



AUSTRALIAN PORK LIMITED
General review of the AANZFTA

Pork Industry Submission — February 2018



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I. Introduction

Australian Pork Limited (APL) welcomes the opportunity to comment on the second stage of the General Review of the ASEAN-Australia Free Trade Area (AANZFTA). The Australian pork industry strongly supports AANZFTA, acknowledges its benefits, and wishes to engage constructively on areas for improvement.

I.1 APL and the Australian Pork Industry

APL is the national representative body for Australian pork producers. APL is a producer-owned not-for-profit company combining marketing, export development, research and innovation and policy development to assist in securing a profitable and sustainable future for the Australian pork industry.

The Australian pork industry supports more than 35,000 jobs in Australia and contributes approximately \$5.2 billion in gross domestic product to the Australian economy. The pork industry comprises approximately 2.13% of total Australian farm production with approximately 1100 pig producers producing around 5 million pigs annually.

I.2 Australian Pork Exports

The Australian pork industry is minor by world standards, accounting for 0.2 percent of total global production. It is not export-orientated, with exports accounting for roughly ten percent of domestic production, valued at A\$136 million in 2016-17. High costs of production significantly limit our industry's export competitiveness.

Figure 1 Major Export Markets 2016-17

Jul-17	Volume kg's SW		Value \$A		Per unit Value	
	MAT (000's)	% Change vs. YA	MAT (million)	% Change vs. YA	MAT Avg. \$A/KG	% Change vs. YA
Singapore	14,699	3.4%	73.3	-2.9%	\$5.00	-5.9%
New Zealand	4,118	1.7%	12.2	-19.0%	\$3.08	-18.6%
Hong Kong	3,518	-6.0%	12.3	8.7%	\$3.54	15.2%
Philippines	4,636	6.5%	5.5	-2.4%	\$1.19	-8.1%
Papua New Guinea	5,415	52.7%	16.2	41.3%	\$2.98	-9.0%

Australian exports of pig meat products in both value and quantity terms, have declined somewhat over the past decade, with the higher Australian dollar over much of this period being a key factor. Export volumes have declined from around 60,000 tonnes in 2007-08 to around 38,000 tonnes in 2016-17. Favourable movements in the exchange rate since 2012-13 have provided some improvement in value.

Under the *Australian Pork Industry Export Plan*, the industry aims to increase exports as a percentage of total production to 30 per cent by 2046. This increase is targeted at Asian markets where the Australian pork industry offers a high-value, niche chilled pork product, overnight air freighted to the destination.

2. General Review of AANZFTA

2.1 Pork Trade with ASEAN and the Benefits of AANZFTA

ASEAN is a major export destination for Australian pork. Singapore and Philippines alone account for more than half of Australia's total pork export volume.

The development of trade with ASEAN embodies a clear match between Australian industry priorities in export markets and expected long-term demand growth in those markets, linking back to long-term industry sustainability.

APL welcomed and supported the efforts of the Australian Government in negotiating AANZFTA with our partners in ASEAN and New Zealand. We engaged in industry consultations and provided detailed submissions on pork industry priorities, including to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's Relationship with the Association of South East Asian Nations in 2008.¹

We welcomed the conclusion and implementation of AANZFTA in 2009 and 2010 respectively, noting the benefits of the agreement and some areas for future improvement in our submission to the Productivity Commission's Inquiry into Bilateral and Regional Trade Agreements in 2010.²

Exports of Australian pork to the ten ASEAN economies rose from A\$80.7 million in 2009 to A\$87 million in 2016, growth of almost ten percent since the introduction of AANZFTA. Export growth over this time has been supported by ASEAN's strong economic performance and accompanying increases in meat consumption, especially pork.

Today, AANZFTA still offers a meaningful tariff advantage to Australian exporters of pork products to Burma, Brunei, Cambodia, Laos, Vietnam, Malaysia (especially in combination with the Malaysia-Australia Free Trade Agreement) and Philippines. But AANZFTA does not offer any additional access for exporters of pork to the New Zealand, Singapore, or Thailand markets, which receive better coverage under Australia's corresponding bilateral trade arrangements.

While AANZFTA has provided some benefits in terms of market access, a number of important formal and informal barriers to trade remain across the various ASEAN markets. These include tariffs, quota restrictions, reference pricing, unscientific residue limits, and licensing and registration restrictions.

