



AUSTRALIAN PORK LIMITED
ITS Global: International Trade Review
Research Summary – July 2018



Summary of Research Findings

Introduction

Australian Pork Limited (APL) commissioned ITS Global, and independent trade strategy consultancy, to examine the global trade environment and put forward recommendations that APL can pursue in the interests of strengthening our industry. A final report was delivered in June 2018, and this paper extracts some of the key findings and recommendations from the research.

Trade policy environment

The Australian agricultural sector has generally benefited from growing demand in the region and from trade liberalisation both regionally and globally. However, Australian pork producers have seen limited gains from trade liberalisation through multilateral or bilateral processes.

In the World Trade Organization, progress on further reducing trade barriers has been slow, with negotiations stalled across most areas for the past 17 years. Members have failed to agree to further substantive market opening in agriculture, with the exception of a 2015 decision to eliminate export subsidies.

The (lack of) progress in agriculture is not only reflective of the longstanding difficulties of liberalising the sector, but also due to a growing indifference among WTO members to the process of reform. Not only have negotiations in the WTO stalled, but the functioning of the WTO Appellate Body (AB) is being impacted by US action holding up reappointments of Appellate Body judges.

Regional and bilateral agreements have risen in number over the past decade. More are underway. The pace and number of agreements being concluded has been driven both by an impasse in progress to reduce and address trade barriers in the WTO, and a desire to counteract advantages granted to competitors under such agreements in important markets.

Two major regional initiatives will impact on the trade policy environment – entry into force of Trans Pacific Partnership Agreement (without the US – now called the Comprehensive Progressive Trans Pacific Partnership Agreement - CPTPP) and conclusion of the Regional Comprehensive Economic Partnership (RCEP).

Australia now has an extensive network of bilateral and regional agreements that extend across the Asia Pacific region. This includes existing FTAs with pork target markets – New Zealand, Indonesia, the Philippines, China, Japan, Korea, PNG and Singapore. Agreements are under negotiation or in prospect with the others, including bilateral agreements with India, Indonesia, the EU and Hong Kong, plus RCEP (including India, ASEAN, New Zealand Korea, China and Japan) and CPTPP (including NZ, Singapore, Japan as well as Canada).

For pork producers, Australia benefits from a relatively open export market across Asia Pacific compared to major export competitors as a result of Australia's numerous bilateral

and regional FTAs. Currently Australia enjoys advantageous preferential tariff treatment in Japan, the Philippines, PNG, Indonesia, New Zealand and China.

Australia's competitors are also party to a range of agreements which provide them with preferential access in some of the key target markets. However, they have generally fewer agreements and tend to face mainly WTO treatment in most of the markets concerned.

For example:

- Korea is the only market where major competitors the EU, and US receive better treatment as a result of earlier negotiated bilateral FTAs;
- Australia's preferential access to Japan and to New Zealand will be eroded under CPTPP with new, and almost equivalent access to the Japanese market granted to Canada over a period of 11 years;
- The EU/Japan FTA (expected to be ratified mid 2018) will give EU exporters similarly improved access to Japan.

While Australia currently enjoys significant tariff preferences for exports to China under the ChAFTA, the industry is unable to access the benefits of these concessions due to non tariff barriers.

RCEP is unlikely to yield significant new access for Australia to other target markets (Japan, Korea, NZ, Singapore) but could deliver some improvement on current access arrangements under existing bilateral FTAs.

Other pork exporters are also negotiating FTAs that have the potential to erode Australia's relative access advantage in target markets under FTAs. The EU has recently concluded an FTA with Japan which delivers EU exporters significantly improved access to the Japan market. The agreement is due to be presented to the Japan diet in June/July and then ratified shortly thereafter. The CPTPP Agreement will significantly improve access to Japan for Canada, and also to NZ.

Recent trade developments have also added complexity to the global trade policy environment. The Trump Administration's trade policies have up to this point been unpredictable. The US agriculture sector and the US Secretary for Agriculture, Sonny Perdue, have expressed concern that the Administration's trade actions will impact agricultural exports. This includes a number of key markets affected by Trump's actions, the Republic of Korea (renegotiation of KORUS) Japan (withdrawal from the TPP Agreement), China (tit-for-tat tariffs), and Mexico and Canada (renegotiation of NAFTA).

It has been observed that where US exports of pork have fallen in these two markets, slack has been taken up by European exporters, who are making larger inroads into North Asian markets. In this regard, the risks (or opportunities) from the Trump Administration are indirect rather than direct. However, the indirect effects resulting from trade diversion of US pork from China to other markets (including Australia) as a result of increased trade barriers should not be discounted.

In the WTO, a recent decision involving animal welfare leaves open the possibility that governments may institute trade controls to pursue animal welfare objectives. It adds to the already growing body of WTO jurisprudence that has sanctioned responding to community concern around issues such as environmental protection and animal welfare as a legitimate policy objective for trade restrictions in some (albeit circumscribed) circumstances.

To be WTO-compliant, any regulatory measures restricting imports would need to operate in a non-discriminatory manner.

Many significant global suppliers of pork retain subsidies and other support measures that provide an unfair advantage to their producers in international markets, including Australia. As an industry that does not benefit from government support, Australian pork producers may be suffering damage from under-priced or unfairly subsidised imported products.

