



## Submission No 18

### **Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea**

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Trade Sub-Committee  
Joint Standing Committee on Foreign Affairs, Defence and Trade  
Parliament House  
Canberra ACT 2600

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### **Australia's Trade and Investment Relationship with Japan and the Republic of Korea**

This submission has been compiled by Meat & Livestock Australia (MLA) in response to the Trade Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry into Australia's trade and investment relations with Japan and the Republic of Korea.

MLA is a producer-owned company which provides services to the Australian beef, sheepmeat and goat meat industries. MLA adds value to this \$15 billion industry through the provision and delivery of innovative services and solutions designed to improve market access; build demand via targeted marketing programs; enhance competitiveness and sustainability via strategic research & development (R&D); and increase industry capability.

MLA is funded by a combination of cattle, sheep and goat producer levies, contributions from the processing sector, partnerships with individual enterprises, and by government matching of R&D expenditure.

As two of the largest export markets for Australian beef, Japan and the Republic of Korea are vitally important for the future prosperity of MLA's producer members and the wider Australian red meat industry.

This importance is reciprocated, with commercial entities and consumers in Japan and Korea relying on Australia's ability to supply safe, stable, quality imported red meat products to complement shortfalls in domestic production.

As a result, a strong integrated partnership in beef has developed over several decades – a partnership which has further potential.

The programs MLA implements in Japan and Korea are designed to enhance this alliance. This is achieved by MLA helping to ensure the efficient flow of market signals, by assisting the Australian Government with market access issues, by facilitating relationships between Australian exporters and supply chains within each market and by initiating and coordinating targeted promotional programs. All of these initiatives are implemented whilst ensuring continued dialogue and close rapport with the trade, government officials and consumers in both markets.

Please don't hesitate to contact me (Tel 02 9463 9153) should you require clarification of any of the issues raised in this document.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew McCallum', with a stylized flourish at the end.

Andrew McCallum  
Manager – International Markets & Trade Services

## 1. Australia's red meat and livestock trade with Japan

### 1.1 Beef

Japan is not self sufficient in the supply of beef relying on imports to provide around 60% of consumption requirements. Imported product is essential for Japan's food security - with Australia supplying 70% of Japan's total beef imports in 2010, the United States (US) 18% and other suppliers 12%.

The Australian beef industry has been a long term supplier to Japan and has increasingly adapted its product to closely meet Japanese consumer requirements. Strategic commercial alliances with Japanese endusers have been formed and this has been backed by substantial industry investment in business development and consumer, retail and foodservice marketing programs.

In combination, this commitment has resulted in Australia's average beef export volumes to Japan exceeding 345,000 tonnes per annum over the past decade.

During 2010, Australia exported 356,211 tonnes of chilled / frozen beef to Japan. This volume reaffirmed Japan as Australia's largest beef export market (capturing 38% of the volume of Australia's global beef exports and around 39% of the value) - generating a return of over A\$1.72 billion.

The foodservice sector is the key usage for Australian beef in Japan (around 60% of shipments), with the higher value retail beef segment commanding 40% of the volume.

#### *Outlook for beef*

After showing some glimpses of potential in early 2011, the Japan beef market has been impacted by a series of unprecedented events. The devastating earthquake in early March, followed by the Tsunami and resulting nuclear crisis plunged the Japanese economy back into recession, with consumers entering a period of restraint in subsequent months. This comes on the back of several years of either deep recession, or at best, mild economic growth.

The impact of reduced consumer demand, followed by the normally sluggish rainy season and a further strengthening Australian dollar, impacted prices for Australian beef, with indicative returns falling 15-20% from their pre-earthquake highs. Additionally, increased competition from US beef, assisted by the weak US currency, accentuated a challenging market for Australian exporters.

The recent issues facing the Japanese market, clearly illustrate just how important the market is for the Australian beef industry. For the first half of 2011, Japan took an estimated 23% of Australia's total beef production. In other words, more than one in every five animals slaughtered in Australia ended up being sent as beef to Japan. As such, any sustained slowdown or erosion of returns from subdued export prices to Japan (either due to the market situation or the high Australian dollar), is felt right through the Australian cattle and beef industry.

