

**Submission**  
to the  
**Senate Standing Committee on Foreign Affairs,  
Defence and Trade**  
**United States – Australia Free Trade Agreement**

The Peanut Company of Australia



**Abstract**

A free-trade agreement with the United States would open the huge United States market, for the first time, to competitive supply from Australia. This is a major growth opportunity for Australia's small but rapidly growing peanut industry which, without government support or protection has developed high quality, innovative products at prices that are among the most competitive in international markets.

## 1 About us

Peanut Company of Australia (PCA) is Australias leading supplier of peanuts to domestic and overseas customers, processing more than 40,000 tonnes of produce per annum at a value of more than \$60 million.

Established in 1924 as the Peanut Marketing Board, PCA today is a public unlisted company supported by over 1000 shareholders and more than 250 peanut growers throughout the country.

### PCA Operational Highlights – 2001

- Revenues for the year ended 31 March 2002 of more than \$60 million and after tax profits of \$3.5 million
- Strong domestic performance with sales tonnage up 3% to 37,749 tonnes.
- **Exports more than doubled** from 2044 tonnes to 4344 tonnes.
- A very high yielding 2000/2001 crop with 38,611 tonnes of farmers stock supplied.
- Successful commercial release of new peanut variety S095R with higher oleic content ('good' oil)
- New 3000 MT cold storage and packaging facility built at the Kingaroy plant.
- Successfully achieved HACCP accreditation and Halal certification.

Peanuts are grown in Queensland, Northern New South Wales and the Northern Territory under three main types of growing conditions: dryland, irrigated and subtropical rain fed.

Driven by the rising demand for PCAs high quality products both locally and internationally, the company is striving to further develop and expand the production of peanuts in Australia, particularly in the regions of Wide Bay (Qld) and Katherine (NT).

PCAs major processing plant is located in Kingaroy, in Queensland's South Burnett district. It features modern facilities including intake, drying, shelling, sorting,

grading, packaging, blanching, roasting, value adding and storage. The company also has an intake, shelling and grading plant at Tolga on the Atherton Tablelands, and intake and storage facilities at Gayndah in the Central Burnett.

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**AUSTRALIA’S MAJOR SUPPLIER**

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*Our dedication to world’s-best practices in production, quality control and processing, has made PCA **the major supplier of the nations peanuts** for peanut butter, snack-food, food ingredient and confectionery industries.*

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In addition to its processing capabilities, the company is involved in the development of new peanut varieties, provides technical and agronomic support to farmers and has a NATA (National Association of Testing Authorities) accredited laboratory based in Kingaroy.

Our products are top quality. As well as being rich in natural flavor, they exceed international – and even Australian – standards for levels of the naturally occurring aflatoxin or the presence of heavy metals (from soils). They are effectively “organic”, being grown without heavy pesticide use or treatment in the silos.

Table 1: Five year sales – tonnes

	<b>Domestic</b>	<b>International</b>	<b>Total</b>
1998	38,228	706	38,934
1999	37,286	2,484	39,770
2000	38,346	2,439	40,785
2001	36,633	2,044	38,677
2002	37,749	4,344	42,093

A strong and continuing commitment to quality control in the growing and processing of the peanuts and a significant training and improvement process for staff and procedures ensures that we have a product that compares very well with the best production anywhere in the world, at a price that, even landed in the United States, could not be matched by most US producers.

## 2 Peanuts in an FTA

We are unable to sell even a single Australian kernel in the United States.

Australia has no share in the 73 thousand tonne quota for imports into the highly-protected US market. So we face prohibitive **out-of-quota tariffs in the USA of 155% (for shelled) and 192.7% (for in-shell) nuts** that leaves us unable to compete with products from Argentina, China or the strongly supported US producers.

Australia's protection for peanuts comprises a tariff of 5% (or 4% for products from developing countries).

Although we believe that there is interest in our good-value, high-quality products, particularly in the US confectionery industry, it is unlikely that Australian production levels will support a volume of exports to the USA that would be considered substantial in that market.

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### AN OPPORTUNITY TO COMPETE

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*Opening up of the highly protected United States market for peanut imports from Australia will provides the Peanut Company of Australia an opportunity to compete for the first time on a fair commercial basis to supply the United States food industry.*

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Consequently, the opportunity for Australian supply to compete on fair commercial terms in the US market is very **unlikely to have any effect on prices or producer returns in the US** market. As an input into food processing industries in the USA, our small volume of exports will scarcely be noticed in the massive US market and we will face a marketing challenge to secure and maintain even a tiny foothold.

But PCA has a strong commitment to the development of our industry. We think it offers excellent potential returns to growers who are considering diversifying into peanuts, to processors such as ourselves and to related processed food industries, particularly in the fast-growing confectionery and snack foods segments where Australian quality and price promises excellent export returns around the Asia-Pacific region.

An opportunity to prise open even a small crack in the demanding US market offers our industry excellent short-term returns and enormous development opportunities.

The US Free Trade Agreement represents our first realistic hope for achieving those goals.

Table 2: Estimated Cost of Production

Country	\$US per tonne of farmer stock*
United States	474
Argentina	250
China	193
Australia	148

\*These are variable costs. They do not include return on funds, cost of capital or payments to owners or farmers.

## 2.1 Gains for both sides

We recognize that every international agreement must be based on gains for both sides. The biggest gains for the Australian industry will be market development opportunities that the high levels of US protection now deny to us.

For the US the biggest gains will be access to lower cost, high-quality supply that is not likely to disrupt the US market. We are able to offer stable supply – unlike some of our competitors – with sustained high performance on quality.

## 2.2 Access conditions under an FTA

We want trade to be **free of all duties, quotas and other barriers on both sides.**

The terms on which access to the United States market is granted are also crucial for a small company such as PCA. For example, if access is controlled by burdensome regulations such as ‘rules of origin’ certification, ‘safeguards’ measures or complex customs or inspection procedures, the commercial incentives can quickly disappear.

We are asking the Australian government to request *among other things*:

1. Rapid early increases in duty-free access. Our export volumes will be very small in relation to the US market and will probably be destined for specific

industrial markets in a particular geographic region (West Coast) : there is no reason why full 'free trade' should not be reached almost immediately.

2. Simplified rules of origin. PCA has strict 'traceability' procedures in place for peanuts of all origins in order to support our high quality standards. We want any 'rules of origin' to build on this mechanism and allow us to 'pre-certify' our shipments to the USA
3. Quality and inspection procedures that are fully consistent with WTO Agreements on SPS and TBT.

### 3 Background

Although we recognize that domestic supports in the United States will not be "on the table" in the FTA talks, the high level of this support contrasts strongly with the unsupported, and unprotected, Australian peanut industry.

#### **United States Peanut Support program**

The 2001 Farm Bill peanut "base" price\* offers the farmer up to \$US140 per tonne – about 1.6 times the estimated production costs in Australia – if prices are low, *whether the farmer plants peanuts or another crop*. The payments comprise:

1. A \$US36 per ton Direct Payment
2. Three Counter Cyclical Payments (October, February and September). The Counter Cyclical payments are limited to the difference between the target price of \$US495 per ton and the market loan guarantee of \$US350 per ton: that is, they can be as much as \$US140 per tonne.

The Counter Cyclical payments are reduced if the market price rises above \$US355 per tonne. However, the system ensures that farmers who plant peanuts will receive between \$US386 to \$US728 per tonne at a time when the world price is approximately \$US250 per tonne.

\*The support payments are available for the 'base' level of production: a calculated, and un-varying, volume based on 85% of a farm's peanut production in the last four years.