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Mr Stephen Winter
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Dear Stephen

AANZFTA – Citrus Industry Supplementary Submission

Executive Summary

Citrus Australia Ltd supports in principle the concept of free trade agreements as a means to liberalise trade in citrus to our industry's key markets. However, any specific FTA must be judged on its merits, and in that regard, the Australia-New Zealand-ASEAN FTA is a considerable disappointment.

An analysis of the AANZFTA reveals that there are only minimal gains for citrus. However, there are disappointing outcomes for mandarins to Indonesia and oranges and mandarins to Thailand in particular, where in both cases the AANZFTA outcomes fail to improve on the pre-existing MFN tariff for Indonesia, and TAFTA for Thailand.

Citrus Australia Ltd calls upon the Joint Standing Committee on Treaties to take note of the seriousness of these deficiencies, which are estimated to be costing the mandarin sector over $6 million in lost trade per annum, and to consider what measures can be taken to rectify the announced AANZFTA outcomes.

With minimal trade generating access improvements under the AANZFTA, Citrus Australia requests that the mandarin tariff would be on the list of top priorities for the upcoming FTA being explored with Indonesia, to address the missed opportunities under AANZFTA which are costing our industry dearly.

Introduction

Citrus Australia Ltd is the national peak industry body representing citrus growers. The citrus industry is Australia's largest fresh fruit exporting industry with an annual export value of around $180 million.

Citrus Australia fully supports multi-lateral and bi-lateral approaches in improving export market access and trade, including reductions or eliminations in non-phytosanitary items such as tariffs through Free Trade Agreements.

Though there are some benefits for citrus under AANZFTA it is extremely disappointing that in some instances the AANZFTA has failed to improve current non-phytosanitary barriers as are faced by export of citrus produce, for example into Indonesia, or which originate under previous negotiations, for example into Thailand. It is vital that every negotiated milestone is in fact an improvement upon previous results.

The citrus industry strongly endorses the criticisms of the AANZFTA made by the Horticultural Market Access Committee (HMAC) in its submission to the Joint Standing Committee on Treaties. For oranges and mandarins, the gains made under AANZFTA are fairly modest. More importantly, there are aspects where the FTA outcome for selected substantially traded citrus products to their key markets (eg mandarins to Indonesia) has failed to take the opportunity of improvement on existing tariff arrangements.

Australia has been generous in unilaterally reducing all fresh fruit and vegetable tariffs to zero.

In contrast the tariff reductions offered by ASEAN partners in certain situations, and accepted by Australia, represent continuation of demonstratively restrictive tariff barriers. This is an objectionable outcome, from a process that is supposed to reduce tariffs and move our trading partners effectively to free trade.

The two biggest problem areas for citrus in the AANZFTA are the Indonesian tariff on mandarins, and to a lesser extent the TAFTA tariffs on oranges and mandarins. In both cases, the AANZFTA failed to make any improvements, and retained open ended high tariffs into Indonesia and a continuation of border barriers into Thailand for another five years.

Mandarins to Indonesia

In 2005, Indonesia increased, to the detriment of its trading partners which face MFN tariffs, its tariff on mandarin imports from 5% to 25%, under a "Tariff Harmonisation" program.

In terms of tonnage, Indonesia was Australia's number one export market for mandarins in 2004 with 7,502 tonnes (FOB value of $8.765 million). In the years since, Australian mandarin exports have fallen to between 2,000 and 4,000 tonnes per annum ($3 to $4 million), and this decline is directly attributed to the 2005 tariff increase.

Mandarins are an important commodity for the citrus industry in Queensland in particular, with Indonesia being one of their most important markets. Accordingly, Queensland citrus producers have been particularly hard hit by the 2005 tariff increase. Lost exports have been valued at $6.5 million annually, and this is a huge cost to relatively small citrus growing communities in central Queensland.

Thailand and China have been the beneficiaries, having the advantage of zero tariff under the ASEAN-China FTA. They have picked up market share in Indonesia at Australia's expense, and the figures in the HMAC submission (Table 7) show that China's mandarin exports to the ASEAN group as a whole have grown by 244% in the past 4 years.

The Australian citrus industry has been working strenuously for four years with representations to Ministers, input to Ministerial and trade delegations to Indonesia, submissions into Indonesia, etc, to have this tariff increase overturned, without any success.

Nevertheless as part of the original "Tariff Harmonisation" program, the Indonesian MFN mandarin tariff is entering a staged reduction in 2009 - 20% (2009), and 10% (2010), which would recover some of the lost trade to this market. Disappointingly, AANZFTA has agreed on a 25% rate until 2024 (another 15 years), after which is will reduce to 18.75%. As a consequence the tariff differential in 2010 would be 15% higher under AANZFTA than the MFN rate, and a substantial differential over the MFN rate continues indefinitely. The AANZFTA target should have been a tariff reduction from the MFN rate to zero in the shortest possible time frame.

