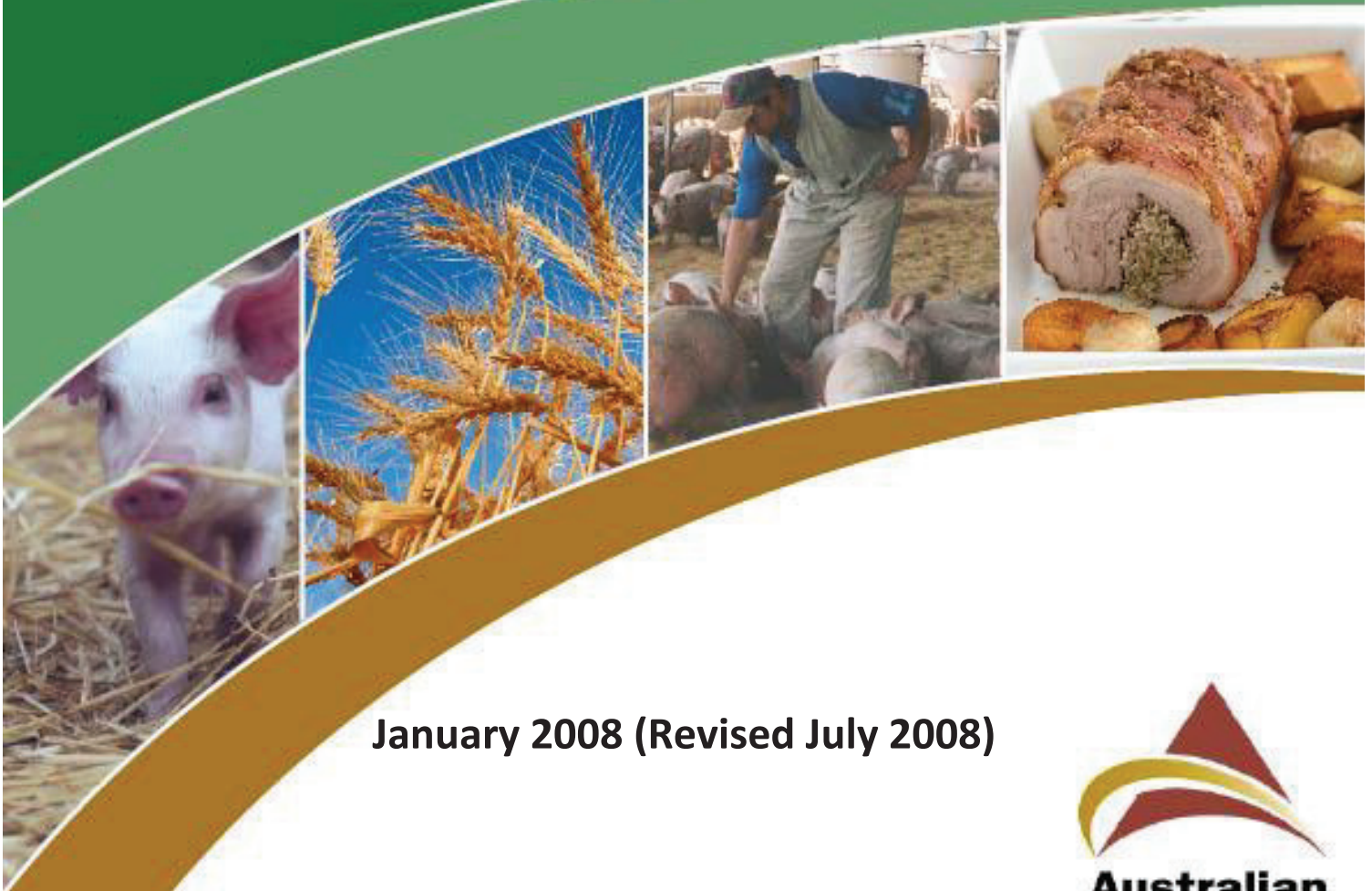


AUSTRALIAN PORK LIMITED

Submission to

Department of Foreign Affairs and Trade:

Japan-Australia- Free Trade Agreement



January 2008 (Revised July 2008)



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Executive Summary

1. APL welcomes the request for public comment and consultation by the Department of Foreign Affairs and Trade (DFAT) regarding the Japan-Australia FTA. APL supports efforts by the Australian Government aimed at establishing a free trade agreement between Australia and Japan.
2. APL remains concerned about the decline in exports to Japan. In addition to our involvement in seeking improved access through FTA negotiations, we are working with companies on commercial strategies to help improve our position.¹
3. The key priorities in the Japan FTA for competitive Australian export access are 1) reform of the snap-back tariff system, 2) tariff reduction, 3) relaxation of GMO feed bans and 4) exemption for low value cuts of Australian exports such as shoulders, bellies and legs (co-products of loin and tenderloin) to the gate price mechanism.
4. Japan is an important niche market for Australia pork exporters due to their demand for high value fresh meat cuts. It is an integral part of the Australian industry's future growth. In spite of recent unfavourable exchange rate movements that have reduced the profitability of exporting to Japan that have resulted in reduced export volumes relative to the 2002 peak, APL's five year Strategic Plan identifies the Japanese market as being a key focus for future improvement in value and volumes. Our competitive advantages in this market are our clean, green disease-free status and our ability to supply grain fed pork that has white fat colouring, as opposed to the corn-fed North American product that results in yellow fat. With growing global consumer concern for food safety in the wake of increasing disease outbreaks, Australia's highly regarded health status becomes even more desirable in export markets and is a competitive advantage.
5. Japan's highest levels of protection apply to agricultural products, denying Australian farmers fair access to our largest trading partner. The FTA must not submit to Japanese demands to exclude agricultural products - as it did with the US when it agreed to leave out sugar.²
6. Difficulties over agriculture have meant that the degree of trade liberalisation for Japan is lower than for partners' countries. Developing countries such as Mexico, Thailand, the Philippines and Malaysia have accepted the uneven terms in the expectation of benefits in areas such as aid, investment and technical cooperation in their Economic Partnership Agreements (EPAs). Japan has used a variety of mechanisms to limit the extent of agricultural concessions including outright exclusions, renegotiations, and tariff rate quotas. On balance, FTAs have had a limited although positive effect on agricultural trade liberalisation, though the

