Premier of Western Australia

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Committee Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade
Department of the House of Representatives
PO Box 6021
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CANBERRA ACT 2600
AUSTRALIA

Dear Committee Secretary

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE – INQUIRY INTO AUSTRALIA'S TRADE AND INVESTMENT RELATIONS WITH ASIA, THE PACIFIC AND LATIN AMERICA

Thank you for the opportunity to lodge a submission with the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT), in regard to the inquiry into Australia's trade and investment relations with Asia, the Pacific and Latin America. A copy of information provided by Western Australia's Department of Agriculture and Food is attached for the Committee's reference.

This is an important issue for Western Australia, as the agri-food sector in this State is predominantly export focused. As such, the opportunity to gain improved export market access is a key growth policy focus for this sector. Western Australia also recognises that domestic market reform is also required to improve Australia's export competitiveness.

I trust that the information provided by Western Australia is of assistance to JSCFADT's inquiry. Should the Committee require anything further, please do not hesitate to contact Mr Jerome Partridge, Senior Policy Officer, Department of the Premier and Cabinet, on (08) 9222 9294, or jerome.partridge@dpc.wa.gov.au.

Yours sincerely

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Response by the Department of Agriculture and Food Western Australia (DAFWA) to the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) – Inquiry into Australia's Trade and Investment Relations with Asia, the Pacific and Latin America

The Department of Agriculture and Food Western Australia (DAFWA) sees this as an important inquiry as the agri-food sector is predominately export focused. Gaining improved export market access is a key growth policy for this sector, but the Department also recognises that domestic market reform is also required to improve Australia's exporting competitiveness.

On this basis, the Department intends to improve export performance by focusing on the agri-food sector's areas of competitive advantage, deepening exports to existing markets in the region, diversifying the export base, removing impediments to export and increasing the number and skills of exporters in the State.

1) Current agri-food trade with ASEAN and other Asia/Pacific/Latin American nations

Between 2005/06 and 2007/08, Western Australia's agri-food trade with the 10 nation ASEAN trading block, and the percentage of Western Australia's total agri-food exports this represented, were:

2005/06	A$ 934,737,333	19.8%
2006/07	A$1,042,560,514	22.6%
2007/08	A$1,233,683,248	25%

The ASEAN trading block represents both a significant market in total for Western Australia's agri-food exports, and a growing market in percentage terms. If you take the Committee's current inquiry as focusing on the regions of Asia (including ASEAN), Oceania and North, Central and South America, the trade statistics and percentages were:

2005/06	A$3,089,855,255	65.4%
2006/07	A$3,640,416,407	78.9%
2007/08	A$3,306,365,198	67.1%

These figures highlight that for Western Australian agri-food exports, around two thirds go to the regions the committee is focusing on. However, of these, Asia comprises the main destination for Western Australian agri-food exports, with only North America having any significant totals out of the remaining Pacific and Latin America regions. In regional terms, the most significant markets for Western Australian agri-food exports are North East Asia, the Middle East and North Africa and then ASEAN.

This trading arrangement would seem logical when considering the geographic proximity of these regions to Western Australia, which means Western Australia enjoys competitive advantages in terms of shipping times to many of these destinations. Conversely, the State requires an extra five or so days to transport products across the Pacific while Eastern States exporters can transport their products to those markets in a shorter time period with the advantages this has for shelf life and other post harvest attributes.

2) Likely future trends in regional relations

Latin America

Only a relatively small percentage of Australia's export trade is being conducted with Latin American countries. Because of the distance of those markets from Western Australia, and the focus it has traditionally had on Asian and Middle Eastern markets, this is unlikely to change in the short term.

The recently signed Australia Chile FTA is a comprehensive package that is consistent with Australia's policy that FTA's should support efforts to promote further multilateral and regional trade liberalisation. It introduces a high quality FTA into the Asia-Pacific Economic Cooperation (APEC) region and is a model for other bilateral and regional trade and economic integration to potentially follow.

Over time, this may result in increased market penetration to the region.

