



Department of Agriculture, Fisheries and Forestry

submission to

Productivity Commission Review of Bilateral and Regional Trade Agreements

1. The department's role in negotiating trade agreements

The Department of Agriculture, Fisheries and Forestry (the department) contributes to whole of government trade strategies and activities multilaterally, regionally and bilaterally so as to benefit portfolio industries. The department primarily works with the Department of Foreign Affairs and Trade on trade negotiations but regularly liaises with other government agencies including the Australian Trade Commission; Attorney-General's Department; Department of Innovation, Industry, Science and Research; and the Australian Customs and Border Protection Service.

Consistent with the Australian Government's priorities, conclusion of a successful Doha Round of negotiations in the World Trade Organization (WTO) remains the department's top trade priority. In the face of slow progress multilaterally, the department contributes to Australia's free trade agreement (FTA) agenda, recognising that FTAs are not an ideal substitute for a comprehensive Doha outcome.

The department's role in trade negotiations is to provide specialist input, advice and analysis on issues relevant to portfolio industries. Agricultural, fisheries and forestry products market access, export subsidies, domestic support, sanitary and phytosanitary (SPS) measures, technical barriers to trade, rules of origin, safeguard mechanisms and economic cooperation are areas in which the department is involved in developing the Australian Government negotiating position for bilateral and regional trade agreements.

The department's knowledge of Australia's agricultural, fisheries and forestry sectors; economic and scientific analysis through the Australian Bureau of Agricultural and Resource Economics and Bureau of Rural Sciences; links with industry groups and lead implementation role in SPS matters enable it to contribute specific expertise to trade negotiations.

Australia's trading partners are increasingly using trade negotiations to push for enhanced SPS outcomes or provision of agricultural capacity building. The department participates in trade negotiations to ensure existing agricultural policies and commitments are enhanced and to manage potential portfolio resource and policy outcomes.

2. Opportunities for Australian agriculture in trade agreements

Agriculture is the most distorted sector in world goods trade. The average tariff applied by WTO members in 2008 was 13.54 per cent on agricultural goods compared to 6.48 per cent on non-agricultural goods¹. Agricultural markets are further distorted by a range of non-tariff barriers

¹ World Bank Group, 2009, *World Trade Indicators 2008*, MFN applied tariff on agricultural and non-agricultural goods, [<http://info.worldbank.org/etools/wti2008/3b.asp?pillarID=1&indList=118&indList=161&indList=66&indList=67&indList=68&average=0®ionID=0&periodID=15>], accessed 5 February 2010.

and domestic and export subsidies. Australia exports around two thirds of its farm products which account for 14 per cent of the value of Australia's merchandise exports².

It is in Australia's interests to use bilateral or regional trade agreements to reduce or remove agricultural trade distortions, creating a more open trading environment and encouraging producers to improve efficiency. Lower tariffs, increased quota access or reduced regulatory requirements assist in making Australia's products more competitive on the world stage. As countries introduce more domestic protectionist measures and multilateral trade negotiations continue to be slow, bilateral and regional agreements can lock in gains unattainable elsewhere. Likewise, the more Australia concludes FTAs, the more industry members have an awareness of new market opportunities and the broader benefits of trade liberalisation. These views are regularly affirmed by Australian industry groups in submissions on Australia's FTA negotiations.

As more bilateral and regional trade agreements are signed around the world, the potential benefits to Australian agriculture from new agreements are focused not only on pursuing advantages for Australia, but also on achieving parity with competitors who may have FTAs in place. This is seen most recently in the concluded agreements between China and New Zealand; and the Republic of Korea and the United States (US) where it will be important for Australia to achieve outcomes at least on par with New Zealand and the US on products such as dairy and meat. It is clear that not concluding FTAs will only leave Australia behind other trading nations.

Australia's concluded FTAs are delivering benefits to some agricultural industries. Beef, dairy, wine and some horticulture exports to the US and/or Thailand have increased since FTAs were signed with those countries. The more recent entry into force of the Australia–Chile and Association of South East Asian Nations–Australia–New Zealand FTAs are expected to deliver benefits for portfolio industries already exporting to these destinations.

For example, under the Australia–Thailand FTA the tariff on table grape exports to Thailand was immediately reduced from 33 per cent to 30 per cent, and will be phased to zero by 2015. Between 2003–04 and 2008–09 there has been an over four-fold increase in table grape exports, which are now valued at over \$24 million. Australian beef exports to Thailand have also benefitted. The tariff on beef was reduced from 51 per cent to 40 per cent on commencement, and will be reduced to zero by 2020. The value of beef exports to Thailand has more than doubled between 2003–04 and 2008–09³.

Under the Australia–US FTA (AUSFTA) the immediate elimination of the in-quota tariff of US\$4.4cents/kilogram on beef has been worth approximately \$45 million to the Australian industry between 2005 and 2008⁴. Under AUSFTA Australia also gained new duty free access to tariff rate quotas for a range of cheeses and cheese exports to the US have risen from \$33.9 million in 2003–04 to \$59.7 million in 2008–09.

Despite the broad opportunities for Australian agriculture through FTAs, the potential benefits of some of Australia's current and future negotiations are varied. For example, achieving comprehensive FTAs with Japan, China, the Republic of Korea and Malaysia would mean Australian agriculture has preferential access to the majority of its most valuable export destinations. In contrast, Australia's agricultural exports to Pacific Island Countries (excluding New Zealand) are less of a focus in the negotiations towards a Pacific Agreement on Closer Economic Relations (PACER) Plus.

² All statistics are from Australian Bureau of Agricultural and Resource Economics 2009, *Australian commodity statistics 2009*, Canberra, unless otherwise stated.