APL welcomes the general review of AANZFTA. We provide the following information and suggestions to guide negotiators as they seek to upgrade the agreement. These are presented as market-specific and general recommendations.

2.2 Singapore

Singapore is the top export destination for Australian pork in ASEAN, and our top export market overall. Around 40 percent of Australia's exported pork lands in Singapore, totalling 14.7 thousand tonnes with a value of A\$73 million in 2016-17.

Prior to the implementation of AANZFTA in 2010, the pork export trade was well-established, supported by Singapore's liberal tariff regime and the Singapore-Australia Free Trade Agreement (SAFTA). This fact, along with Singapore's relatively modest economic and population growth, has meant that Australian pork exports to Singapore did not experience significant growth over the period of AANZFTA.

¹ APL's full submission is available for viewing online at:

file:///C:/Users/robertson/Downloads/http___www.aphref.aph.gov.au_house_committee_jfadt_asean1_subs_sub%2026%20(1).pdf

² APL's full submission is available for viewing online at: <https://www.pc.gov.au/inquiries/completed/trade-agreements/submissions/subdr091.pdf>

Singapore depends on imports for around 90 percent of its food supply. Pork, the most widely consumed meat apart from chicken, is imported frozen from around 24 countries. Only six countries are approved to supply chilled pork to Singapore, including Australia. Australia's safe, clean reputation, along with our geographical proximity and the ability to airfreight, have translated into a dominant position in the Singapore chilled pork market.

Our exporters specialise in providing a whole, chilled carcass which is further processed to local specifications after arrival in market. More than two-thirds of Australia's pork exports to Singapore take this form, which improves overall returns as processors are able to sell the entire animal with no waste. In 2016-17, exporters achieved an average price of A\$5 per kilogram, making Singapore a very high value market.

Despite our advantages, Australia's position as market leader faces challenges. Growing volumes of cheap, frozen pork from emerging global suppliers such as Brazil are tempting consumers at the lower end of the market. In the chilled space, suppliers such as the USA and Canada – which share our clean, green image – are increasingly able to offset their geographic disadvantage with lower overall costs of production. At the same time, Singapore has begun to accept shipments of live pigs from Malaysia, lifting a ban that has been in place since the Nipah virus outbreak in 1999.

As we face new competitive pressures in the market, addressing Singapore's remaining non-tariff barriers to access is important for Australian pork exporters to maintain their edge.

Singapore imposes overly restrictive requirements on frozen and processed meat products that limit the time after slaughter or manufacture that a product may arrive in Singapore. In the case of pork, Singapore does not admit products that have been frozen for more than six months.

For chilled pork, where Australia is most competitive, Singapore does not allow products derived from physically complete (uncastrated) males to be imported. There is no scientific, health, or public safety rationale for this ban, other than an assumed consumer preference.

APL recognises it would be difficult for AANZFTA to address this specific issue directly, but the review does offer an opportunity to consider approaches to non-tariff barriers (NTBs) more generally. It should map pathways to resolving outstanding and future non-tariff concerns. In light of this, **APL recommends negotiators consider Singapore's non-tariff, trade-restricting measures for pork as part of the AANZFTA Review's overall approach to addressing NTBs.**

Singapore is a vital source of capital for Australian agriculture, and the pork sector is no different. Singapore-based QAF has been a long-term investor in the Australian pork industry. The company owns Rivalea, which accounts for around 17 percent of Australia's pork production, and 24 percent of the processing market.

APL recommends negotiators consider measures to better attract and facilitate the flow of ASEAN capital into the Australian agricultural sector.

2.3 Philippines

Exports of Australian pork to the Philippines rose from 1,900 tonnes, valued at A\$2.9 million in 2008-09 to 4,700 tonnes, valued at A\$5.6 million, in 2016-17. This represents growth of almost 100 percent since implementation of AANZFTA.

Under AANZFTA, Australian fresh and chilled carcass and half carcasses, hams, shoulders, and cuts thereof will enter Philippines tariff-free by 2020. AANZFTA also secured tariff reductions on chilled bellies and other cuts, as well as tariffs on in-quota and out-quota frozen products, which will be reduced to 24 percent and 32 percent, respectively, by 2020. These outcomes are welcome and have been beneficial, but due to lengthy phase-in periods and remaining restrictions, have played only a supporting role in the export growth story.

We assess the Philippines' strong economic growth (above 6 percent per year), increasing pork consumption and overall import levels, as well as strong people-to-people links with Australia at industry level, have been the main drivers of improved export performance.