For 2011, Australian beef and veal exports to Japan are forecast to total 345,000 tonnes – 3% below 2010.

Any recovery in the Japanese economy, combined with demand increasing seasonally towards October and November, should assist sales of Australian beef later this year. However, this will continue to be tempered by the influence of US competition and the high Australian dollar.

In 2012, exports are tipped to increase 1% to 350,000 tonnes, stabilised by some recovery in consumer spending and constraints on the availability of US beef for export.

Overall, a robust Japan beef market is crucial to the overall health and financial performance of the Australian beef and cattle industry. While Japan should continue to be Australia's prime export destination, it will be the value of shipments, not the volume, which will have the greatest impact upon the Australian industry over the next few years.

## 1.2 Sheepmeat

Japan is an important destination for Australian lamb. With little domestic sheepmeat production in Japan, Australia and New Zealand are the main suppliers to a market where total sheepmeat consumption remains relatively low (estimated at under 200 grams per capita) compared with other protein sources (6kg for beef and 30kg for seafood).

The absence of US beef from the market due to Bovine Spongiform Encephalopathy (BSE) concerns (2004-mid 2006) provided Australian exporters with a unique opportunity to introduce lamb to a growing number of Japanese consumers, particularly in the barbeque (Genghis Khan or Mongolian lamb) restaurant sector.

Australian exports of lamb to Japan totalled 7,690 tonnes in 2010 – 6% higher than in 2004 when the lamb eating trend spread from Hokkaido (the north island of Japan) to Tokyo and other metropolitan areas. This volume represented 4% of Australia's total lamb exports (155,495 tonnes) during 2010, and was worth A\$61.6 million in export returns.

Australian mutton exports to Japan totalled 3,786 tonnes in 2010, down 32% on 2009 due to increasingly tight supplies in Australia. This mutton volume represented 3% of Australia's global mutton export shipments in 2010.

### *Outlook for sheepmeat*

Although the supply of lamb from Australia is expected to improve, prices are likely to be strong, especially when coupled with the high Australian dollar and continued demand from traditional sheepmeat markets such as the Middle East.

Combined with subdued economic growth in Japan, these factors are expected to curb Japanese demand for Australian lamb for the remainder of 2011, resulting in a 3% fall in lamb shipments to around 7,500 tonnes. Mutton exports are also unlikely to exhibit any significant growth.

## 1.3 Goat meat

Australian goat meat exports to Japan have been relatively minor over the past decade. The volume exported in 2010 was 201 tonnes with the product predominantly consumed in Okinawa in traditional cuisines.

## 1.4 Offal

Japan is Australia's largest export market for offal items, with 26,027 tonnes exported in 2010, representing 16% of Australia's total offal export volumes. This trade was valued at approximately A\$173 million.

Tongues, skirt meat and intestines are the offal items most commonly exported from Australia to Japan. These products are utilised by the barbeque (yakiniku) segment with peak demand evident during the Japanese summer.

## 1.5 Live cattle

Australia's live cattle trade to Japan totalled 15,041 head in 2010, valued at over A\$17.9 million.

The trade is dominated by the export of Wagyu and British breed feeder calves from southern Australia, which are placed on high energy diets for around 12-18 months in Japanese feedlots. The beef produced primarily supplements local Japanese domestic (dairy) beef supplies. The value of the end product is strongly related to the final marbling (intramuscular fat) score, with a heavier higher marbled carcass achieving a premium in the market.

## 2. Barriers and impediments to Australia's trade with Japan

The Australian red meat industry undertakes an ongoing trade advocacy program, in collaboration with the Australian Government, with a focus on ensuring existing rights of access for Australian red meat to international markets are at least maintained and where possible improvements to access conditions are secured.

As a major exporting sector, a change in access to overseas markets materially affects the profitability of individual producers and meat processors.

For Japan, a range of import tariffs and an import safeguard measure apply to Australian red meat and livestock products. The 'mid-level' tariffs imposed on beef are higher than those imposed by the majority of Australia's beef trading partners.

### 2.1 Import tariffs

The following table summaries the Japanese import tariff regime for livestock and red meat products.