Asia

The foreseeable population growth and economic expansion in Asia will underpin the importance of that region to Australia's agri-food exporters. Especially with the growing affluence of populations in China and India, and the shift this often entails from a plant based diet to that of animal protein and animal products based diet, Western Australia is well placed to capture growing demand into the future as long as it has competitive market access to these consumers.

ASEAN

ASEAN is also an important trading partner directly to the North of Western Australia. The implementation of the ASEAN-Australia/New Zealand (AANZ) FTA would also build on the already strong traditional trade relationships that have been established with many of the ASEAN nations, and will also assist in enhanced trade and investment flows in both directions throughout the region into the future. The signing of such an agreement will also put Western Australian agri-food exporters in a more competitive position in comparison with any other nation that have signed FTAs with countries in the region.

For a more detailed review of trade between Western Australia and ASEAN, please see Attachment 1, which includes:

1. an overview of ASEAN;
2. the status of the ASEAN Free Trade Area;

3. the next steps in the development of an ASEAN single market; and
4. the strategic impact of ASEAN on Western Australia.

Attachment 1

The future impact of the ASEAN Free Trade Area on Western Australia's markets in South East Asia

ASEAN in overview

WA is on the edge of the ASEAN region, which is rapidly developing into one of the world's largest free trade areas in terms of population.

ASEAN, which incorporates Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand and Vietnam, has a population of close to 550 million persons. The region is already a major market for a range of WA products, including agrifood commodities, processed food and drinks.

The region is a complex mix of different markets ranging from advanced developing markets in Singapore and Malaysia to the lower income weaker markets of Cambodia, Laos and Myanmar.

Strategically, Australia sits just outside this free trade area but has yet to obtain preferential access to it as a region under an ASEAN-Australia Free Trade Area. It currently has free trade agreements with Singapore and Thailand and is in the process of negotiating a free trade agreement with the region as a whole.

Analysts in ASEAN comment that ASEAN has some member states who are generally concerned about providing too much free trade access to Australia. Australia is often regarded largely as a threat to ASEAN because of its status as a Developed World country with powerful industries. Consequently, there is some local scepticism over the amount of free trade access that Australia will ultimately be able to negotiate with the region.

Status of the ASEAN Free Trade Area

After a very slow start, the establishment of the ASEAN Free Trade Area (AFTA) has rapidly moved ahead over the past three years. The first and second milestones in establishing AFTA have been implemented.

The AFTA Common Effective Preferential Tariff (CEPT) Scheme is implemented in Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Under this scheme "ASEAN-content products" can now enter these seven countries at import duties of between 0% and 5%. Laos and Myanmar will implement AFTA CEPT in 2008 and Cambodia in 2010.

The Member States have also agreed to enact 0% duty on trade in virtually all ASEAN content products in 2010 or 2015, which applies to less developed Vietnam, Laos, Myanmar and Cambodia.

Currently, only a small number of highly sensitive agrifood products are excluded from the AFTA-CEPT scheme. Examples are pork (Philippines, Laos and Vietnam), beef (Cambodia and Laos) and alcoholic beverages (various countries).

ASEAN-content products are defined as:

- Wholly produced in, or obtained from, an ASEAN Member State; or

- Produced in an ASEAN Member State with at least 40% of product content originating from the ASEAN Member States. (Note: Product content is calculated using FOB price under a formula which includes all incurred production costs and overheads).

ASEAN content products are important for Western Australia because products such as wheat flour, dairy products and biscuits that are made in ASEAN and contain Australian ingredients will almost certainly be ASEAN-content products.

In 2005, ASEAN entered a three year process to remove all non-tariff barriers to the import of ASEAN-content foods across the whole of the region. This policy, regulatory and standards harmonization project is complex because of the variations in national laws and regulations. It is partly funded by, and supported on an advisory basis by, the EU (regarded as the "natural partner" for this initiative having been through it before).

The harmonization process involves the development of:

- Transitional mutual recognition agreements covering the ASEAN Member State's national laws, standards, processes and procedures.

- A new foundation for ASEAN region laws, standards, processes and procedures embodied in an EU-style Directive or Directives.

The next steps in ASEAN's development as a single market

ASEAN Leaders signed the ASEAN Charter during their 13th ASEAN Summit in Singapore on 20 November 2007.

