



**Submission to the Joint China Free Trade Agreement
Feasibility Study**

**Australia - China Trade & Economic
Framework**

18 June, 2004

1. Introduction

Australian Pork Limited (APL) is the peak national body representing the interests of Australia's pork producers. It is a unique agricultural organization underpinned by legislation that enables the organization to combine the functions of marketing, research and strategic policy direction and implementation, supported by industry funds.

APL welcomes the request for public comment and consultation by the Department of Foreign Affairs and Trade (DFAT) regarding the China Free Trade Agreement Feasibility Study. APL is pleased to be advised that there has been agreement to fast track the feasibility study to complete it ahead of the originally planned October 2005 deadline. APL supports efforts by the Australian Government aimed at establishing a free trade agreement between Australia and China.

2. The Australian Pork Industry

There are currently 2,500 pork producers in Australia producing some 5 million pigs annually. APL's members own approximately 77% of the Australian pig production. The Australian pork industry provides a significant positive impact to local, regional, state and national economies. The total value produced by the Australian pork industry is approximately \$2.6 billion. The majority of farms are small to medium sized, family owned and run operations. Despite the family orientated structure of the industry, pork represents 2.5% of total Australian farm production.

The pork industry generates substantial income and employment in rural and regional Australia. The industry generates over \$1.1 billion in household income. In 2002, the pork industry directly generated approximately 6,000 full time jobs with a further 6,700 direct and 16,800 indirect jobs generated throughout the supply chain¹. The specific economic impacts at a national, state and regional level are documented below in Table 1.

¹ 'Socio-Economic Impacts of the Australian Pork Industry', Western Research Institute; 17 December 2002

Table 1 Socio-Economic Impact of the Pork Value Chain

	Output (\$m)	Value Added (\$m)	Household Income (\$m)	Employment
Australia	6,199.90	2,576.00	1,109.78	33,863
States				
New South Wales	1,498.14	625.22	266.05	7,916
Victoria	1,359.76	550.05	242.38	7,732
Queensland	1,188.37	434.28	201.37	6,312
South Australia	539.65	219.53	85.70	3,121
Western Australia	469.24	183.47	78.16	2,380
Tasmania	87.39	35.07	16.09	488
Regions				
Central NSW	372.05	129.52	49.93	2,011
Southeast Qld	601.02	192.56	80.68	3,257
Southern NSW - Northern Victoria	615.20	212.25	88.80	3,348

Source: 'Socio-Economic Impacts of the Australian Pork Industry', Western Research Institute; 17 December 2002

The industry's growing export markets are now valued at over \$228 million per year compared to \$24 million in 1997. Demand from overseas markets for Australian pork has increased substantially over the past four years, from just 2.6% of Australian pork production in 1997 to approximately 20% in 2003. Australia's key markets are in Asia with Singapore and Japan providing export income of \$100 million and \$80 million per year respectively. Of major significance is the fact both these markets place a particularly high level of importance on food safety and animal health issues, as highlighted by Japan's response to recent BSE outbreaks in Canada and the USA involving temporary bans on imports of beef from those countries.

The Australian pork industry is in the enviable position of having a national pig herd with a 'world's best' health status, which underpins pork exports and is vital to the competitiveness and growth of the industry. It is this health status that makes Australian pigs and pig products desirable. With growing global consumer concern for food safety in the wake of increasing disease outbreaks, this highly regarded health status becomes even more desirable and an increasingly competitive advantage.

3. Overview to the Chinese Pork Market

China is the world's largest pig producer with over 42 million head compared with Australia's 350,000. Although China does import pork, 144,000 tonnes in 2002, most of this is frozen product from countries such as United States and Canada. Current Australian pork sales to China are limited to low volumes of offal and trotters as the prices of local pork are significantly cheaper than Australian imports.

Currently most Chinese pork is consumed domestically with little product available for export. China has a number of endemic diseases such as FMD and the general quality and hygiene of products is well below Australian standards. China's poor health status also inhibits its export of pork.

4. Potential Opportunities

APL's strategic review of international markets has identified China as a key new market for the Australian pork industry. This is reinforced by the planned restructure of the Australian pork industry, the 2004-2007 Strategic plan and related ongoing product innovation and food commercialisation activities, all of which include identifying opportunities to capture niche markets in countries such as China. However, one of the major constraining factors for market access of Australian pork is the current average tariff rates of 20% on pork imports.

Internationalization of the country, the population and the economy has given rise to a more traditional middle class, often with western connections or western experience. This has led to a demand for more conventional (western) supply of meat product (packaging etc) with the development of supermarkets in China being part of this trend.

In parallel with this the degree of foreign inbound travel and the hosting of international events has brought a focus on more stringent regulations and their enforcement as part of a policy that targets the raising of food preparation, storage, handling and hygiene standards.

Australia's current competitive position in a market based essentially on price seems to be the major factor limiting Australian export growth to China. However, as the Chinese market develops and consumer incomes rise, there are likely to be significant opportunities for high quality products from 'clean green' countries such as Australia, providing there is a decrease in the tariff rate.

As China's large and rapidly growing middle class are likely to demand higher quality pork with guaranteed health and hygiene status, Australia with its higher health status, high hygiene and manufacturing standards is well positioned to meet this need. Recently there have been indications of increased opportunities for offal trade into China, particularly in respect to hotel trade.

There is also expected to be further demand for value added pork products, which the Australian industry is currently developing. These could provide a sizeable market in China for Australian pork products that would be differentiated from the traditional commodity frozen pork trading.

To lay the platform for the Australian pork industry's long term expansion into the high value end of the Chinese pork market, there should be an emphasis on reducing tariffs, reducing red tape in China, ensuring China adopts international standards for food production and residue levels such as defined by CODEX.

5. Recent Issues and Disputes

On several occasions (1999, 2000) China has revised standards on Maximum Residue Levels without making the revised standards publicly available.

Some individual shipments have been stopped on quarantine grounds, partially as a result of BSE in the EU and South America. However, trading partners are questioning the validity of quarantine restrictions in some cases. Although the United States meat has fairly easy access on paper, other countries face a lengthy plant-by-plant inspection procedure, which continues to limit how much product can enter China's retail market legally.

Chinese officials have in the past rejected EU and Canadian imports of pork offal based on zero tolerance levels for E.Coli and salmonella. In these cases zero tolerance did not conform to accepted international standards. In each case where the bacterium was found, China has indefinitely banned further imports from the plants involved.

6. Quarantine Requirements

APL requests that as part of the any free trade agreement the Australian Government seek to include measures whereby China will specifically acknowledge the Australian Quarantine and Inspection Service (AQIS) inspections standards for Australian abattoirs as meeting the requirements for export to China. In the interim, APL seeks measures that will enable inspections by Chinese quarantine authorities to occur in a expeditious manner.

7. Key Recommendations

1. Elimination of Chinese tariffs on Australian pork imports.
2. China adopts international standards, such as maximum residue levels as defined by Codex.
3. Chinese export accreditation of Australian abattoirs and boning rooms based on AQIS inspections standards.