¹ APL, (2007) Annual Report, 'Japan Strategy', p. 31.

² <http://www.alp.org.au/media/0905/msfaistra210.php>

Japan FTA should aim to deliver on agriculture and recommit efforts to completion of the Doha round.

Australian Pork Limited

7. Australian Pork Limited (APL) is the national representative body for Australian pig producers. It 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. APL works in close association with key industry and government stakeholders.
8. APL is a unique rural industry service body for the Australian pork industry. The framework for APL was established under the Pig Industry Act 2001³. Operating and reporting guidelines are provided for in the Funding Agreement with the Commonwealth of Australia. This forms the basis of APL's operations.
9. APL's primary funding is derived from statutory pig slaughter levies collected under the Primary Industry (Excise) Levies Act 1999⁴. The levy amounts to \$2.525 cents per carcase levy at slaughter and comprised of \$1.65 for marketing activities, \$0.70 cents for Research and Innovation activities, and \$0.175 for the National Residue Survey (NRS)⁵. Additional research-specific funds are received from the Australian Government under the portfolio of the Federal Minister for Agriculture, Fisheries and Forestry.
10. The following objectives for the 2005-2010 Strategic Plan focus on a central strategy to drive up domestic demand for Australian pork, while building the industry's capacity to expand exports and compete successfully against pork imports:
 - increasing fresh pork demand;
 - increasing carcase value;
 - reducing supply chain costs;
 - contracts and measurements systems;
 - ensuring industry capability; and
 - managing risks for sustainability.
11. APL has made significant progress in each of these key areas in the last financial year. APL and the Australian pork industry have invested significant funds into management and marketing strategies.
12. 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. In a report commissioned by the Commonwealth Government 2001, 'Charter of

³[http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/935C1FDED0B51DF1CA256F71005501E2/\\$file/PigIndustry2001.pdf](http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/935C1FDED0B51DF1CA256F71005501E2/$file/PigIndustry2001.pdf)

⁴[http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/E231CA546E7CC2DBCA25703F001AA557/\\$file/PrimIndExciseLevies1999_WD02.pdf](http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/E231CA546E7CC2DBCA25703F001AA557/$file/PrimIndExciseLevies1999_WD02.pdf)

⁵ <http://www.daff.gov.au/agriculture-food/nrs/industry-info/animal>

Strategic Imperatives for the Australian pork industry', it is acknowledged that the industry's key competitive advantages are its comparative freedom from disease, proximity to Asia, and capability to export fresh chilled pork to these Asian markets and as such "it should be fiercely protected". 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 increasing competitive advantage.

Structure and Regional Distribution of the Industry

13. There are currently an estimated 1,500 pork producers in Australia with total pig numbers at approximately 2,702,000. APL's 445 members own approximately 92 % of the Australian pig production.⁶ The estimated Gross Value of Production (GVP) for Australian pig production was \$944 million for the period 2006-07 decreasing to \$881 million for the period 2007-08⁷. Pork represents 2.76% of total Australian farm production.⁸ This figure has remained relatively constant since 2005. During 2005-2006, the pig industry had a farmgate value of \$867 million (ABARE).
14. The Australian pork industry provides a significant positive impact to local, regional, state and national economies through substantial income generation and employment. In 2004, the pork industry directly generated \$3.2 billion in output and \$967 million in value added product⁹, compared to an estimated \$2.9 billion in generated output, \$840 million in value added product and 7,928 full time jobs when flow on effects are taken into account in 2006-07.¹⁰
15. A further 35,000 jobs are generated indirectly throughout the pork production chain.¹¹
16. The majority of farms are small to medium sized, family owned and run operations.

⁶ In November 2007.

⁷ ABARE 2008, Australian Commodities March Quarter 08.1, outlook2008 conference publication

⁸ Australian Bureau of Statistics (2007). Value of Principal Agricultural Commodities , 7501. Produced: Australia Preliminary – 2005-2006. [Online]. Accessed July 30, 2008: 7501.0 - Value of Principal Agricultural Commodities Produced, Australia, Preliminary, 2006-07 Vol 7501.0. pp. 5.