For AANZFTA to provide additional benefits for exporters of Australian pork to the Philippines, it needs to provide tariff-free treatment and address Manila's trade-distorting agricultural import policies.

Tariffs on frozen lines, on some fresh lines, and processed lines, remain high, even after full implementation of AANZFTA. For example, in-quota tariffs on frozen products representing three-quarters of Australia's total pork exports to Philippines (covered mostly under HS 0203.22 and HS 0203.29) are currently at 30 percent, with the out-of-quota rate at 40 percent. **APL recommends negotiators seek full tariff elimination on all remaining lines.**

The Philippines maintains Tariff Rate Quotas (TRQs) on a range of agricultural commodities, including pork, known locally as 'Minimum Access Volume' (MAV). Under this system, higher tariffs are applied for out-of-quota products in some cases. Since 2005, the Philippines has maintained MAV levels at its Uruguay Round commitments (around 55,000 tonnes per year) despite increasing demand in the Philippines for products covered by the MAV. The Philippine government increases in-quota volumes of affected MAV commodities in times of shortages, as it did in 2017, but because of its lack of predictability, the practice does not serve to relax the Philippines' restrictive import regime.

The potential for further growth in Australian pork exports to the Philippines is limited by the MAV applied to pork products. **APL recommends negotiators seek additional access and increased volumes under the MAV.**

The Philippines maintains a reference price scheme for determining import duties on frozen pork and poultry. Under the reference price scheme, imported frozen pork cuts may be assessed duties based on reference prices established by the Philippines government, rather than declared import prices. The scheme is inconsistent with WTO principles, which state import duties should be based on the actual value of a product, and not on "arbitrary and fictitious values." **APL recommends negotiators seek to exempt AANZFTA-originating product from the Philippines trade-distorting reference price scheme.**

Addressing these issues will lessen the constraints on future exports growth in this promising market.

2.4 Vietnam

Australian pork exports to Vietnam have experienced solid growth since implementation of AANZFTA, rising from 576 tonnes worth A\$744,000 in 2008-09 to 1,800 tonnes, worth A\$2.9 million in 2016-17.

Like the Philippines, Vietnam's GDP is growing at more than 6 percent per year, with correlating increases in meat – especially pork – consumption and imports. At 27kg per year, Vietnam has one of the highest per capita pork consumption rates in ASEAN. Vietnam's domestic pork industry is strong, it is a major producer with the world's fifth largest herd. Domestic industry also benefits from a range of government support measures, including high tariff and other barriers to trade.

AANZFTA has already secured tariff reductions on all chilled and frozen lines, with total elimination in 2020. Preferential rates available under AANZFTA provide Australian exporters with a meaningful tariff advantage over other major developed world pork suppliers, such as the USA and EU. Vietnam concluded an FTA with the EU in 2016, however this agreement is yet to enter into force. Under the EU-Vietnam FTA, Vietnam will eliminate most pork tariffs within ten years. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will offer similar phase-outs.

Tariffs on processed pork lines (HS 1602.4) will remain at five percent beyond 2022. While the CPTPP offers tariff elimination on processed lines in year nine of that agreement (2027 at the earliest), this timeline represents a significant delay between the last reductions offered under AANFTA and total elimination under CPTPP. **APL recommends negotiators seek full tariff elimination on remaining processed pork lines by 2024.**

Vietnam maintains a reference price scheme to assess import duties on pork and some other products. Under the scheme, certain pork cuts are assessed import duties based on reference prices established by the government. Reference price schemes are trade-distorting and inconsistent with WTO rules. **APL recommends negotiators seek to exempt AANZFTA-originating product from Vietnam's reference price scheme.**

Exporters to Vietnam report a range of other burdensome sanitary and phytosanitary and technical measures that impede trade. Changes to Vietnam's offal import regime beginning in 2010 provide a good example.

In July 2010, Vietnam banned all pork offal imports, without explanation. In March 2011, Vietnam lifted the ban on 'red offals' (heart, liver, kidney), but maintained the 'white' offal ban. This was lifted officially in February 2014. The new import conditions for white offal, however, include additional certification requirements and entry into the country through only three ports. Australia has had numerous listing applications with Vietnam to list establishments to be able to export white offal to Vietnam for some time now, but as yet Vietnamese authorities have not approved any establishments for the export of white offal, including white offal derived from pigs. Industry is investing resources to collect the specific micro-biological data requested by Vietnam.