Article Description	Applied Tariff
Live cattle: pure-bred breeding animals	0%
Live cattle: other, weighing not more than 300kg	38,250 yen / head
Live cattle: other	63,750 yen / head
Live sheep	0%
Live goats	0%
Beef (chilled / frozen)	38.5%
Sheepmeat (chilled / frozen)	0%
Goat meat (chilled / frozen)	0%
Edible offal (chilled / frozen)	0%-50%
Preparations of meat	0%-50%

### 2.2 Safeguard measure

In addition to the tariff on beef, is the operation of a volume safeguard measure. During the World Trade Organization (WTO) Uruguay Round, the Japanese Government agreed to reduce its applied tariff on beef from 50% to 38.5% by the year 2000, but in so doing, reserved the right to "snapback" the tariff to the 50% bound rate.

This snapback is triggered whenever the cumulative quarterly increase in chilled or frozen beef imports from all sources exceeds imports for the same period in the previous year by 17%. The snapback mechanism applies separately for chilled and frozen beef and is designed to protect the domestic industry from a surge in imports. If the trigger level is exceeded, the 50% tariff remains in place until the end of the Japanese fiscal year (31 March).

Each year in March, on beef and a range of other commodities, the Japanese Diet passes legislation (Article 7-5 of the Temporary Tariff Measures Law of Japan [Law 36 of 1960]) to reduce tariffs from their bound rates to specified applied rates, with the condition that if imports exceed certain safeguard levels, the tariff returns to the bound rate.

In recent years Japan has favourably altered the calculation method for determining the beef safeguard trigger levels in light of the lifting of the ban on US beef imports and the corresponding increase in imports as the market recovers. This has resulted in 2002 and 2003 being used as the reference period (ie the period prior to BSE in the US) and thus higher trigger levels are in place. As a result, the safeguard has not been applied since 2004.

Prior to the revision of the trigger levels, the tariff snapback was applied three times. On each occasion, price volatility in the Japanese beef market was evident, partly because importers endeavoured to maximise their purchases at the lower tariff level.

There are no safeguards applicable to sheepmeat, goat meat, offal or processed meat products.

### **3. Role of Government in assisting with access to Japan**

Given Japan's importance as an export destination, MLA strongly supports the completion of the current negotiations (which commenced in April 2007) aimed at concluding an ambitious Free Trade Agreement (FTA) between Australia and Japan.

A comprehensive FTA, that breaks down existing trade imposts, presents a unique opportunity to deliver a more integrated trade platform.

The establishment of a preferential trading arrangement between Australia and Japan would enable the Australian red meat industry to respond unimpeded to growing Japanese consumer demand for high quality, safe product. Japanese consumers would be the key beneficiaries of more competitively priced imported beef (via a potential reduction in retail and foodservice prices) at a time of escalating global food prices.

Because beef is a highly differentiated product in Japan and there is a strong preference for domestically produced beef, Japanese producers of high quality Wagyu and Kokusan beef would remain competitive with imported beef on the basis of a differentiated and premium priced product. Australian beef competes in a clearly defined imported market segment and is therefore not considered to be a close substitute to Japanese beef.

Encouragingly, Japanese Government officials have indicated a desire to open up to the world through trade and investment liberalisation – including conclusion of an FTA with Australia (Japan's Basic Policy on Comprehensive Partnerships, November 2010). This relatively new trade policy stance should be pursued and encouraged - albeit post recovery from the unprecedented events of early 2011.

## **4. Australia's red meat and livestock trade with the Republic of Korea**

### **4.1 Beef**

Korea is not self-sufficient in beef (around 47%) and relies on imports.

Consumer loyalty to the locally produced Hanwoo product (which is grainfed and generally well marbled) is strong, with Hanwoo beef prices typically commanding a premium over imported beef.

For Australia, Korea represents our third largest export market for beef, behind Japan and the US. Exports to Korea have averaged around 133,000 tonnes over the past five years, with 124,160 tonnes shipped in 2010, representing 13% of Australia's global beef exports. This trade is valued at approximately \$A633 million.

Australia currently holds a 53% share of the Korean beef import market – the US a 32% share (and growing) and New Zealand 13%. Australia's volume represents around 30% of total beef consumed.

It is estimated that around two-thirds of beef is consumed through the foodservice sector, with the remaining third consumed at retail.