⁹ Western Research Institute 2005, *Socio-Economic Impacts of the Australian Pork Industry*

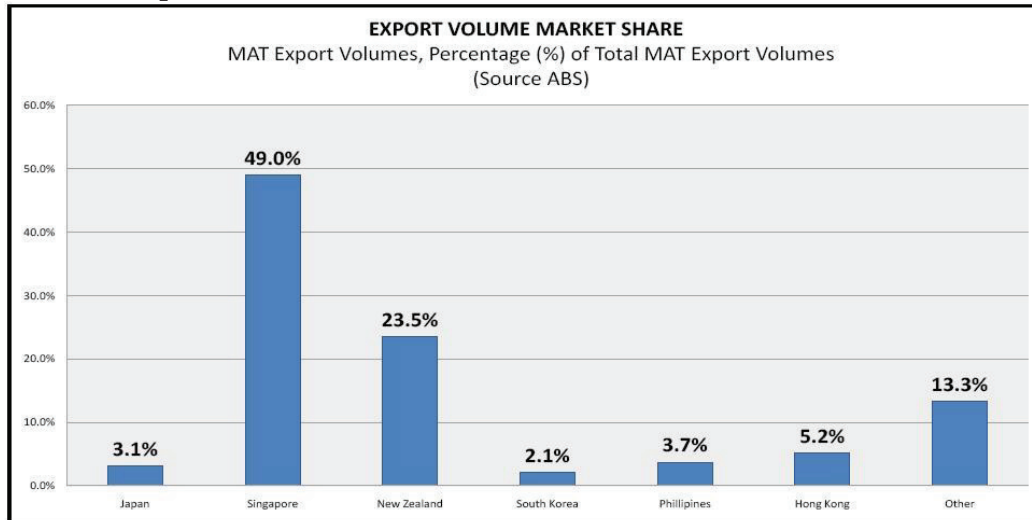
¹⁰ Western Research Institute 2008, *Socio-Economic Impacts of the Australian Pork Industry - preliminary report*

¹¹ http://www.daff.gov.au/_data/assets/pdf_file/0018/18081/2004-01b.pdf, (2004) pp. 20.

Australian Pigmeat Exports

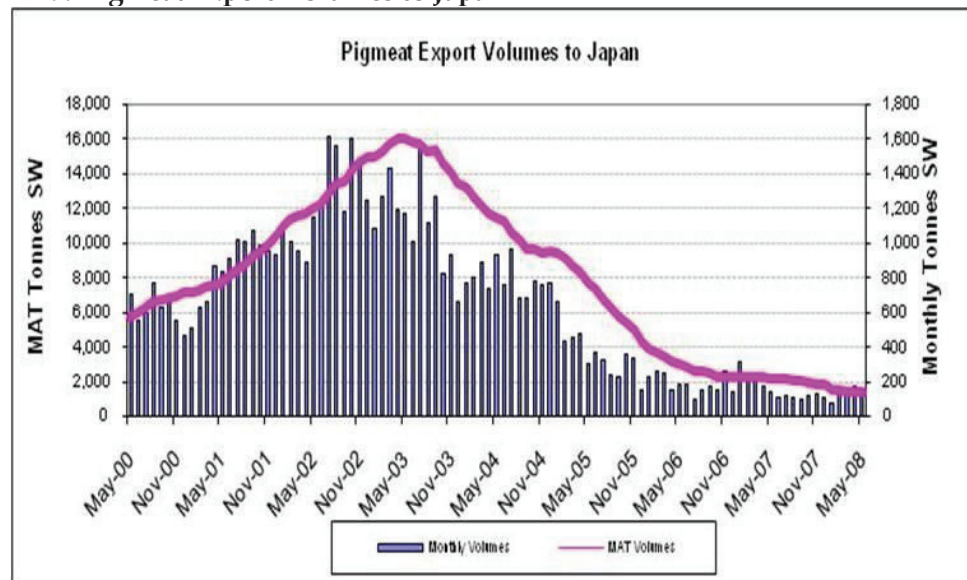
17. The Australian pork industry's focus will be on export markets which recognise Australia's meat quality and integrity. Part of maintaining this is strict biosecurity protocols. Imports from countries with animal disease may endanger Australia's competitive advantage as disease-free.

18. Export Volume Market Share¹²



Australia's greatest export destinations include Singapore, New Zealand, Hong Kong, the Philippines and Japan. Broadly, APL's focus is on access to Asian markets, with particular focus on Japan as a source of affluent, high value customers.

19. Pigmeat Export Volumes to Japan

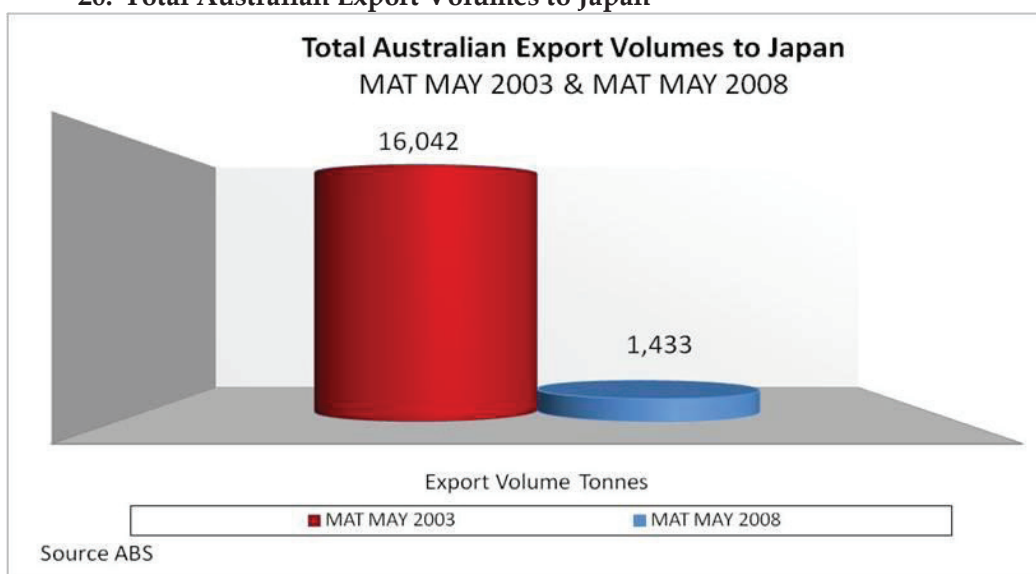


¹² APL Import, Export & Domestic Production Report | Marketing Reporting Unit (2008), Australian Pork Limited, 6. With additional statistics from the ABS.

