deregulation, competition in marketing of agricultural products and removal of price supports. Most agricultural producer marketing boards have also been privatised. As a result, both Australia and NZ agriculture receives relatively little government assistance in comparison to other OECD countries. For instance, the Producer Support Estimate (PSE) for Australia in 2004, as calculated by the OECD was around 4 per cent. Similarly, in 2004 the OECD PSE for NZ was around 3 per cent, the lowest of the OECD member countries. See Appendix A for an overview of NZ agriculture.

NZ and Australia also face similar challenges, and hence have a similar perspective, in relation to fisheries. The NZ fishing and aquaculture sectors operate with a low rate of subsidisation, and are highly deregulated. NZ's major fisheries exports are often subject to trade restrictions and other market barriers, and can sometimes be traded in international markets at considerable cost disadvantages in comparison with many competitors. Australia also has a deregulated fisheries sector and faces market barriers in

many export markets. Adding to this is the problem both countries have in terms of illegal fishing. These similar experiences have resulted in a similar perspective from both countries on many areas of fisheries policy.

Forestry is also an important industry in both countries, but NZ is more export-dependent than Australia. The governments of both countries provide minimal support for the industry, mainly in the form of matched levies raised by industry for research and development. The forestry industries do not receive any direct subsidies and also face trade-distorting barriers in many international export markets. While not identical, both countries have also had similar experiences in forestry issues, and therefore share a perspective on policy approaches. While the NZ industry is primarily focused on the production of softwood, the Australian and NZ forestry industries are seeking to advance the development of complementary policy approaches to the Australian and NZ forestry industries.

This similarity of experience in reforming primary industry and the resultant low level of government support means that both countries often share a similar industry policy view which seeks to make primary producers more self-reliant, market oriented, competitive and focused on the long-term sustainability of agricultural resources. While there are nevertheless some overall differences, the largely shared reform experience is fundamental in informing our relationship under CER in prompting shared interests in the international trade arena where we are largely natural allies.

3.2. Shared Engagement through Multilateral and Regional Fora

While CER is the principle vehicle through which Australia and NZ conduct bilateral trade, it has also brought a level of engagement on economic, trade and industry issues between both countries that goes beyond simple bilateral trade and investment in the primary industries area. This has led to greater commonality of views and development of shared objectives in international agriculture, food, fisheries and forestry matters.

In addition to common interests in the WTO, as Cairns Group members, and certain FTAs (as mentioned above), Australia and NZ also cooperate closely in other international fora on primary industry issues, including the Food and Agriculture Organisation (FAO) of the United Nations and the OECD. 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.

Australia is committed to working more closely with NZ on Codex issues which take into account the domestic standard-setting process of both countries, and in developing common positions in relation to matters of mutual interest in Codex, IPPC and their working group. Both countries also cooperate in the Regional Plant Protection Organisations such as the Pacific Plant Protection Organisation and the Asia and Pacific Plant Protection Commission.

Australia and NZ have many similar interests and aims in the forestry sector, including seeking to increase access to markets; reduce the impacts of illegal logging on trade in timber products; and to improve sustainable forest management in the region. Officials from both countries work together in a range of international forestry fora, including the United Nations Forum on Forests, the Asia Pacific Forestry Commission and the International Tropical Timber Organization, to achieve these goals.

In the multilateral trading context, NZ has also been working with other countries to incorporate negotiations to address non-tariff barriers in the forestry sector, for example, building codes, as part of WTO non-agricultural market access (NAMA) negotiations. While Australia is supportive of this approach our key concern is in achieving significant

tariff reductions for forestry products. Both Governments also actively cooperate in the FAO Committee on Forestry.

Australia and NZ work closely together in regional and international fisheries fora, including the High Seas Task Force and the Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR) to combat illegal, unregulated and unreported (IUU) fishing; the Commission for the Conservation of Southern Bluefin Tuna (SBT) to ensure the conservation and optimum utilisation of the global SBT fishery; and in establishing a regional fisheries management organisation (RFMO) for the southern Pacific Ocean.

3.3. Complementary and Joint Regulatory Approaches

Under CER and associated agreements there has been increased integration of Australian and NZ regulatory structures and, where this has not been possible, through improved complementary approaches. Australia and NZ have a joint food regulatory system; cooperate to remove restrictions and harmonise regulatory frameworks where possible in relation to products exempt from the Trans-Tasman Mutual Recognition Arrangement; and work together to share information and undertake cooperative work on quarantine issues.

