

## Comments on the Australia-China Free Trade Agreement Joint Feasibility Study

July 2005

### INTRODUCTION

As the peak body representing the interests of Queensland's horticultural producers, Growcom welcomes the opportunity to comment on the *Australia-China Free Trade Agreement Joint Feasibility Study*.

Growcom agrees with the position in the Agriculture Benefits paper that China presents many opportunities for Australian agricultural exporters. China's economic growth and the growing affluence of Chinese consumers will lead to changes in lifestyle and diet, creating potential opportunities for high quality agricultural and horticultural produce.

The horticulture industry seeks to develop a significant trade in horticultural products to China. Accordingly we welcome the opportunities which may be presented by an Australia-China FTA. It is also clear that for Australian horticulture a liberalised outcome on tariffs and other barriers, however favourable, must be matched by official and transparent quarantine access to China for Australian produce. Australian growers support trade on a level playing field – they have an expectation that our trading partners and competitors do not provide large subsidies to their farming sectors, that they do not have lower quality or food safety standards, that they do not treat their workers poorly, and they do not cut corners on environmental management.

An agreement to liberalise trade may also have implications for the level of competition from Chinese horticultural imports faced by Australian producers (regardless of the counter-seasonal nature of our produce), particularly where Australian growers face significant business and regulatory costs which are not imposed on Chinese producers. Therefore, the likelihood and probable impact of future competition from China on the domestic market will need to be assessed and addressed within any FTA, with appropriate measures put in place to provide temporary safeguards for 'sensitive' horticultural industries.

While a FTA with China has the potential to provide opportunities for high quality and value added horticultural products into China, these opportunities must not be negated by likely negative impacts from future Chinese competition on the domestic Australian market.

### TERMS OF REFERENCE

Growcom understands the Terms of Reference for the *Australia-China Free Trade Agreement Joint Feasibility Study* are:

- to provide an overview of recent trends in bilateral trade and economic relations;

- to assess recent international trade policy developments and the possible implications for
- Australia-China trade and investment;
- to identify and describe existing barriers to trade and investment flows, covering goods, services and investment and other issues that might be addressed in a free trade agreement;
- to identify possible cooperation measures to promote trade and investment liberalisation and facilitation between Australia and China;
- to assess the impact of the removal and/or reduction of existing barriers to goods and services trade and investment; and
- to make conclusions and recommendations as regards options for future action.

Our submission focuses on issues facing the horticulture sector in the development of an FTA and the need for certain measures to be put in place to ensure a strong position for the industry into the future.

## **ABOUT THE HORTICULTURE INDUSTRY**

Horticulture is a major Australian agricultural industry with 18,000 enterprises contributing to a gross value of production of A\$6.4 billion<sup>1</sup>, third to grains and meat. It also has an export value of \$850 million and supports a workforce of 80,000, or one out of five agricultural employees in Australia.

In Queensland's \$1.46 billion fruit and vegetable industry, 25,000 people (FTE) are employed on 3,500 enterprises, with a further 11,200 employed in horticultural processing. Horticulture is Queensland second largest agricultural industry, having almost doubled in value of gross domestic product in the last ten years. It is:

- A diverse industry producing a wide range of crops, utilizing a range of production methods in different locations and climates.
- A major contributor to regional economies, and the mainstay of many regional communities.
- A resource base for significant value adding throughout the food, transport, wholesale and retail industries.
- Labour intensive in areas where alternative employment and industry activity are often scarce.
- An industry with significant links to the tourism industry, providing income for thousands of backpackers and "grey nomads" each year.
- A high value and efficient user of water resources in terms of agricultural production.
- A primary and secondary source of income for many families in regional Queensland e.g. through seasonal work in packing sheds etc.
- The site for a number of emerging agricultural industries including olives, Asian exotic tropical fruits, culinary herbs, bush foods, functional foods and nutraceuticals.

The Queensland industry also contributes to the economy:

- A further \$1.4 billion in supporting economic activity e.g. transport, equipment, packaging etc.
- 27 880 full time equivalent jobs in addition to on-farm employment in fruit & vegetable growing.

Fruit and vegetables as a proportion of the total value of all crops has risen sharply from 34 to 40.5 per cent between 1993 and 2001. Every 10 hectares of land generates:

- \$153,000 contribution to gross state product.
- Up to \$300,000 in sales.
- Three full time equivalent jobs.

Queensland is the nations' single largest producer of a range of fruit and vegetable crops including bananas, avocados, mangoes, lychees, melons, pineapples, capsicum, fresh tomato, lettuce, beans, beetroot, pumpkin and zucchini.