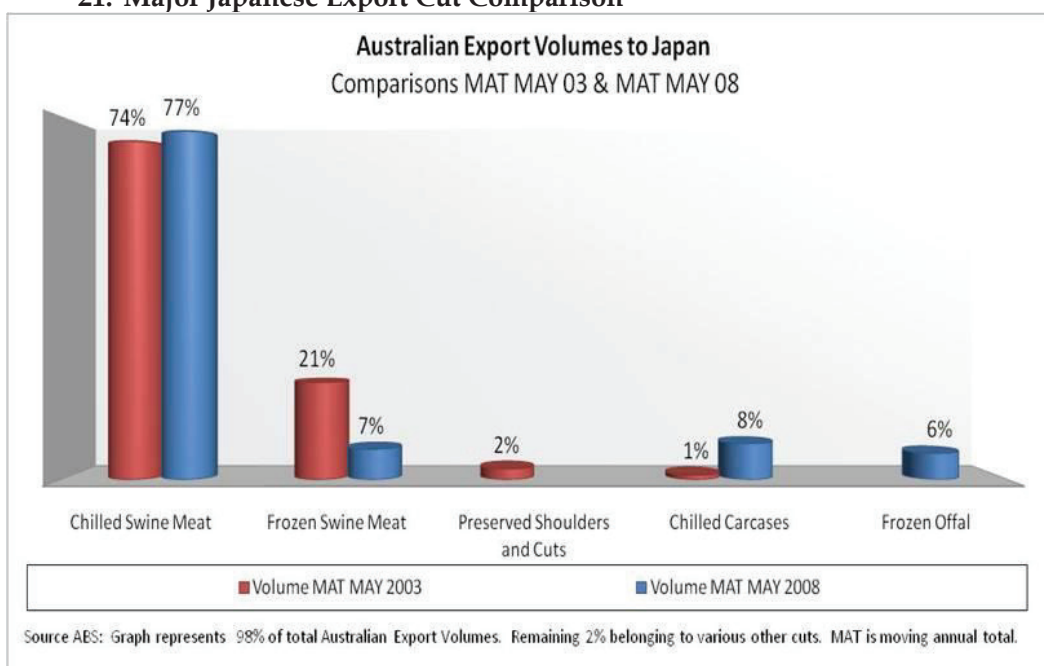
Source: APL from ABS Statistics, 2008.

Pigmeat export volumes to Japan have been falling over the last few years. Factors such as an appreciating exchange rate, product competition on price in the Japanese market, the snap-back tariff, gate price mechanism and import quotas all work against efforts to export to Japan. However, there have been changes in export patterns over the last five years to offset these export prohibitive conditions.

20. Total Australian Export Volumes to Japan



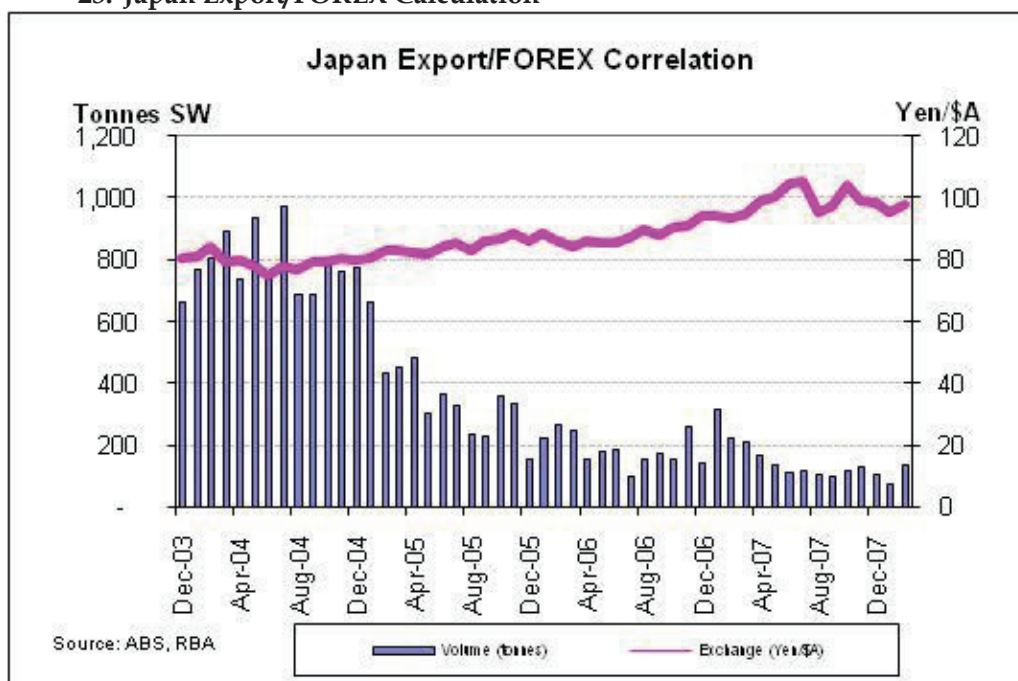
21. Major Japanese Export Cut Comparison