Australia's trade remedies system should provide several options. It is proposed that the pork industry investigate pursuing anti-dumping action using Australia's trade remedies system, particularly the Anti-Dumping Commission. However, prior to this, the pig production industry must seek access to the system by advocating change in the 'close-processed agricultural goods' provisions in the Customs Act (1901). If this can be achieved, the way is open for industry to request an anti-dumping investigation.

All of Australia's FTAs include built in mechanisms to support improvements in market access over time. For example, the ChAFTA includes specific commitments to review the agreement to improve on liberalisation commitments— this process is currently underway, though is yet to yield significant results. A similar process was recently concluded under SAFTA which resulted in amendments to the agreement to update it for expanded liberalisation commitments and rules of origin procedures. Reviews of AANZFTA have also resulted in updating of rules of origin procedures.

Trade outlook

Australia is a relatively small producer and consumer of pigmeat and pork products globally.

The industry produces approximately 0.3 per cent of the world's pork products, and consumes around 0.4 per cent.

Australia has been a net importer of pigmeat for the past 12 years. Australian exports are generally for fresh chilled; this generally goes to the Singaporean market.

Global pig meat consumption is forecast to trend upward to 2026. Consumption per capita is expected to trend downwards.

Key drivers of trade are demand from income growth in Asia and excess supply from domestic markets in developed countries, with protection constraining trade especially in form of SPS barriers.

A major factor impacting on world trade flows in recent years is China, which has surged to be the world biggest single market for imports by volume. It is a relatively low value market compared with Japan, but it is rising fast in terms of value.

World production and consumption of pigmeat has increased about 20 per cent over the past decade, while trade has remained fairly low and steady as a proportion of production and consumption at around 5 per cent.

China's production and consumption have grown by about 25 per cent over the same period, and imports account for a tiny share of both – but nevertheless are significant in absolute terms. Rising consumption per capita has driven China's production and trade.

China's production is mainly focused on the domestic market – China became a net importer in 2008 and has increased since then to account for a significant percentage of world imports (excluding intra-EU trade).

Pig meat consumption is expected to continue trending upwards in China. Increased production in China is expected to satisfy increasing demand as the Chinese industry continues to undergo significant consolidation, hastened by enforcement of environmental regulations aimed at curbing pollution from swine farms. Chinese producers are fewer in number but larger, as producers respond to growing production costs with increased scale efficiencies.

The biggest export success has been by Brazil, where production growth of around 40 per cent has outstripped consumption growth and driven exports to be around 15 percent of production. The rise of Brazil as an exporter mirrors chicken meat – highly integrated production supported by subsidies (State and Federal) and facilitated by ample grain and oilseed supplies. However, projections indicate that Brazil's export growth may be moderating. Rising consumption in Brazil will constrain export growth over the period leading up to 2026.

The US has seen strong production growth in the past few years outstripping consumption growth (which has nevertheless recovered strongly from a slump following the GFC), and exports now account for around 20 per cent of production.

In the case of China, the US and Brazil where there have been strong increases in output, there has been significant investment in productive capacity in recent years, assisted by relatively low feed prices and in some cases subsidies.

Rising production and processing capacity in the USA on the back of recent years' weak feed prices and high processor margins – likely to be accentuated by Trump tax reform package which will encourage investment in US as a preferred location. The USA is the world's second-most important pork exporter, after the European Union.

This will in turn increase the competitive position of the USA as an exporter, and put downward pressure on global pork export market prices, also potentially adding to import competitive pressure in the Australian market. This situation may be exacerbated by recent trade tensions between the US and China – including the imposition by China of punitive tariffs on US pork – which could result in excess pork products being diverted to third markets, including Australia.

Recommendations

To advance its interests in multilateral fora, APL should:

- Continue to support and advocate for liberalisation of global agriculture markets, consistent with Australia's longstanding trade policy, and;
- Consider further the possible avenues for safeguarding the domestic market from unfair import competition through use of trade remedy actions, such as anti-dumping. This would require further investigation and a concerted effort to engage the government.

For APL to capitalise on the market access benefits of preferential access granted under FTAs, APL should:

- Seek to improve the terms of access in target markets under existing FTAs. Enabling of export access to China should be a priority. There are mechanisms under the ChAFTA to support negotiation of an export protocol. These include the various institutional working groups established under the agreement which provide a platform for trade interests to be addressed by officials. The working groups are mandated to meet annually in addition to the broader review of the agreement which is currently being undertaken;
- Secure outcomes in prospective FTAs which build upon the status quo (India) and improve those in existing agreements (Indonesia, Philippines). Bilateral agreements may provide greater opportunity to advance core interests than regional agreements, mainly due to the size and mix of parties involved. While bilateral negotiations with Indonesia are underway, negotiations with India present opportunities;
- Prepare for increased competition in target markets - in Japan and in New Zealand - as a result of recently negotiated FTAs;
- Plan for continued and progressive reduction of tariff barriers which will occur over time as a result of FTAs, including in Korea and ASEAN markets;
- Ensure Australia's quarantine standards for imported pork are not relaxed under existing or prospective FTAs, particularly those involving competitor exporters;
- Engage DFAT and DAWR officials on APL's priorities. Articulate positions to advance in negotiations.



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