3.3.1 Australia New Zealand joint food regulatory system

The Australia and NZ joint food regulatory system, agreed by the Australian and NZ Governments in November 2000, supports the close economic integration of Australian and NZ markets. The objectives of the joint food regulatory system include:

- protecting public health and safety of consumers in Australia and NZ;
- providing a high degree of consumer confidence in the safety of food produced, processed, sold or exported from Australia and NZ;
- reducing the regulatory burden on the food sector;
- harmonising domestic and international food standards;
- providing cost effective compliance and enforcement arrangements; and
- the establishment of common rules for both countries and the promotion of consistency between domestic and international food regulatory measures.

The Australia and NZ food regulatory system is underpinned by a number of agreements and legislative instruments including:

- the Inter-Governmental Agreement on food regulation signed by the Council of Australian Governments (GOAG) in 2000 and amended in 2001, which provides for an agreed legislative template for adoption by state and territory governments to encourage uniformity in food regulation;
- the New Zealand Food Act 1981;
- the Food Standards Australia New Zealand Act 1991;
- the Australia New Zealand Food Standards Code; and
- The Treaty establishing the Agreement between the Government of Australia and the Government of New Zealand Concerning a Joint Food Standards System.

The Treaty creates a joint food standards system in the two countries. Its objectives are to:

- reduce unnecessary barriers to trade;
- adopt a joint system for the development and promulgation of food standards;

- provide for the timely development, adoption and review of food standards appropriate for both countries; and
- facilitate the sharing of information between the two countries on matters relating to food.

Food Standards Australia New Zealand (FSANZ) is a bi-national independent statutory authority established to set uniform standards across Australia and NZ relating to composition, labelling and contaminants, including microbiological limits, that apply to all foods produced or imported for sale in both countries. FSANZ has responsibility for developing standards covering the entire food supply chain based on policy guidance from the Australia-New Zealand Food Regulation Ministerial Council (ANZFRMC).

The Australia New Zealand Food Standards Code (the Code) is the sole food standards code for Australia and NZ. The Code includes food standards in relation to the microbiological safety of food; the composition of food, including contaminants, residues, additives or other substances; information about food, including labelling and advertising; and the interpretation and application of standards. These food standards apply to all foods produced or imported for sale in Australia and NZ.

The Code does not include joint standards for maximum residue limits (MRLs) for agricultural and veterinary chemicals in food (see section 4.3.6) food hygiene, primary production or export requirements relating to third country trade. Where exceptional health and safety or environmental reasons apply FSANZ may approve separate food standards for Australia and NZ. Where NZ considers that a joint food standard is inappropriate for NZ, on the basis of exceptional health, safety, third country trade, environmental or cultural factors, it may vary from a joint food standard. The Code does not replace separate quarantine systems in Australia and NZ.

There are some market access issues that arise from the inter-relationship between the Code, the Treaty and the TTMRA. For example, products that are legal in NZ under its Dietary Supplements Regulations (but are not legal in Australia as dietary supplements) can be legally imported and sold in Australia. This creates market access inequalities and can be confusing for consumers.

The COAG Inter-Governmental Agreement on food regulation is currently being reviewed with a final report due in December 2006. The Agreement requires a review to be undertaken no later than five years after the commencement of the Agreement. Under Article 9 of the Treaty with NZ, a review of the Treaty is triggered by a review of the Inter-Government Agreement. The review of the treaty must be conducted and concluded before the conclusion of the review of the Inter-Governmental Agreement.

The joint food regulatory system is working effectively. It is not anticipated that there will be any major changes to the regulatory framework relating to food products in the near future.

3.3.2 Trans-Tasman Mutual Recognition Arrangement

The Trans-Tasman Mutual Recognition Arrangement (TTMRA) gives effect to a scheme implementing mutual recognition principles between Australia and NZ relating to the sale of goods and the registration of occupations, consistent with the protection of public health and safety and the environment. The Arrangement aims to remove regulatory barriers to the movement of goods and service providers between Australia and NZ, thereby facilitating trade between the two countries. The Arrangement intends to enhance the international competitiveness of Australian and NZ enterprises, increase the level of transparency in trading arrangements, encourage innovation and reduce compliance costs for business.

Food

The TTMRA impacts on the Australia NZ joint food regulatory system, as the Treaty explicitly states that food is subject to the provisions of the TTMRA. The mutual recognition principle of the TTMRA means that food which complies with the standards or regulations in Australia can be sold in NZ and vice versa.

Currently “risk food” is exempt from the TTMRA. There has been ongoing market access issues associated with risk food, particularly soft cheeses and fisheries products. However, the permanent exemption of risk food has been beneficial in instances where NZ has opted for a lower standard than that implemented by Australia (e.g. BSE controls over beef products). Australia has been able to maintain its appropriate level of protection because of the exemption and will consider such issues as work progresses towards fully accepting the obligations of the TTMRA.