22. There have been increases in Chilled Swine Meat and decreases in Frozen Swine Meat exported to Japan, and increases in Chilled Carcasses and

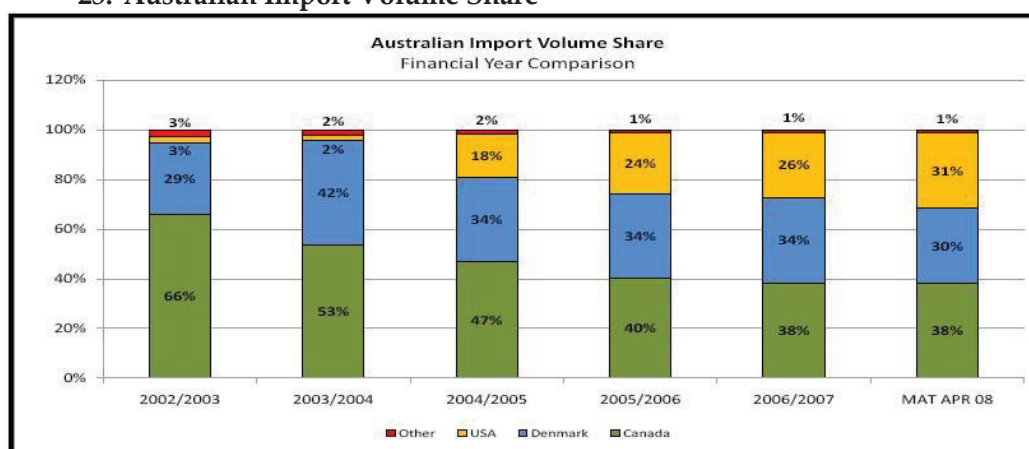
Frozen Offal being exported to Japan, in a MAT May 2003 to MAT May 2008 direct comparison. Table 3 in the Annex details how export volumes and data for Moving Annual Total to May 2003 changed to Moving Annual Total to May 2008.

23. Japan Export/FOREX Calculation



24. The Japan Export/FOREX Calculation graph shows Japan's apparent exchange rate threshold; this suggests that in the absence of strong local representation 80 Yen/A\$ is the point at which Japanese traders switch sources of supply. Positive outcomes on import quotas, gate price mechanism, the snap-back tariff and the import tariff may improve Australian pork export access to Japan.

25. Australian Import Volume Share



Source: APL from ABS Statistics, 2008.

Australia's largest pork imports (MAT April 2008) are from:

- Canada (38%)
- Denmark (30%)
- United States (31%)

26. Combined, they represent 99% of total imports. Canada, Denmark and the United States are also significant competitors in growing Asian markets. Producer support estimates in these markets (i.e. through farm subsidies for example) significantly disadvantage Australian export competitiveness via lower prices for pork. This is the situation which is present in Japan.

Market Support

27. Significantly, the Japanese industry is supported by 1) market price support, 2) income support and 3) insurance to protect their producers from commercial risks.
28. At the same time competitors, such as Australia find themselves having to encounter a 1) gate price system and 2) tariffs.
29. One of the biggest challenges facing Australian exporters in the Japanese market is the snap back tariff. The main impact of the snap back safeguard tariffs, which are enacted almost every year, is that they result in a flooding of the market of frozen product from competitor nations, which despite Australia's being a supplier of high value fresh product, deflates fresh market prices and hence greatly diminishes Australian pork industry returns.

Strategic Priorities

30. It is imperative that any potential trade agreement with Japan entail significant improvements to market access so as to enable Australia to build our ability to supply fresh pork cuts and leverage our unique clean green image.
31. APL recommends:
 - a. **Reform of the snap-back tariff system:** that the Australian Government seek from the Japanese Government a tangible commitment towards either the removal, or at the very least, reform of Japan's snap-back tariff system. On an ongoing basis this system has resulted in significant swings in Japanese pork import volumes, particularly in those periods just prior to introduction of the safeguard and just following its removal. The resulting supply fluctuations have an impact on Japanese demand for higher valued fresh pork imports during those periods, which in turn affects the returns and export volumes for the Australian pork supply chain.
 - b. **Tariff reduction:** that the 4.3 per cent safeguard tariff should be reduced to zero for Australian pork.
 - c. **Relaxation of GMO feed bans:** Due to the Japanese importers requirement for exporters to provide written assurance that the diets of imported pigs are GMO free, and in light of the Office of the Gene Technology Regulator likely future approval of GMO grains for commercial use in Australia, simultaneous Government measures must be introduced that will enable transparent segregation of feed supply throughout the supply chain. These government measures will

benefit all Australian intensive livestock industries exporting into the Japanese market.