In late 2017, Vietnam implemented changes to its micro-testing procedures at port, resulting in the destruction of consignments of Australian meat, fines for the exporter, and significant trade disruption. Although this incident did not involve pork, it highlights serious concerns around the transparency and dependability of Vietnam's port inspection procedures.

APL recommends negotiators consider Vietnam's non-tariff, trade-restricting measures as part of the AANZFTA Review's overall approach to addressing NTBs.

2.5 Malaysia

Australian pork exports to Malaysia have experienced modest growth since the introduction of AANZFTA, rising from 660 tonnes worth A\$1.2 million in 2008-09 to 754 tonnes worth A\$1.6 million in 2016-17.

Despite a solid economic trajectory, Malaysia has irregular pork consumption patterns as large sections of the population avoid pork for cultural reasons. However, there are significant, largely urban and affluent, groups of predominantly ethnic Chinese, with relatively high levels of pork consumption. The booming tourist trade is another source of demand growth for high quality, imported pork in Malaysia.

While AANZFTA delivered elimination of small tariffs on processed pork lines, and bound some chilled lines at zero, Malaysia was able to retain its heavily trade-distorting TRQ system, granting only trivial concessions.

For example, Malaysia's yearly AANZFTA quota for chilled carcasses and half carcasses comes to a laughable total of 547kgs for 2018 – the equivalent of less than ten pigs. AANZFTA currently allows the quota to grow by 6kgs per year. The implementation of the Malaysia-Australia Free Trade Agreement in 2012 offered access to an additional tariff-free quota that reached 4,177kgs in 2018, giving Australia a total allocation of close to five tonnes. By comparison, exports of chilled carcasses and half-carcasses to Singapore reached 10,000 tonnes in 2016-17.

The yet-to-be-implemented CPTPP promises access to another, incrementally growing (one percent per year!), but tiny quota of two tonnes that would be filled in one shipment (from all CPTPP partner countries). CPTPP offers elimination of out-of-quota tariffs by year 16. These are not serious outcomes.

As this quota applies to the specific product that Australia is able to export most competitively, i.e. chilled, airfreighted carcasses, it has a significant impact in limiting export growth to Malaysia. Similar quotas are maintained for frozen carcasses and for live exports. **APL recommends negotiators seek to immediately expand Australia's access to Malaysia's TRQ for chilled and frozen carcasses and half-carcasses as part of the AANZFTA review.**

2.6 Indonesia

Australia's pork exports to Indonesia have declined over the last ten years. In mid-2009, Indonesia imposed a ban on imported pork as part of its efforts to contain the spread of H1N1 flu. Australian export volumes collapsed, and have yet to recover. In 2016-17, Australia exported only one shipment of pork worth around A\$26,000 to Indonesia.

As a majority-Muslim country, Indonesian demand for pork is relatively small. Despite this, non-Muslim minority populations still account for a market of more than 30 million consumers, which is serviced by a domestic pig production capacity similar to Australia's, supplemented by modest imports. Given the size of the market, there is much potential to increase trade from the current, modest levels.

Moreover, Indonesia's growing economy and status as an international travel destination have contributed to increasing demand for high-quality, fresh food to supply the five-star hotel and fine-dining sectors. Australian industry is well-placed to offer a premium, air-freight, chilled product into these growing market segments.

While AANZFTA eliminated most of Indonesia's pork tariffs on entry into force, the review process is an opportunity to finish the job. Under AANZFTA, tariffs on frozen boneless pork are subject to a disappointing 20-year reduction schedule, culminating in a bound rate of 3.75 percent by 2028. **APL recommends negotiators work towards an accelerated schedule of reductions and eventual elimination of Indonesia's tariff on frozen boneless pork by 2028.** These remaining tariffs could also be addressed in the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

As for NTBs, Australian pork exporters have identified Indonesia's unnecessarily restrictive product registration procedures, use and sale limits, restrictive import licence terms and domestic purchase requirements as particular impediments. Some of these measures were the focus of a successful WTO complaint, brought by New Zealand and the USA. Indonesia is yet to fully comply with the ruling. **APL recommends negotiators consider Indonesia's non-tariff, trade-restricting measures for pork as part of the AANZFTA Review's overall approach to addressing NTBs.**

In May 2017, the Indonesian government issued an update on the classification of veterinary medicine. The new regulation includes a ban on the use of beta-agonists, a veterinarian medicine widely used in Australia. The ban was expected to come into force on 1 January 2018, but it remains unclear whether the regulation prohibits the use of beta-agonists in domestic industry, or whether it applies to residues in imported meat.