Perhaps most importantly, jobs in the industry have grown at a faster rate than both jobs in agriculture and total jobs. This is particularly significant for many rural and regional areas, where employment options are more limited. A recent study<sup>2</sup> commissioned by Growcom has shown that overall, employment in fruit and vegetable growing in Queensland increased by 56 per cent from 1991 to 2001. This compares with an increase of 6 per cent for jobs in agriculture and 28 per cent for total jobs.

At a national level, the food industry including fresh horticultural produce is the largest manufacturing industry. It accounts for 43 per cent of total retailing revenue and 20 per cent of Australian exports of merchandise and manufactured products with growth occurring at 9 per cent per annum.

## **TRADE**

The major trade issues for horticulture with respect to a trading agreement with China are:

- The agreement should be a 'Preferential Trading Agreement' rather than a 'Free Trade Agreement'.
- Negotiation of most favourable reductions in tariffs on Australian horticultural exports in line with comparable situations.
- Need for recognition of sensitive Australian horticultural industries with either suitable safeguards or exclusions from the agreement.
- Emphasis on support for trade where complementarity is identifiable.
- Protection of right to trade with no restricted trading rights.
- No horticulture specific subsidies permitted for Chinese horticultural exports.
- Agreement to transparency by China for trade and market access related matters.

In terms of export markets, opening and development of the China market is the primary market objective for our horticulture industry.

The China market's importance is reflected by the value of the trade which has historically been directed to and through Hong Kong (China's imports of Australian fresh fruit from Hong Kong, in the absence of any official quarantine access agreement, are of 'grey trade' or 'unofficial' status. This trade is increasingly subject to restrictions). It is also reflected by the recent economic growth of China, which is expected to continue with maintenance of a high annual growth rate, on Chinese government estimates, of 7 to 8% to 2020.

Current two way trade in fruits, vegetables and nuts between Australia and China/Hong Kong SAR is valued at US\$99.7 million, with exports from Australia at \$67.1 million and imports from China/Hong Kong at US\$32.6 million (all figures 2004).

However, Australian fresh fruit trade into Hong Kong SAR declined in 2004 over the previous peak year as follows in cif terms: table grapes US\$20.8 million in 2004, down 23.8% over 2002; oranges US\$11.9 million, down 61.5% over 2001; plums US\$4.1 million, down 60.5%

over 2001; cherries US\$3.6 million, down 58.9% over 2002; mandarins US\$3.3 million, down 53.6% over 2002; peaches US\$2.5 million, down 63.3% over 2002.

China also has a surplus in direct trade in horticultural products with Australia of US\$69.2 million (2004). China has ambitious expansion plans for agriculture including horticulture. This means that Australia and other export markets will be strongly targeted. Australia needs to strongly respond to this challenge to this development.

### **Safeguards for sensitive industries**

Free Trade Agreements e.g. the AUSFTA can be written to recognise the situation of 'sensitive' industries with inclusion of so called temporary 'safeguard' measures which are consistent with the Uruguay Round Agreement. They may be applied during the transition period when tariffs are reducing to zero under a FTA. To be activated, these safeguards require that increasing imports must be causing or threatening to cause serious injury to the domestic industry as shown by investigation. So called 'provisional safeguard' measures can be applied in critical circumstances and can be taken without demonstrating injury to the domestic industry. 'Special safeguard provisions' are allowable under the Uruguay Round's Agreement on Agriculture. These allow for the imposition of additional duty to the end of the year in question where the volume of imports exceeds a trigger level or the price falls below a trigger price.

Australian horticulture believes that such 'safeguards' may not be fully protective under a FTA in the sense that the end of period is still free trade. The above identified safeguards represent only possible temporary support during the transition period while tariffs are reducing to zero under a FTA. There may be no provisions exercisable within a FTA for safeguards which are strongly and consistently supportive over time of the sensitive industry's position. The most appropriate safeguard for a sensitive industry could be exclusion from the agreement.

Response to competitive challenge from certain Chinese horticultural exports to Australia (evidenced by, for example declining sales of Australian export cauliflower and carrots from Western Australia to East Asian markets over the past three years) would require the acceptance and recognition of 'sensitive' Australian horticulture industries within the agreement. Recognition of 'sensitive' industries would require either their exclusion from the agreement or their inclusion with safeguards. These will need to be stronger than those which are included, mostly acting *against* Australian exports, in recent FTAs in which Australia has been involved.

