



Submission No 2

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

Organisation: Fonterra Cooperative Group

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SUBMISSION TO THE JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

A Review Of The Australia-New Zealand Closer Economic Relations (CER) Trade Agreement

Fonterra Cooperative Group

The Fonterra Cooperative Group welcomes the opportunity to provide input to the Joint Committee on Foreign Affairs, Defence and Trade *Review into the Australia-New Zealand Closer Economic Relations (CER) Trade Agreement*.

Fonterra is a dairy cooperative based in New Zealand formed in 2001. It is a major exporter of dairy products in international trade. It is involved in the large-scale milk procurement, processing and management, with an efficient supply chain spanning more than 140 countries. While most of its exports originate from New Zealand, Fonterra also sources product for export from a range of countries including Australia, USA, Brazil, Argentina and Chile. The company has marketing and processing investments in a range of markets including Australia.

Fonterra is New Zealand's largest company with NZ\$11.8 billion in total assets, revenues of NZ\$12.3 billion and over 18,000 people worldwide. In the 2004/05 financial year, Fonterra collected over 19 billion litres of milk globally and sold 2.4 million tonnes of dairy products.

Fonterra provides this submission as

- A major exporter of dairy products to Australia
- A leading exporter of Australian dairy products
- An investor in the Australian dairy industry
- A processor of a substantial quantity of Australian milk
- A company able to benefit from CER and other common NZ/Australian initiatives to build an export base from both Australia and NZ.

Fonterra in Australia

Fonterra is one of the leading food companies in Australia. It has a turnover of over A\$2 billion in Australia alone. Fonterra believes that the dairy industry in Australia is well placed to expand significantly and to play an enhanced role in international dairy trade.

As a milk processor Fonterra handles around 20% of Australian milk in Victoria, Tasmania, Western Australia and New South Wales. In the first three of these states it is a leading company in milk collection.



Fonterra has major plants in Victoria, Tasmania and Western Australia. It also is one of the leading marketers of ingredient products in Australia in products such as butter, cheese and milk powder. For exports Fonterra is one of the leading dairy exporters in Australia.

In consumer and food service marketing Fonterra, through its Fonterra Brands company, is a leading marketer of dairy spreads and cheese in Australia. Fonterra's well known brands include Western Star, Bega, Mainland and Perfect Italiano. In the indulgent foods sector Fonterra is also prominent with its flagship brand of Connoisseur ice creams and yoghurts. For all these products the dominant source of supply is from Australian milk.

Fonterra is demonstrating its commitment to Australia through its increasing investment in the industry. Fonterra moved to full ownership of Bonlac Foods Limited last year and acquired Nestle's Dennington plant in Victoria.

Fonterra's role and commitment to Australia is underlined by the decision to establish a research centre in Melbourne for its worldwide consumer business creating. The new centre will pioneer new applications for dairy in consumer products. This is in addition to its current research activities in NZ and elsewhere.

Fonterra is consolidating and strengthening its businesses in Australia because it believes that there is a significant opportunity for the Australian and the New Zealand dairy industries to work closer together to compete more aggressively in the global market.

CER

The CER agreement between Australia and NZ was strongly supported by the NZ dairy industry. It offered an opportunity to break down barriers in dairy products trade between the two markets.

Related to the original agreement were arrangements for consultation between the two industries. These developed over time into a robust exchange of views and common approaches to many international issues. For example the Australia and NZ industries have long had a close working relationship on trade policy issues in the then GATT and now the WTO. Fonterra strongly supports the efforts of the Australian Government in the WTO Doha Round and in FTA negotiations.

There is also close cooperation on food regulatory issues. This has enhanced the ability of both industries to open up highly protected markets and take advantage of new opportunities for trade.

Fonterra is able to trade freely under CER between Australia and NZ. This has been a considerable advantage in developing its business in both countries. For example most products in Australia are of Australian origin but are supplemented by supply from NZ.



Fonterra does not have any specific concerns about the CER agreement. It has worked well as a free trade agreement in concept and detail as a model FTA well before the many agreements recently negotiated or currently under negotiation.

Further Integration of Australian and NZ Markets

CER has been followed by further examples of Trans-Tasman integration including mutual recognition, food standards under FSANZ and the Therapeutic Goods Administration (TGA). These have been welcomed by Fonterra which makes input in both countries to food standards for dairy and related products.

The development of a Single Economic Market is also an initiative supported by Fonterra. In principle, it offers considerable opportunity to develop common approaches and thereby reduce compliance costs to companies like Fonterra operating in both markets. To date there has been limited progress in this initiative.

Fonterra has attended both the previous Australia/ New Zealand Leadership Forums in Wellington and Melbourne and will be present at the next Forum in Auckland in May. It sees these forums as an opportunity among business and Government to frankly discuss a range of issues. Again there needs to be significant signs of progress if the Forum is to add value to the further integration of Trans-Tasman markets.

The Wider World

CER and the additional initiatives on Trans-Tasman integration are only to a degree about the Australian and NZ markets. In reality they are about creating a base for exporting goods and services to the international market. Together the Australian and NZ markets for most products are relatively small. In the international market the opportunities are much greater. It is not sufficient to be satisfied with only marketing to Australia and NZ.

With global demand for dairy growing at two per cent per annum, there are very real opportunities for NZ and Australia, now ranked as the second and third largest suppliers to the market respectively, to benefit from this increasing demand.

Fonterra depends to a major degree on international markets. The Australian and NZ markets comprise a limited amount of the demand in that international market. The development of a tariff and quota free market in dairy products has been of importance to Fonterra and its predecessors. However the real point of CER for the Australian and NZ dairy industries has been to develop efficient and competitive operations that can and do compete on the world market.

Further developments in Trans-Tasman integration should have this wider view beyond the immediate bilateral relationship.



In the WTO Doha Development Round Australia and NZ are working closely together to obtain gains in export subsidy elimination and substantial improvements in market access. This is expressed in both dairy industries being members of the Global Dairy Alliance composed of non-subsidised dairy exporters/

In addition a particular important development has been the efforts by both Australia and NZ to establish FTAs with a range of trading partners. As an example, both countries have a FTA with Thailand. There are ongoing negotiations with ASEAN as CER and with Malaysia and China as separate negotiations. For Fonterra with a supply base in both Australia and NZ it is important that new opportunities for trade are developed through FTAs where there can be significant gains in trade. Fonterra sees advantages in Australia and NZ working together in such negotiations and as appropriate as in the case of ASEAN engaging in joint negotiations.

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