Acting on recommendations made in the December 2004 report by the Cross-Jurisdictional Review Forum of COAG on the Evaluation of Mutual Recognition Schemes, to the Council of Australian Governments and the NZ Government, both governments are very close to removing restrictions on soft cheese traded trans-Tasman and will commence work on the removal of restrictions on fisheries products. Other risk food will be dealt with as priority demands. AQIS, the New Zealand Food Safety Authority and FSANZ have a working group with terms of reference that aim to further reduce trade restrictions on certain food products.

Cooperation on Agricultural and Veterinary (Agvet) Chemicals

Agvet chemicals have had a permanent exemption under the TTMRA since 1993, due to the differing nature of the regulatory systems in Australia and NZ. The Productivity Commission reviewed Mutual Recognition Agreements in 2003. The December 2004 Cross-Jurisdictional Review Forum report recommended that DAFF and the New Zealand Food Safety Authority (NZFSA), in conjunction with the Australian states and territories, lead a feasibility study through the Primary Industries Ministerial Council (PIMC) to:

- assess whether agricultural and veterinary products could be removed from the permanent exemptions list;
- examine the scope for a cooperation program to allow agricultural and veterinary products to be more freely traded across the Tasman, either on the basis of harmonised standards or mutual recognition;
- be completed by June 2006.

This work is being progressed by a working group of PIMC's Product Safety and Integrity Committee. For agvet chemicals, mutual recognition between Australia and NZ would mean that a NZFSA registered product would automatically be legally sold in Australia and vice-versa. The exemption for agvet chemicals in the TTMRA was put in place because:

- there are significant differences in good agricultural practice, environment (topography, climate) and the agricultural production base and systems in general between Australia and NZ, and this should be recognised in the Australian and NZ regulatory frameworks;
- Australia's regulatory framework is closely aligned with OECD best practice and regulatory approaches in North America and Europe, and blanket mutual recognition would drive Australia's system away from these alignments with potentially detrimental trade and other impacts;

- NZ was concerned that the blanket mutual recognition would compromise the trade agreements NZ has entered into on maximum residue limits (MRLs);
- NZ was concerned about different approaches in different parts of Australia to matters such as control of use and the hazardous substances regulatory framework; and
- There were concerns about the relative influences of NZ and Australia in deciding standards.

These concerns are still valid and, therefore, the working group is proposing that the current exemption for agvet chemicals in the TTMRA should remain. However, there are many aspects of the regulatory framework that could be harmonised and in recent years, significant progress has been made to strengthen cooperation between the Australian Pesticides and Veterinary Medicines Authority (APVMA) and the NZ Environmental Risk Management Authority (ERMA) and NZFSA. This includes:

- reciprocal acceptance of Good Manufacturing Practice licensing for veterinary medicines manufacturers (underpinned by a Memorandum of Understanding between APVMA and NZFSA);
- harmonisation of requirements for the labelling of aerosol products;
- sharing of information on adverse event reporting and recalls;
- NZ participation on the APVMA's state/agency consultative forum, the Registration Liaison Committee; and
- cooperation in international standards-setting forums, such as International Cooperation on Harmonisation of Technical Requirements for Registration of Veterinary Medicinal Products (VICH), Codex and the OECD.

This existing cooperation provides a good foundation for further strengthening efforts towards harmonisation. While mutual recognition of registration and market approval decisions is not appropriate for the reasons discussed above, better alignment of standards, processes and procedures and acceptance of data assessments and evaluations will alleviate the cost burden to industry of meeting divergent market approval requirements. Mutual acceptance of market approvals for certain product types may be possible where the reasons preventing mutual recognition are not relevant.

It is therefore proposed that a program aimed at achieving greater harmonisation of market approval processes between Australia and NZ be developed by way of a five-year work plan. The workplan will be underpinned by a Memorandum of Understanding between APVMA and NZFSA. The high level objective of this work is to achieve timely access to the broadest range of safe and effective agvet chemical products in both Australia and NZ.

3.3.3 Harmonisation of Quarantine Administrative Procedures

Consistent with the objectives of CER, a Protocol on Harmonisation of Quarantine Administrative Procedures to the ANZCERTA entered into force in August 1988, with the objective of endeavouring to achieve common administrative procedures in relation to quarantine by 1 July 1990.

The protocol commits Australia and NZ to work towards developing specific arrangements on quarantine requirements for plant and animal products so as to facilitate the harmonisation of quarantine standards and procedures and the adoption of common inspection standards and procedures. A Consultative Group for Biosecurity Cooperation (CGBC) was established under the protocol to coordinate technical quarantine

committees and help resolve outstanding technical differences on quarantine and related inspection matters.

In practice the protocol provides a basis for improved understanding of Australia and New Zealand's respective quarantine measures and practices and facilitates closer cooperation on a range of issues of common concern; while respecting the different pest and disease status of each country, and ensuring that the integrity of our respective quarantine regimes and the scientific basis of our import risk assessments are not compromised.