### **IMPORTANCE OF MARKET ACCESS TO AUSTRALIAN PRODUCERS**

The major market access issues in respect of an agreement with China are:

- An agreement to reference equivalence by China in making market access determinations.
- Agreement to improved speed and transparency by China for the quarantine access assessment and approval process.
- Agreement to progress and resolve any technical barriers to trade.

Lack of official quarantine access is currently the principal barrier to two way trade in horticultural produce between Australia and China.

The list of Australian produce for which official market access is sought includes citrus, mangoes, table grapes, stone fruit, cherries, lychees, apples, bananas and certain potatoes.

A number of Chinese horticultural produce items have official quarantine access into Australia, namely two types of pear, lychees and longans. China's list of produce for which official market access is sought includes other pears, apples and peaches.

Both lists of Australian and Chinese horticultural produce for which official quarantine access is sought are expected to lengthen as producers in both countries seek new export opportunities. From an Australian perspective there could be merit in seeking access for a range of other produce, for example to meet the rising affluence of Chinese citizens. Suggestion has been made of vegetables, olives, beans and others. These items however would have a lower priority than those currently queued for quarantine market access.

As quarantine authorities are required to act in accordance with the WTO SPS Agreement and are constrained by limited human resources to progress applications, negotiations for current and future applications are likely to continue to face lengthy time lines.

Australian horticulture is unsure that provisions for supporting consultation covering sanitary and phytosanitary measures contained in recent FTAs, as well as in the understandings reached between Australia and China, currently do more than keep access applications at the front of mind of the corresponding national quarantine authority. Such provisions usually note the primacy of existing rights and obligations under the WTO's Sanitary and Phytosanitary Measures (SPS) Agreement. They also generally include some additional administrative arrangements which will 'facilitate consultation and cooperation on SPS issues and quarantine operational and other regulatory processes affecting agriculture and food trade'.

Our industry would like to see a more positive commitment, either within the agreement or as a side letter or other supporting outcome to an agreement, which will require both national quarantine authorities to progression of work over an agreed period of time, or at least to require that no market access application will remain unaddressed for longer than an agreed period of time. The time period to be identified here should conclude prior to the completion of the negotiations, so that quarantine market access can coincide with non-quarantine market liberalisation.

This submission does not comment on the likely quality of imported produce suffice to say that Australian horticultural production is regulated by significant quality and food safety legislation ensuring that Australian produce is free from pesticides and contamination. It should be stressed that Australians expect that all produce, imported or otherwise, meets Codex and Food Standards Code requirements and is tested on a regular basis to ensure compliance. We would expect that any agreement between Australia and China ensure that the quality and safety of produce is not compromised for the sake of perceived commercial benefit.

## **Equivalence**

Horticultural production between Australia and China is understood to be relatively counter-seasonal. In this context two way trade may be able to be pursued in the interests of both Australian and Chinese exporters. However this may not be a clear-cut process, as production seasons may overlap or Chinese produce can be cold stored so that it competes on the Australian market in Australia's production season.

## **Transparency in market access applications**

The horticulture industry would also like to see a greater recognition of transparency and equivalence in consultations on the sanitary and phytosanitary relationship between Australian and Chinese authorities. Both transparency and equivalence are WTO SPS principles. For example, under transparency:

- records of such supporting consultation should be available to industry in each country;
- the detail of bilateral and third country determinations in the area of quarantine access should be available to industry in each country (Australian determinations are already readily available);
- tracking of progress in assessment of bilateral market access applications should be available to industry in each country (tracking of Australia's progress is already available).

Under equivalence, both China and Australia should report on the equivalence of their bilateral market access determinations which they make, in light of any historical trade and with any same produce access determinations granted to other exporting nations.

## **Technical Barriers to Trade**

Australian horticulture is aware of the potential of technical barriers to trade to present obstacles even after trade in horticultural produce is technically achievable. An agreement should provide for steps to recognise the potential for technical barriers to trade and the need for their swift resolution whenever they may arise.

## **CONCLUSION**

The following would represent undesirable outcomes from an Australia–China FTA, where:

- any liberalisation achieved in the areas of non-quarantine barriers will be meaningless in terms of trade generation without accompanying market access, and
- market access of Chinese horticultural produce into Australia could offer serious competitive challenge to certain Australian horticultural industries.

For Australian horticulture, the optimal outcome under an agreement would be where a more transparent and faster quarantine access approval process is put in place. This could be as part of the agreement or further to a side agreement to the agreement. Also the competitive challenge to certain Australian horticultural industries would need to be suitably addressed.

The objective of horticulture negotiations with China should be that Australia and China reach an agreement which allows improvement in two way horticultural trade but only in those areas where it lies in both nations' interests.