This outcome appears undesirable and illogical. The mandarin industry has received no explanation, and will continue to require to trade at the MFN rate.

Citrus to Thailand

The Thailand situation is not a serious as Indonesia, but the outcomes are still disappointing, and inferior to the current situation under the TAFTA.

Oranges – The pre-existing TAFTA phases down the orange tariff from 30% to zero by 2010. The AANZFTA extends the phase down to 2013, and thus, while not delaying the full benefits of a zero tariff under TAFTA (due next year), AANZFTA adds nothing.

Mandarins – The current TAFTA phases down the mandarin tariff from the present rate of 18% (2009) to zero by 2015 – with special safeguards to apply during this time. The special safeguard is a trigger mechanism that increases the tariff to the base rate/MFN rate (40%) once a certain volume is exceeded. At the very least AANZFTA should have eliminated the special safeguards provision. However, this was not achieved. Under AANZFTA the tariff is maintained at the pre-TAFTA rate of 40% until 2019, after which it will be reduced to zero in 2020. Accordingly, AANZFTA has again failed to improve on the tariff measure that currently applies under TAFTA.

AANZFTA Tariff Impact on Oranges and Mandarins

The ASEAN countries where Australia exports oranges and mandarins of a value in excess of $100,000 per annum (2007/08) are as follows:

Country	2007/08 Val A$K	2007/08 Vol (tonnes)	Current Tariff (%) (MFN/TAFTA)	Future Tariff AANZFTA	Tariff Savings	Comments
Oranges						
Indonesia	2,763,000	2,793	5	5% (2009) 0% (2010)	**+$138,150 (2010)**	A moderate positive gain
Malaysia	8,749,000	9,210	0	0	**0**	Already zero – not due to AANZFTA
Singapore	5,848,000	5,544	0	0	**0**	Already zero – not due to AANZFTA
Thailand	862,000	529	0 (2010)	15% (2009) 10% (2010) 7% (2011) 5% (2012) 0% (2013)	**none**	TAFTA is superior to AANZFTA as it achieves zero 3 years sooner.
Vietnam	470,000	406	40	40% 2009 Reducing annually to 5% 2015 0% 2018	**+$23,500 (2010) Increasing to +$188,000 (2018)**	Minor but growing positive gain achieved
Mandarins						
Indonesia	3,067,000	2,173	25% (2005) reducing to 10% (2010)	25% (to 2024) 18.75%(2025)	**none**	MFN is superior to AANZFTA
Malaysia	200,000	146	5	3% (2009) 0% (2010)	**+$10,000**	A small positive outcome
Singapore	613,000	440	0	0	**0**	Already zero – not due to AANZFTA
Thailand	254,000	142	18% (2009) 15% (2010) 12% (2011) 9% (2012) 6%(2013) 3%(2014) 0%(2015) +SSG	40% (to 2019) 0% (2020)	**none**	TAFTA is superior to AANZFTA as the 2009 rate is 22% lower and it achieves zero 5 years sooner.

Vietnam is a minor market for oranges and a negligible market for mandarins. The reduction from 40% to zero by 2020 (both oranges and mandarins) appears to be substantial. However, given the small volumes of trade to this market, this outcome is of limited value from a commercial standpoint.

For Singapore and Malaysia (oranges) the tariff was already zero and thus no further improvements were available under AANZFTA.

For Indonesia (mandarins) and Thailand, AANZFTA failed to deliver improvements – as described above.

Thus the only meaningful positive outcomes from AANZFTA are as follows:

- Indonesia (oranges) – from 5% reducing to zero by 2010 – a moderate gain with $138,150 in tariff savings
- Malaysia (mandarins) – from 5% reducing to zero 2010 – a minor gain of $10,000 in tariff savings.

There is no significant trade in oranges or mandarins to Brunei, Cambodia and Philippines, and thus AANZFTA has little relevance to these markets at the present time.

Impact on Trade

The measure of the importance of the AANZFTA is not just the savings in tariffs paid, but more importantly the increased trade which would be generated through the removal of barriers.

In the examples where the tariff is currently 5% [ie. Malaysia (mandarins), and Indonesia (oranges)], the removal of the already low tariff would only have a minor effect in stimulating further increases in trade.

Where the tariff is already zero (Singapore, Malaysia (oranges), the trade potential is not changed.

There could be greater benefits in relation to Vietnam in the future, but this market has not been developed and there would be many factors required to make this a market of significance.