- d. **Request an exemption of the gate price mechanism** for lower value cuts of pork (such as bellies, legs, etc) cuts of Australian pork exports to Japan, which attract high differential import duties including the 4.3% tariff. An ideal outcome for Australian pork exports would be trade without tariffs or quotas and exemption from the gate price mechanism for lower value cuts to Japan. APL acknowledges the time needed to consider implementing progressive trade liberalisation.
- e. A minimum request of the Japanese would offset the competitive disadvantage that Japan's trade barriers on pork imports impose on Australia. Of course, APL would like to see free trade without tariffs or quotas between Australia and Japan (the world's largest pork import market). But we do not believe that this is the immediate objective of either side in this negotiation.
- f. **Review of Japanese MRLs that limit imports.** Japan has recently adopted a positive list of maximum residue limits for agricultural products that prohibit imports with MRLs above a low threshold. The Australian Government should examine this ban in view of Japan's commitments under the SPS Agreement and seek opportunities to challenge the restrictions.¹³
- g. **Lifting the import quota.** A significant import quota for fresh and frozen pork at zero duty rates that would restore our ability to compete with e.g. Mexico that now enjoys a discriminatory quota under the Japan-Mexico FTA (phasing to 80kt) (see Figure 1 below); (Chile has a 60kt lift in its FTA with Japan). It is requested that as Australia's most important trading partner and with a relatively small pork export market that a quota or terms better than Mexico may be achieved.
- h. Japanese investment assistance with market development to re-establish buyer recognition of fresh Australian pork.
- i. An end to the adverse impacts on our industry of the disruptive 'spillovers' from the Japanese protection mechanisms for pork [in the alternate, compensation in the form of a zero-duty in-quota rate for FTA access].
- j. **Liberalising investment conditions in Australia has potential benefits.** It could encourage foreign investment in pig meat processing in Australia for export to target markets. Exporters allied with foreign investors could apply pressure in the investors' home markets, such as improved treatment of Australian exports to Japan. However major Japanese processors may be reluctant to alienate Japanese producers.

¹³ ITS Global, (2006), International Trade Review, p. 21.

Mexican pork quota

In the Japan-Mexico FTA (2005), Japan agreed to establish a TRQ for Mexican pork, starting 38,000mt for the first year, increasing to 80,000mt over five years. The agreement cuts the tariff to 2.2% from 4.3% on pork imported at or above the gate price, while all other aspects of the pork differential duty system remain unchanged. In-quota imports from Mexico will not be counted against Japan's pork safeguard trigger level calculation.

Figure 1: Mexican pork quota in the Japan-Mexico FTA.

What we should offer

32. Assistance for Japanese buyers and investors to visit Australia to consider the benefits of buying from or producing in Australia.
33. Liberalising investment conditions in Australia has potential benefit. It could encourage foreign investment in pig meat primary production in Australia for export to target markets. Exporters allied with foreign investors could apply pressure in the investors' home markets, such as for improved treatment of Australian exports in Japan. However major Japanese processors may be reluctant to alienate Japanese producers. Liberalisation via an FTA could encourage other countries to invest in Australia.¹⁴

Defensive brief

34. We are familiar with the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) reaction to imports of any kind. The facts, however, are that Australia has a marketable product that represents a miniscule competitive challenge to the Japanese production industry on volumes and no competition on price. With a concession on imports such as already extended to Mexico, Australia may be able to re-establish a small (approximately 3%) share in the Japanese market for fresh pork.
35. MAFF will probably rebuff any approach on the 'spillover' issue. It has, however, been embarrassed and frustrated by the criminal fraud that has occurred ('over invoicing') in the industry as a reaction to the bizarre operations of the current protection ('Gate price') system. If the Doha Round concludes soon, it is possible that MAFF will use that opportunity to make changes to the system; it has already conducted industry consultations on possible changes.
36. We believe, however, that MAFF's usual conservative approach means they will not make fundamental changes unless required to do so by a WTO Doha Round agreement (e.g. reductions in bound rates or new tariff simplification rules). We have no option but to raise this serious concern at every opportunity seeking at least a guarantee that we will be consulted on future plans.

Japan: the key to pork's export performance

37. Japan is by far the world's largest and most valuable export destination for fresh pork, accounting for about a quarter of all imports. It is a highly-protected market¹⁵ whose total growth in the period 2001-2005 was only half of the growth in the world market, but it is one of the most valuable

¹⁴ ITS Global – International Trade Review (2006), p. 25.

¹⁵ It is very difficult to measure the 'tax impact' of the Gate price+safeguard+duty. USDA economists estimated that in 2003 it had an impact on US imports equal to a tariff of about 25%. However, the variability of the demand as a result of the safeguard imposes business costs (planning, bond storage, supply-chain) that are not captured by this estimate.

import destinations due to the level of the (protected/supported) domestic price and the high specification of imports that the minimum import price barrier (the 'Gate price') guarantees.

38. In 2005, Japan was Australia's third largest export market for pork meat (HS 0203) accounting for 12 percent of the total volume of pork exports¹⁶ and more than half of Australia's total exports of the highest value export item, fresh pork cuts (HS 0203.19 see Table 1). But Australian pork accounted for only one third of one percent (0.34%) of Japan's imports of pork meat in 2005.
39. Australia – the world's nineteenth exporter of pork meat—has seen its small share of world exports of pork meat shrink by 6 percent over the period 2001-2005; the only exporter in the top 20 to lose global market share.
40. This loss of share is fully explained by the loss of sales in Japan (also the likely explanation for the small losses in the Singapore market), as is apparent from the sixth column of Table 2. Exports to Japan fell over the period by 22 percent in volume terms and 66 percent in value terms. The fall in sales was shared across fresh and frozen pork cuts (HS 0203.19 and .0203.29, see Table 1)¹⁷.
41. The reasons for the fall in exports to Japan are complex. The strongest adverse factor has been the strengthening Australian exchange rate that has pushed high-quality Australian pork exports out of contention with the USA, Canada, Mexico and Chile in fresh pork and Denmark in the frozen pork market. Australia's high price is in turn related to scale factors due both to a small domestic market, high quality production and the 'spillover' impacts of Japan's 'Gate price' mechanism and 'safeguard' on the scale of production in Australia. This question is considered further, below.

