

The Australian Food and Grocery Council submission to the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America

Summary and Recommendations

The Australian Food and Grocery Council (AFGC) considers that the proposed FTA agreement with the United States should be ratified by Australia. It is a valuable agreement that will potentially open up new opportunities for Australian food manufacturers and exporters.

In our Submission of January, 2003, AFGC argued that

[The benefits of the proposed FTA] will be created by a combination of lower trade barriers on both sides, greater availability of capital for Australian firms, access to leading technology, and improved integration with global supply chains that have their roots in the U.S. Removing tariff, non-tariff and procedural impediments to trade will lead to significant improvements in the logistic chain for exporters and importers, helping to cut costs and making Australian food and food ingredients still more competitive in U.S. and third-country markets.

We believe that some of this ambitious agenda can be achieved as a result of the improved market access in this Agreement. However, the proposed Agreement falls short of the ambitious outcome that was sought. **On balance, therefore, and considering the significant new opportunities that it offers, the AFGC urges the Senate to endorse the proposed text.**

Provisions on access and standards

- Due to the US refusal to eliminate some of the highest barriers to import competition in its food markets, the FTA will deliver a lower level of benefits for Australia (and for the USA) than we had hoped;
- the Agreement contains no obligations on the USA to avoid the use of contingent trade measures but it provides the USA with extraordinary safeguard opportunities; and
- the Agreement fails to incorporate specific commitments on food standards and labelling issues recommended by AFGC.

On the positive side of the ledger, however, the Agreement will bring the two food economies closer together by:

- reducing some barriers to food trade immediately; and
- progressively opening most of the other protected US food markets to Australian competition over the next two decades.

In addition, it is envisaged that some of the Agreement's deficiencies or gaps on standards may be remedied in future joint cooperation under the Agreement.

Impact on multilateral trade agreements

The Agreement had the potential to improve the outlook for significant global trade reforms. The omission of sugar from the liberalization program undoes some of the more positive achievements by conceding a 'win' to a protectionist food industry even in one of the world's most open economies.

The AFGC believe that the two decade liberalization schedule for food products, the failure to reach free trade in dairy, the stringent safeguards that will continue to hang over beef trade and the narrowness of the export subsidy obligation reduce the effectiveness of the agreement particularly in terms of 'showing the way' to more comprehensive future agreements and a better outcome in the Doha negotiations on agriculture.

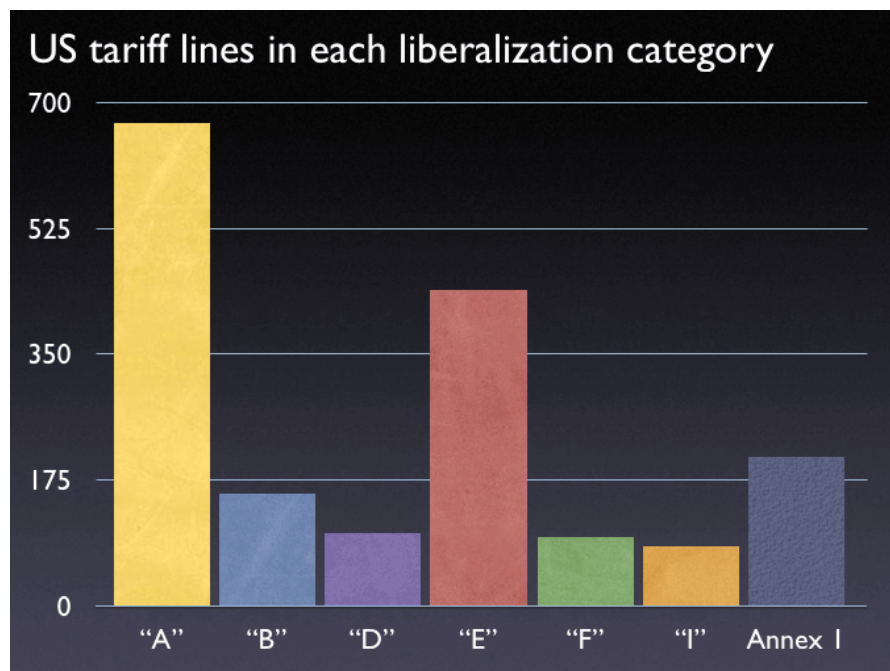
Despite these factors we consider that the Australian government has made a creditable attempt that offers significant net benefits for Australia. We urge the Senate to quickly endorse this Agreement so that ratification can proceed.

Market access

The AFGC is of the opinion that the Agreement does not reach it's potential for opening bilateral food markets.