By far the biggest impact is through the failure of AANZFTA to improve the TAFTA tariff regime on mandarin exports to Thailand, and the punitive (particularly in comparison to zero rates accessible to certain suppliers) MFN rate of tariff on mandarins to Indonesia. In the case of the latter, this tariff has already shown a cost of $6.5 million per annum in loss of exports since 2004.

The minor gains in other areas do not come anywhere near making up for the lack of improvement under AANZFTA in key tariff rates.

HMAC Submission

In addition to the above, Citrus Australia adds further comment on the issues raised in the HMAC submission to the Joint Standing Committee on Treaties, as follows:

Point 1 No achievement of zero tariffs on EIF

We welcome the fact that most tariffs eventually achieve zero, and most of them within 4 to 6 years.

However we are concerned that the mandarin tariff to Indonesia continues at 25% until 2024, reducing to only 18.75% thereafter. It does not achieve zero even in the long term under AANZFTA, and the ongoing very high rate is maintained at a level (18.75%) that is demonstrably trade restrictive.

Point 2 Potential and achieved value of AANZFTA tariff liberalism

HMAC's argument here illustrates the level of achievement against what could have been achieved. The failure of this FTA to deliver its potential gains, is an opportunity foregone, and we imagine that, unless the Indonesian mandarin tariff can be effectively addressed under the prospective Australia-Indonesia FTA, there will not be another opportunity to make further progress for quite some time.

For mandarins to Indonesia, the increase in the MFN tariff to 25% in 2005 saw Australian exports fall from 7,500 tonnes and FOB $8.5 million (2004), to generally 3,000 tonnes or $2.0 to $3.0 million since. While the value of mandarin exports to Indonesia reached $4.7 million in 2008, even this figure was $4.2 million below the level of 2004. This shows that the opportunity lost for mandarins to this market alone, is approximately $6.5 million per annum.

Point 5 Future negotiations need to at least match existing tariff levels

Australia has agreed to inferior tariff outcomes than available under MFN tariffs for mandarins to Indonesia and the TAFTA tariff for oranges and mandarins to Thailand.

The failure to at least hold the status quo would appear to reflect poorly on our trade negotiators.

However whilst this is a lesson for the future, the importance of this issue <u>for the present</u> is of much more significance, and our industry would like to see all avenues explored to have these deficiencies rectified immediately.

Point 7 Missed opportunity under AANZFTA to match China tariffs

Australia has not achieved equivalence of tariffs facing Chinese exports to ASEAN. This is a major concern for the Australian citrus industry. China is a direct competitor in mandarins to Indonesia, and the statistics show that China has massively increased its market share at Australia's expense.

Point 8 Tariffs other than AANZFTA may be preferably used

The industry has been advised that the AANZFTA tariffs will not necessarily be applied, as it may be permitted to supply to Indonesia and Thailand under the more favourable existing MFN or TAFTA tariffs.

If this is the case, and the AANZFTA tariffs will not necessarily apply in practice, the citrus industry questions why inferior conditions were negotiated and agreed.

Notwithstanding any assurances from the Australian government, as in other situations where FTAs are negotiated in addition to the MFN rate there are now within the tariff schedules two or three rates of tariff applicable to Indonesia and Thailand. Industry will expect the lowest rate to be applied by the respective ASEAN customs authorities.

Future Free Trade Agreements – Indonesia Free Trade Agreement

Citrus Australia wishes to advise our expectation that the adverse outcome for mandarins to Indonesia under AANZFTA will be at the top of the list for correction in proposed negotiations for a free trade agreement with Indonesia. It appears that this will now be the only opportunity in the near-medium term to achieve an improvement in the Indonesian tariff regime, and produce a genuine trade liberalising outcome.

Important messages out of AANZFTA experience

Citrus Australia calls upon the Joint Standing Committee on Treaties to send important messages to Australia's trade officials, and to ASEAN trading partners, in the ratification process for AANZFTA.

Australian trade officials need to understand the concerns of the citrus industry as a result of the AANZFTA. Australian industries require , and better outcomes from FTAs than this.

Australia also needs to communicate to ASEAN nations that it is serious about free trade, and are not agreeable to token measures. Australia needs to motivate ASEAN nations to make genuine and meaningful tariff concessions in future trade negotiations with Australia.

These messages may best be delivered by the Parliamentary Joint Committee in its report for the ratification process.

Citrus Australia

Conclusion

There are only minimal gains for citrus in AANZFTA. However there are major lost opportunities for mandarins to Indonesia and oranges and mandarins to Thailand, where in both cases the AANZFTA outcomes are inferior to the pre-existing MFN tariff for Indonesia, and TAFTA for Thailand.

The best case scenario for the citrus industry is that we can continue to access the MFN tariff as the applied rate for exports to Indonesia, and the TAFTA for Thailand.

Yours sincerely

JDamiani

Judith Damiani
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