The ASEAN Charter has been designed to serve as a legal and institutional framework, as well as an inspiration for ASEAN and its development in the years ahead.

The Charter includes provisions that provide definitions on the purposes and principles of ASEAN, ASEAN as a legal personality, membership, its organs of administration, associated organisations, immunities and privileges, decision-making processes, dispute settlement mechanisms, budget and finance systems, administration procedures, identity and symbols, working language (which is English), etc.

Prior to this, the ASEAN leaders agreed to establish an ASEAN Economic Community (AEC). AEC would be a true free trade area, an economic community, by 2015 (brought forward from the original 2020).

The AEC brings together all current initiatives on:

- Reducing import duties under the AFTA-CEPT scheme;

- Harmonising food regulations and standards, eliminating non-tariff barriers and improving market access procedures;

- Increasing intra-region investment;
- Liberalising trade in services; and
- Facilitating cross-border flows of skilled manpower within the ASEAN region.

The ASEAN Economic Community (AEC) Blueprint was officially published in 2007. In November 2007, the ASEAN leaders signed a Declaration that commits each ASEAN Member Country to abide by, and implementing, this blueprint so the AEC is established by 2015.

The AEC Blueprint has been designed to transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy. It covers agriculture and food and has a focus on implementing AFTA-CEPT free trade, development and implementation of regional standards (GAP, etc), quality management systems, harmonisation of all SPS standards by 2015 in accordance with international standards and guidelines, and other matters, MRLs, animal health standards, biotech, etc.

In February 2008, the US government announced a multi-sector development assistance program to help the ASEAN reach its goal of establishing the ASEAN Community by 2015. This program has three initial streams of assistance covering policy and technical assistance and training, development of the ASEAN Single Window for the region's customs departments and regional supply chain and competitiveness aimed at promoting a unified and integrated market that is better able to attract new investment from foreign investors and ASEAN investors. This supplements the existing programs that are being funded by the EU.

The strategic impact of ASEAN on Western Australia

The ASEAN Free Trade Area is already having a major impact on the ASEAN food industry. Knowledgeable key businesses have been investing for AFTA since the mid-1990s, e.g. Nestlé, Unilever, Fraser & Neave, Kellogg's, Pillsbury, etc.

Intra-ASEAN food trade has dramatically increased as foreign investments have restructured the processed food supply base and chains, with some negative impacts on Australia's food industry. The ASEAN-content products involved in this trade include Australian origin ingredients in their formulation. Today, these products now have access to a "regional" higher processed food market of between 70 and 100 million people.

AFTA has brought down tariffs on a wide range of products within ASEAN, but access problems still remain due to non-tariff barriers, which are being slowly dealt with through the harmonisation process mentioned above. AFTA is not a customs union, and there are no discussions on-going about establishing such a union.

For non-ASEAN content products, the general stances of ASEAN member economies towards imported foods, drinks and agrifood commodities are as follows:

Policy Stance (General)	ASEAN Member States
Free /low duty trade:	Singapore, Brunei, Malaysia and the Philippines.
Freer trade with conditions:	Indonesia (with current government) and possibly Myanmar (Burma).
Evidently protectionist:	Thailand (subject to the provisions of the Australia-Thailand free trade agreement), Cambodia and Vietnam.
Confused but likely to be protectionist:	Laos

The scenario that now exists in ASEAN means that Western Australian exporters continue to face the different national tariffs, trade barriers and regulations when exporting their products to the region. On a positive note:

- WA food ingredients generally face lower tariffs than its finished products in the more protectionist ASEAN member states.

- WA food ingredients do only benefit from AFTA when they are incorporated in local products, which are traded around ASEAN under the 40% ASEAN content accumulation rule. This is especially the case, if the user of Western Australian food ingredients operates in one of the lower MFN duty ASEAN Member States.

Strategically, the ASEAN Free Trade Area can have benefits for Western Australian agrifood commodities. In the medium term, it is also likely to have new benefits that arise from more transparent import regulations, processes and procedures that are being developed under the AFTA harmonisation process. The benefits of this will arise because WTO membership will not permit the application of two import regulatory systems in the region, i.e. one to cover ASEAN products and the other non-ASEAN products.