Use of beta-agonists, also known as ractopamine, or by the commercial name Paylean, is internationally recognised as acceptable and not harmful. Since 2012, the international reference standard Codex Alimentarius has approved a maximum residue limit (MRL) of 10 parts per billion for muscle cuts of beef and pork. Indonesia's decision to impose a ban on the use of ractopamine goes against the prevailing global standard, and could be the end of Australian pork exports to the market. **APL recommends negotiators encourage AANZFTA partners to accept internationally-recognised, Codex Alimentarius MRLs for ractopamine.**

Indonesia's plans to improve the quality of its national pig herd provide different opportunities. The high health status of Australia's pig herd lends itself to the export of breeding pigs and genetics. In mid-2016, Australia and Indonesia commenced discussions on a health protocol for the export of Australian breeder pigs to Indonesia. APL is supporting the Department of Agriculture and Water Resources (DAWR) in these discussions.

If Australian and Indonesian officials are unable to reach a separate, early agreement, **APL recommends conclusion of the bilateral health protocol for the export of breeder pigs could be included in an overall package of outcomes for the AANZFTA review.**

2.7 Thailand

Thailand should be a prime destination for Australian pork exports: an upper-middle income country, with solid levels of pork consumption, in close geographic proximity to Australia.

But, due to the lack of import health protocols, Australia is unable to export uncooked pork or offal to the Thailand market. APL views the requirement to negotiate health protocols as a non-tariff measure that can be misused by governments to limit trade. **APL recommends negotiators consider Thailand's non-tariff, trade-restricting measures for pork as part of the AANZFTA Review's overall approach to addressing NTBs.**

AANZFTA did not offer any further reduction to Thailand's tariff barriers above what was delivered as part of the Thailand-Australia Free Trade Agreement (TAFTA) in 2005. Under TAFTA, tariffs on all chilled and frozen lines will be eliminated by 2020. Tariffs on processed products were eliminated in 2010.

Bangkok maintains a ban on the use of beta-agonists (ractopamine), complicating industry's efforts to open the market. This ban is motivated by a desire to shield Thailand's domestic pork production industry from outside competition. The ban is not scientific, and is not consistent with the international reference standard Codex Alimentarius MRL of 10 parts per billion. **APL recommends negotiators encourage AANZFTA partners to accept internationally-recognised, Codex Alimentarius MRLs for ractopamine.**

If the market access protocols and ractopamine issues can be managed, TAFTA potentially offers a significant tariff rate advantage to Australian exporters over competing suppliers. This is because Thailand's MFN rate for pork is between 30% and 40% across all lines and no comparable supplier has an FTA with Thailand. The USA and EU have commenced FTA discussions with Thailand.

2.8 Brunei, Cambodia, Laos, Myanmar

The remaining ASEAN markets Brunei, Cambodia, Laos, and Myanmar, are negligible markets for Australian pork. While these may present some niche opportunities in the future, current trade and prospects for growth are limited.

3. Conclusion

ASEAN is a top priority export market for Australian agricultural commodity producers. AANZFTA provides a predictable, shared framework for trade, augmented by Australia's network of bilateral FTAs in the region. APL supports the government's efforts to expand and improve the FTA network.

In the AANZFTA general review, APL sees a number of opportunities – both generally and in specific markets – to improve market access and better facilitate commerce. Our main recommendations can be summarised as below:

- 1) **APL recommends negotiators seek improved AANZFTA market access by seeking the elimination of remaining tariffs, quotas and reference price schemes targeting pork products in the Philippines, Malaysia, Vietnam, and Indonesia.**
- 2) **APL recommends negotiators design avenues to better identify and address NTBs as part of the AANZFTA review.**
- 3) **APL recommends negotiators encourage AANZFTA partners to accept internationally-recognised, Codex Alimentarius MRLs for ractopamine.**
- 4) **APL recommends negotiators consider measures to better attract and facilitate the flow of ASEAN capital into the Australian agricultural sector.**

APL is grateful for the opportunity to contribute to the governments negotiating priorities as part of the AANZFTA review. We would be happy to discuss this submission, or to answer any specific questions. Please get in touch with Mr Andrew Robertson, Senior Policy Analyst at andrew.robertson@australianpork.com.au or (02) 6270 8888.



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