A small and 'un-threatening' supplier

42. Australia's fresh pork export capacity is miniscule in proportion to Japan's import demand.
43. Table 1 show the most recent data on Australia's fresh pork meat export performance globally and in Japan over the most recent period available from comparable national statistics (2001 – 2005). Our loss of share (25% drop in sales over the period) was matched only by Belgium. Among Japan's suppliers, Mexico was the only other supplier to lose share, but we believe that its shares have increased since the conclusion of its FTA with Japan.
44. The 'indicative potential' indicated in the final column of the table is not a forecast, much less a plan from APL. Rather, it shows the total export supply potential from Australia that would match Japan's total import demand. As such it indicates the 'outside of the envelope' for Australia-

¹⁶ A small share of the exports to Singapore are also transhipped to Japan

¹⁷ The sales of fresh or chilled carcasses reported by Australia (HS 02032.11 in Table 1) do not appear in the Japan import statistics, possibly because the carcasses were processed as cuts before entry into Japan.

Japan trade in fresh pork. It is unlikely that Australia would supply this level of pork to Japan because it would mean abandoning other existing markets and supply relationships.

45. On the other hand, it shows that even under an *extreme* assumption, Australia would have been able to supply at most 0.8% of Japan's imports of fresh/chilled pork cuts (HS 0203.19) and about the same proportion of Japan's imports of frozen pork cuts (HS 0203.29).

The potential to recover share exists if access is improved

46. Australia's performance in the market has deteriorated as North American, and lately Mexican and Chilean pork exports have grown. This is due mainly to three price factors rather than quality. Two of the price factors are due to Japanese market protection.
47. Australian pork exports have found a high degree of acceptance on *quality* in the Japanese market. Australian fresh pork cuts are produced to world-standard. They are of a similar description to Japan's own pork and, unlike fresh pork from North America, display none of the fat coloration due to corn feed or feed additives. This market acceptance probably explains why Australia continues to hold the fourth rank in import supplies of fresh pork meat in Japan (see Table 3) with a 1% share, despite our rapid loss of overall market share.
48. Price competitiveness is the major factor for Australian exports. There are three components:
49. **Exchange rate** There is no policy solution to the impact of the exchange rate on pork exports;
50. **Protection** The Japanese bound duty on fresh pork imports is low (4.3%) but not insignificant. Mexican shares of the Japanese market for fresh pork have improved dramatically since Mexico won a duty-free tariff quota (climbing to 80kt of fresh and frozen pork) in its FTA with Japan. In the combined fresh and frozen pork import data from Japan Customs for 2006, Mexico is the only significant supplier to have *increased* the volume of exports (up 15%) in a year when sales volumes dropped for all other export suppliers. Similarly, in the high-value fresh-pork sector, Mexico enjoyed a 17% growth in sales volume in a year when Australian sales volume continued to fall (by 23%). See Table 3.
51. **Spillovers:** Although it is difficult to quantify, the Japanese variable 'minimum import price' system for pork meat imports, combined with the disruptive 'special safeguard' has a serious adverse effect on Australian producers' returns for *the whole* carcass. The impact of the 'spillover' of lower priced cuts as a result of price discrimination (against low-value cuts) in the world's biggest fresh pork market is to increase supply of low-priced cuts in an open market such as Australia where consumer preferences for hams, shoulders etc ensure a high level of import demand. Australian imports of pork grew by 25% in volume in the five years 2001-2005, while our exports fell by 6%. All of the import growth was in the low-value cuts that are pushed back onto world markets by the Japanese protection system.

Annex 1: The Japanese 'Gate price' and safeguard

52. The gate price system is the main barrier to pork imports. Japan agreed in 1995 to 'tariffy' its variable levy for pork with a 'minimum import price' system that appears to be a fixed (specific) tariff but, in fact, continues to operate as a variable levy in conjunction with an elaborate set of 'safeguard' triggers that were also included (by agreement with the USA) in its Uruguay Round schedule of commitments.