Although recent exports have been strong, Australia is under competitive pressure from a resurgence in US beef (following the lifting of the ban due to BSE concerns).

### *Outlook for beef*

Exports of Australian beef to Korea during the first half of 2011 totalled 73,000 tonnes – up 26% year-on-year, with full year volumes estimated to reach around 140,000 tonnes – an increase of 13% on the 2010 volume of 124,100 tonnes.

According to Korea industry statistics, total beef imports by Korea for the first half of 2011 were up 18%, at 143,000 tonnes – with Australian and US volumes up 12% and 44%, respectively.

The growth in demand for imported beef in Korea has resulted from a combination of robust consumer spending, a response from Korean consumers following the outbreak of foot-and-mouth disease (FMD) earlier in the year and lower local beef supplies.

For 2012, Australian beef exports to Korea are forecast to fall 14%, to 120,000 tonnes, as the US continues to recapture imported market share and domestic Hanwoo beef production improves.

### **4.2 Sheepmeat**

Korea represents a relatively small volume market for Australian sheepmeat. Lamb exports totalled 2,094 tonnes in 2010, representing only 1% of Australia's global lamb exports, while mutton exports totalled 973 tonnes. This sheepmeat trade was valued at around \$A16 million.

### **4.3 Goat meat**

Goat meat is perceived to have some advantageous health properties in Korea and as a result a relatively steady volume (857 tonnes in 2010) of goat meat is imported annually from Australia. This quantity was worth approximately A\$4 million in export returns to the Australian industry.

### **4.4 Offal**

Offal exports to Korea totalled 20,832 tonnes (valued at A\$57 million) in 2010. The key items included beef tails (for winter soups and stews) and beef cheek meat and skirts (for barbecuing and hotpot dishes).

## **5. Barriers and impediments to Australia's trade with Korea**

A range of import tariffs are applicable to Australian red meat and livestock products entering Korea.

### **5.1 Import tariffs**

The following table summaries the Korean tariff regime for livestock and red meat products. The 'mid-level' tariffs imposed on beef are higher than those imposed by the majority of Australia's beef trading partners.

<b>Article Description</b>	<b>Applied Tariff</b>
Live beef cattle: pure-bred breeding animals	89.1%
Live beef cattle: other	40%
Live cattle: other	0%
Live sheep	8%
Live goats	8%
Beef (chilled / frozen)	40%
Sheepmeat (chilled / frozen)	22.5%
Goat meat (chilled / frozen)	22.5%
Edible offal (chilled / frozen)	18%-27%
Preparations of meat	18%-72%

## 6. Role of Government in assisting with access to Korea

Of critical importance to the Australian beef industry is expediting the conclusion of the Australia-Korea FTA (A-KFTA) negotiations - thereby eliminating the current 40% tariff imposed on Australian product.

Such a deliverable is a necessity following agreement (late 2010) between Korea and the US on their pending FTA. Entry into force of the Korea-United States (KORUS) FTA will see US beef, Australia's major competitor in the Korean market, ultimately advantaged by the 40% tariff on beef being reduced to zero after 15 years.

A similar preferential beef import regime has been extended by Korea to product from the European Union (EU), with the Korea-EU FTA implemented on 1 July 2011.

For sheepmeat and goat meat (which face a 22.5% import tariff), offal (18%-27% tariff) and processed products (up to 72% tariff), tariff reform is sought.

The establishment of a bilateral trading arrangement between Australia and Korea would offer scope for greater collaboration within the meat trade.

Comparable preferential tariff rates (with those of the US and EU) would enable the Australian industry to respond to growing Korean consumer demand for high quality, safe product. Korean consumers would be the key beneficiaries via potentially lower imported red meat prices and a greater choice of products.

Further, Korea would not be reliant on only a couple of external beef supply sources – ie those already granted preferential access. This in turn has implications for Korea's food security - especially if an unforeseen trade disruption issues restrict a country's future exports.

Because beef is highly differentiated in Korea and there is a strong preference for domestically produced Hanwoo product, Korean beef producers would remain competitive with imported beef on the basis of a differentiated offer. Domestic beef and imported beef focus on different market segments ie market co-existence is evident.

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