³ Based on data from Australian Bureau of Statistics, International Trade, Australia, cat. no. 5465, Canberra.

⁴ Calculated using quantity of beef and veal exports to the United States in 2005–08 listed in Australian Bureau of Agricultural and Resource Economics 2009, *Australian commodity statistics 2009*, Canberra, multiplied by in-quota tariff and converted to Australian dollars using A\$/US\$ exchange rate as published by the Reserve Bank of Australia (www.rba.gov.au) on 17 February 2010.

3. Challenges for Australian agriculture in trade agreements

It is difficult to completely quantify the net benefits from Australia's existing trade agreements, particularly when agreements have only been in force for short periods. Australia's limited agricultural productive capacity and desire to maintain exports to historic markets do not make it easy to quickly increase or divert trade in response to new agreements. Australia's variable production levels year-to-year also make it hard to assess the benefits of recently signed agreements to the agriculture sector. Agricultural outcomes in FTAs can be restricted by long phasing periods, safeguards mechanisms, limited technical (quarantine) market access or the fluctuating Australian dollar which can negate tariff reductions. These issues can also make it more difficult to assist general understanding of outcomes.

Australia faces challenges in negotiating bilateral and regional trade agreements. Trading partners' agriculture ministries often deliberately obstruct progress in negotiations, or restrict the willingness to liberalise trade in agricultural, fisheries and forestry products. Their protection of agriculture can be driven by domestic political needs to placate rural constituents, wary of price or volume pressures that arise from imports after trade agreements begin. In contrast, Australia operates from a low tariff base on agricultural products and so it can be more difficult to negotiate tariff reductions on like products.

Implementing bilateral and regional trade agreements can have its challenges. The department is regularly responsible for the agriculture and SPS provisions of agreements. For example, the FTAs signed with the US, Thailand and the Association of South East Asian Nations–New Zealand all contain commitments that require the department to undertake additional consultation or cooperation mechanisms on agriculture. Such inclusions can help secure market access outcomes or enhance bilateral relationships. However, the department has difficulty directing resources to new cooperative activities, particularly if budget allocations do not support additional functions, and as each new agreement builds on existing commitments.

Trade negotiations with developing countries can be particularly challenging when discussing technical cooperation. These countries urge Australia to commit to regular and comprehensive cooperation mechanisms or capacity building with an emphasis on Australia providing assistance or accelerating technical market access requests, rather than seeing SPS cooperation as a two-way process in which import decisions are based on science.

4. Approaching future trade agreement negotiations

Despite these challenges, the potential gains on offer from new agreements, and the potential to be 'left behind' if we do not negotiate, means FTAs will remain a priority for Australian agriculture. These negotiations will continue complementing multilateral trade negotiations to ensure Australia can compete effectively internationally. However, it will be important to approach new agreements in a strategic manner, rather than regarding all and any new agreements as worth negotiating.

The department believes there is a need for greater scrutiny of the likely value of new agreements before entering into negotiations. A more detailed sector by sector analysis of potential gains, and more realistic assessment of trading partners' level of ambition, may provide a better basis for determining how to proceed with negotiations. Such analysis may also reduce the likelihood of negotiations extending indefinitely due to lack of engagement from trading partners.

The process of negotiating trade agreements is also worthy of review. The current practice involves both sides tabling offers and requests on most provisions simultaneously. Under this system, neither side can use the proposal of the other to inform its own position in response. A better approach might be that used in many business transactions whereby one party names its position, to which the

other party responds in a back-and-forth manner. This may assist Australia, which enters negotiations with a high willingness to negotiate only to sometimes find that trading partners have arrived with a much lower negotiating ambition.

As agriculture can be a difficult aspect of many trade agreement negotiations, it could be argued that it would be easier for Australia to aim for sector-specific agreements rather than the current comprehensive policy. The department has significant concerns about this proposal, recognising that it may leave agriculture out of most agreements indefinitely, to the detriment of a valuable export-focused sector. Such concern is justified as some trading partners have already attempted to marginalise or exclude agriculture from FTA negotiations. A shift to a sector-by-sector approach would only encourage narrow-focused agreements, creating an unfortunate precedent for Australia's broader trade policy agenda, including at the multilateral level.

The announcement of FTA negotiations is usually welcomed enthusiastically, as leaders affirm the bilateral or regional relationship and look forward to a new agreement to enhance trading arrangements. This enthusiasm is at times followed by drawn out and difficult negotiations in which the ambition on both sides is progressively challenged. The resulting tension can overflow to other elements of the bilateral relationship at both official and political levels. This discord may be avoided if negotiations are only approached where there is a clear understanding of the intended outcome as mentioned above.

Regardless of the challenges involved in negotiating new agreements, the department continues to support the government's trade agenda as part of its long term strategy, recognising that there are significant benefits to be realised for portfolio industries in concluding comprehensive FTAs and strengthening bilateral and regional ties.

The department will continue its approach to market access: achieving a comprehensive outcome in the Doha Round of negotiations; concluding bilateral and regional FTAs; and progressing technical market access priorities. The department will continue to promote existing and future FTAs and participate in negotiations, particularly on agricultural market access and SPS issues. However, the department has a finite budget for trade-related activities and will need to assess on a case-by-case basis where best to direct its efforts, taking into account the importance of the FTA to the agriculture, fisheries and forestry sector and/or the likelihood of its conclusion. From time to time, this will mean the department will not be able to support all negotiations or commitments arising from FTAs with equal enthusiasm. The department's focus on progressing technical market access requests will continue, recognising that this work can deliver more immediate gains for portfolio industries and ensure that benefits can be accessed when FTAs are concluded.