Substantial areas of common interest exist between Australia and NZ in biosecurity, such as research and development, training, emergency response preparedness and the tools used in biosecurity. DAFF will continue to share information and work with NZ in all of these fields.

Appendix A:

Overview of New Zealand Agriculture, Food, Forestry and Fisheries Sectors

Agriculture, food and forestry are some of the most important sectors of the New Zealand (NZ) economy. The agriculture, forestry and food industries constitute over half of NZ's merchandise export earnings. Like Australia, NZ has also experienced a historic trend toward fewer, larger farms which have dramatically increased productivity through the up-take of technological change, adoption of more intensive farming practices and closer integration along the agri-food chain. NZ has also undertaken significant structural reform of its marketing arrangements for many of its key export products and the resulting private companies, such as the dairy giant Fonterra, are highly influential in world trade.

Grazing and arable land use decreased by 12 per cent from 1994 to 12.0 million hectares, while horticultural land use increased by 6 per cent from 1994 to reach 110,000 hectares as at 30 June 2002. The total number of farms in NZ has been in decline since the late 1980s, along with the amount of land used for agricultural purposes. The NZ national sheep herd decreased by 20 per cent from 1994 to 2002 and has nearly halved since 1982. There has been strong growth in the dairy sector, increasing by 50 per cent in the ten years to 2002.

NZ is a significant exporter of agricultural produce, the major products being powdered milk, cheese, casein, kiwifruit, apples and sheepmeat. NZ is the second largest exporter of manufactured dairy produce behind the EU-25 and ahead of Australia.

Chart A.1 shows the growth of NZ exports over the past five years. While the NZ economy has been growing steadily – recording GDP growth between 2 and 5 per cent – agricultural exports have varied, depending on the strength of dairy exports, which constitute around 35 per cent of total agricultural exports.

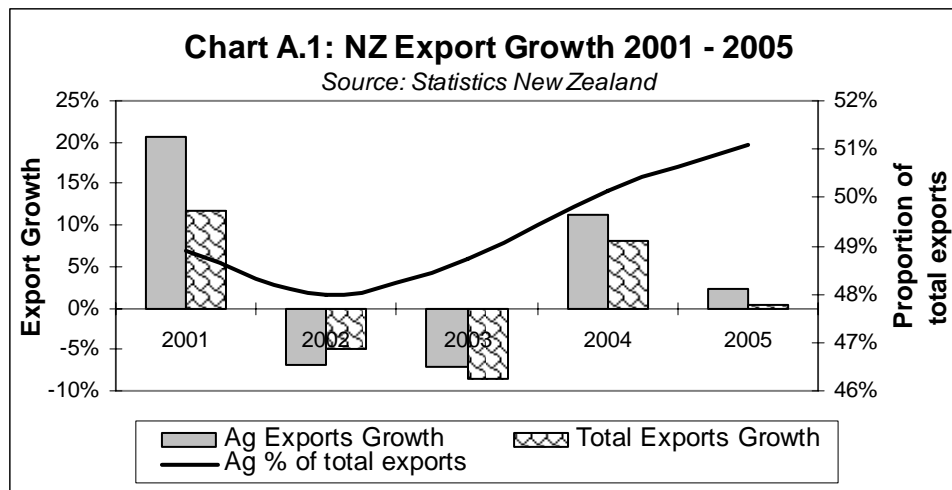


Chart A.1 also shows the influence that agricultural products have on the growth of NZ exports. In 2002 and 2003 the decline in export growth was mainly due to falls in dairy exports following the deregulation of the NZ dairy industry in 2001.

NZ is one of the world's largest exporters of forestry products. NZ has a long history of intensively-managed plantation forestry and currently harvests around 18 million cubic

metres of pine per year. Forestry in NZ accounts for approximately 11 per cent of export earnings and contributes 4 per cent to NZ's GDP.

NZ commercially fishes 130 species of fish and has 4.4 million square kilometres of marine fisheries water. Export earnings for commercial fisheries and aquaculture are valued at NZ\$1.2 billion per year. Over 80 per cent of NZ fisheries exports come from capture fisheries while the remainder is from the aquaculture industry. Like Australia, NZ has had problems with illegal fishing in its territorial waters. NZ has invested a significant amount of time into developing a plan to tackle illegal fishing in accordance with the international plan of action on the deterrence of illegal, unregulated and unreported fishing.

The NZ food industry is of vital importance to the NZ economy. Over 80 per cent of the food produced in NZ is exported, providing almost half of NZ's export earnings. Significant harmonisation of Australian and NZ policy in relation to food regulation and standards has occurred as a result of CER.