## SUPPORTING TABLES

### BRIEFING DOCUMENT: HORTICULTURE TRADE STATISTICS 2004 (horticulture is defined as fresh and further processed products)

#### Supporting Statistics

#### 1. CHINA & AUSTRALIA HORTICULTURE EXPORTS (US\$M)

	China Exports	China Exp to Aust	Australia Exports	Aust Exp to China	Aust Exports to HK
<b>Primary</b>					
<b>Nursery</b>	64.3	0.5	26.0	0.4	2.2
<b>Vegetables</b>	2,188.4	15.9	132.4	1.2	5.9
<b>Nuts</b>	182.3	4.6	124.4	3.0	1.6
<b>Fruit</b>	734.5	7.9	284.2	0.1	55.3
<b>Subtotal</b>	3,169.5	28.9	567.0	4.7	65.0
<b>Processed</b>					
<b>Processed</b>	2,578.3	51.6	183.5	1.6	4.2
<b>Total</b>	5,747.9	80.5	750.5	6.3	69.2

Source: China Customs for China exports & Australia Customs for Australian exports

#### 2. CHINA & AUSTRALIA HORTICULTURE IMPORTS (US\$M)

	China Imports	China Imp from Aust	Australia Imports	Aust Imp from China	Aust Imports from HK
<b>Primary</b>					
<b>Nursery</b>	51.3	0.0	27.2	0.9	0.0
<b>Vegetables</b>	373.9	0.9	126.3	16.3	0.2
<b>Nuts</b>	113.0	7.2	105.5	5.6	0.0
<b>Fruit</b>	506.1	1.0	181.5	10.5	0.0
<b>Subtotal</b>	1,044.3	9.1	440.5	33.3	0.2
<b>Processed</b>					
<b>Processed</b>	141.9	2.2	354.3	45.3	0.4
<b>Total</b>	1,186.2	11.3	794.8	78.6	0.6

Source: China Customs for China Imports & Australia Customs for Australia Imports

#### 3. CHINA HORTICULTURE EXPORTS GROWTH 2000 TO 2004 (US\$M)

	China Exports 2000	China Exports 2004	Growth in Exports US\$M	% Growth in Exports
<b>Primary</b>				
<b>Nursery</b>	31.8	64.3	32.5	102.2
<b>Vegetables</b>	1,300.7	2,188.4	887.7	68.2
<b>Fruit &amp; Nuts</b>	417.3	916.9	499.6	119.7
<b>Subtotal</b>	1,749.8	3,169.6	1,419.8	81.1
<b>Processed</b>				
<b>Processed</b>	1,314.7	2,578.3	1,263.6	96.1
<b>Total</b>	3,064.5	5,747.9	2,683.4	87.5

Source: China Customs

#### 4. CHINA HORTICULTURE IMPORTS GROWTH 2000 TO 2004 (US\$M)

	China Imports 2000	China Imports 2004	Growth in Imports US\$M	% Growth in Imports
<b>Primary</b>				
<b>Nursery</b>	20.7	51.3	30.6	147.8
<b>Vegetables</b>	50.2	373.9	323.7	644.8
<b>Fruit &amp; Nuts</b>	368.4	619.3	250.9	68.1
<b>Subtotal</b>	493.3	1,044.5	605.2	137.8
<b>Processed</b>				
<b>Processed</b>	59.6	141.9	82.3	138.1
<b>Total</b>	498.9	1,186.4	687.5	137.8

Source: China Customs

#### Key points Australia & China trade in horticulture (2004):

1. China has a substantial trade surplus with the world in horticultural products of US\$4.5 billion.
2. Australia has a trade deficit with the world in horticultural products of US\$44.3 million
3. China has a surplus in direct trade in horticultural products with Australia of US\$69.2 million
4. Adding Australian trade with Hong Kong to direct Australian trade with China in horticultural products, China has a trade surplus with Australia in horticultural products of US\$3.7 million.
5. China's global horticultural exports have grown by 87% of US\$2.6 billion over 4 years to 2004, with all sectors contributing strongly.
6. China's global horticultural imports have grown by US\$687 million or 137% over the same period. Generally and excepting fruit and nuts, import growth is growing faster than export growth but from a lower base.

<sup>1</sup> Horticulture Australia Limited, [http://www.horticulture.com.au/industry/overview\\_horticulture.asp](http://www.horticulture.com.au/industry/overview_horticulture.asp).

<sup>2</sup> CDI Pinnacle Management and Street Ryan & Associates, *Economic contribution of horticulture industries to the Queensland and Australian economies*, Prepared for Growcom and Horticulture Australia Limited, November 2004.