The omission of any liberalization of sugar, the failure to fully open the dairy market even after 20 years and the long delay in the liberalization of the beef, horticulture and peanut markets reduces the benefits of the agreement as a whole by restricting the most valuable opportunities for Australia. The liberalization of access under quota for these products means that their capacity to pursue opportunities for new sales to partners in the US food processing industry is constrained by the available quota volumes for most of the next two decades.

United States agriculture market access schedule



An estimate of the full value of the proposed Agreement will have to wait for the general equilibrium economic analysis already commissioned by the Government. An analysis based on the *incidence* of the different categories of tariff liberalization does, however, paint a representative picture of the Agreement.

The largest number of agricultural tariff lines in the US schedule to the Agreement fall into category "A" of the liberalization schedule (immediate liberalization). But there are fewer new opportunities here for Australia than appears on the surface. About 16% of these lines are dedicated to US government supply, goods for importers' personal use or other special 'exclusion' categories (under General Note 15 of the US tariff schedule). One third of the remaining lines (178 lines) have *ad valorem* tariffs that are 10% or lower (mostly lower than 5%). Those lines with specific rates also appear to have a small protective impact. The immediate liberalization of these lines is unlikely to be significant for Australian food exporters.

The second largest category of tariff lines ('E') comprises items already free that will remain free on the implementation of the agreement. There is no advantage for Australia in this category (the majority of 'free' tariff lines are bound at free to all WTO members).

Categories 'B', 'D' and 'F' comprise lines that will become duty free in years 4, 10 and 18 respectively. These are the categories where the most meaningful liberalization occurs in non-quota-controlled products. Our main concern is the length of the 'transition' period, which dramatically reduces the present value of the concessions when considered in a commercial perspective.

Category 'I' lines, comprising chiefly the over-quota rates for dairy products and the current 'MFN' quota rates for peanuts, will be unchanged by the agreement. The liberalization of both dairy and peanut products relies on the creation of a duty-free quota: peanut over-quota rates will be eliminated (category 'F') leading to full free trade by year 18.

Those tariff lines covered by the "Annex I" category represent quota-controlled products (beef, dairy, peanuts, wine, avocados and tobacco).

The AFGC wishes to briefly comment on a number of other important issues:

Safeguards

The Agricultural Safeguards implemented in Chapter 3 of the Agreement are presumably one cost of market access given the high degree of protection that has been afforded to US agricultural industries. The AFGC notes the value of this concession by Australia is made greater by the fact that only the United States has the option of imposing safeguards under this agreement (there are no entries for Australia under Annex 3-A).

In addition, we note the provision of the Committee on Agriculture established by the Agreement to monitor the operation of the safeguards. The AFGC assumes the Australian government will make use of this provision where and when necessary and in addition consider the opportunity to seek amendments to these arrangements at the first 5-year review.

Price-break safeguards

The Agreement prohibits export price controls (Article 2.9), presumably with a view to minimizing the activities of export STEs, although the operations of a group of Australian STEs that retain market controls is exempted from the coverage of this article. Import price controls are also prohibited except for arrangements in settlement of anti-dumping and countervailing duty cases and 'as provided in this agreement'; that is, except for the operation of price-break safeguards on horticulture and beef.

Anti-dumping

The AFGC notes that there appears to be minimal provision for greater government-to-government consultation on anti-dumping measures. The AFGC sees this as an important issue and it is hoped the Australian Government will seek to amend this apparent anomaly at the first 5 year review.

Export subsidies

We note that the government's statement of objectives called for agreement to reduce harm to Australian interest in third markets from the US use of export subsidies. However, there appears to be no mention of this protection in the clause on export subsidies.

Standards, labelling and inspections

In its January 2003 submission, AFGC expressed concerns about potential inconsistencies with a range of standards and labelling provisions and practices in the United States (ingredients labelling differences; different approaches to 'health claims' associated with foods and vitamin and mineral fortification policy, aspects of the US practices on export and import inspections). These differences in law and practice may be even more significant after the conclusion of the agreement increases market access opportunities in processed food.

We look forward to working towards agreement on specific programs or commitments the harmonization and mutual-recognition work on e.g. of agricultural chemicals and other incidental contaminants or food residues that is known to be urgently needed in the APEC region.



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CHIEF EXECUTIVE

Data for the 'chart' on p2

Category	No of Lines	Effect
"A"	671	Duty free from date of entry into force
"B"	156	Duty free from start of year 4 (progressively reduced)
"D"	100	Duty free from start of year 10 (progressively reduced)
"E"	438	Free and shall continue free
"F"	95	Duty free from start of year 18 (progressively reduced)
"I"	83	Remain at base rates (chiefly over-quota rates for dairy and)
Annex 1	206	Schedules of duty-free quota expansion for beef, dairy, peanuts, wine, avacadoes etc