Gate price in detail

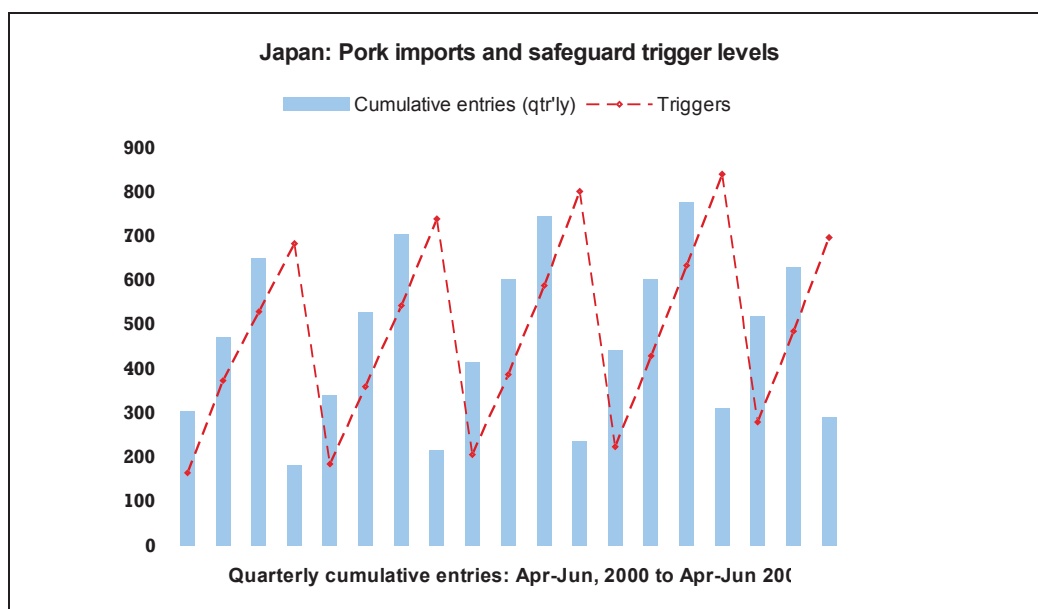
53. Japan's Uruguay Round tariff schedule on pork contains three types of duty on pork:
- a) A specific duty that is the 'tariffied' equivalent of the former minimum import price. In most cases, this is set at an initial value of ¥567 reducing to ¥482 over the period 1995 – 2001. This is the 'gate price';
 - b) An ad valorem duty of 4.3% that applies to imports valued at higher than a certain threshold value (in most cases ¥738/kg);
 - c) A footnote to the tariff referring to the 'Gate Price' which must be interpreted as a 'term or condition' of the duty and therefore part of the WTO binding.
54. If pork imports are valued at or above the gate price, then they pay only the simple tariff (4.3 percent in the case of fresh, chilled, or frozen meat). If their value is lower than the gate price, the importer must pay the difference between the import value and the gate price as a duty (the 'differential tariff'), in addition to the standard ad valorem duty applied at the gate price value.
55. This differential applied duty is always likely to be less than the bound specific duty otherwise payable on any pork valued at less than the threshold in the schedule, thus maintaining a semblance of compliance with Japan's GATT obligations. If the specific duty (the 'tariffied' former minimum import price) were payable, it would be equivalent to an ad-valorem tariff of between 60% and 130%. Depending on world market prices, the imposition of the 'gate price' is equivalent to a duty in the vicinity of 15% to 25% ad valorem on US pork exports.
56. In our view this unpredictable variability in the duty payable and the resulting insulation of the Japanese pork market from world market prices means that the gate price is a 'measure of the kind which have been required to be converted into ordinary customs duties' under Article 4.2 of the Agreement on Agriculture and therefore prohibited. We consider that our view is confirmed by the report of the Appellate Body in the Chile Price-Band case.
57. Our objection to the gate price is, however, based on its impact on pork prices in the Australian market rather than on its illegality. Japan is the world's largest import market for fresh pork. The level of the gate price

ensures that only premium pork (loin and tenderloin, etc.) is sold into the Japanese market. Prices for cuts from the carcass that are co-products of the premium cuts (the shoulders, belly, and legs, for example) are depressed by Japan's price discrimination. This, in turn, increases the supply and depresses the price of these products on third markets such as Australia that are, by tradition, consumers of low-value cured cuts. The effect is to significantly depress prices in Australia for our co-product cuts (legs, shoulders etc) and consequently, in such a small market, for the entire carcass including our premium fresh cuts.

58. Adverse exchange rate movements mean that Australian exporters are unable to compete with North American and (subsidized) European suppliers in the Japanese market. Although the gate price has the appearance of reducing price competition in Japan, export revenues are also determined by the full supply-chain costs as well as by the final price. There is no doubt that the large-scale US industry is much better placed to control these costs than Australia.
59. Our concern is to first, put an end to the adverse external impacts of the illegal gate price, and second, to find a way to economically service attractive 'niche' markets for Australian fresh pork cuts in Japan.

The 'Safeguard' makes it much worse

60. The detailed operation of the Japanese safeguard on fresh pork imports was negotiated bilaterally by the USA and Japan at the end of the Uruguay Round.



61. This safeguard triggers an increase of 24% in the gate price when imports in any quarter exceed the average level of imports in the corresponding quarter over the past 3 years by more than 19%. The increased gate price stays in effect for the remainder of the financial year (April to March in Japan) unless the quarter in question is the final quarter of the year, in

which case the increased gate price extends to the end of the first quarter of the following financial year.

62. The Safeguard causes a unique volatility in this large import market because the trigger is set *recursively*. The higher gate price stays in effect for the rest of the Japanese financial year, or for two quarters, whichever is longer. Of course, the safeguard cuts the average level of imports that comprise the trigger for *future* quarters. Large frozen-pork traders therefore act strategically matching the timing of their import entries to the financial year calendar. For example, when a safeguard period ends in the second half of the FY, they flood the market from bond stores to take advantage of temporary shortages on the Japanese market, knowing that their actions will trigger another round of safeguards but only for two quarters.
63. The safeguard increases the adverse impact of the gate price on external market prices. The volatility in supply to the world's largest fresh pork market is mirrored by swings in supply to the rest of the world market, adding to pressure on Australian prices.

Conclusion

64. APL will continue to enhance opportunities for the sustainable growth of the Australian pork industry and participate fully to promote fair trade in pork.
65. Japan is a priority market for Australian pork exports. Japan is the key to Australian export performance, with Japan being the world's largest importer of pork. APL ideally recommends simplification of the snap-back tariff on pork exports which are price distorting on the world pork market and in Australia on domestic supply price. Japan must deliver on agriculture, where APL believes it has high levels of protection on agricultural products.
66. APL contends that such reform would ameliorate the impact of higher exchange rates and encourage exports to the world's largest and most valuable pork market.
67. A deal better than the terms accorded Mexico in their FTA would make Australian exports highly competitive in the Japanese market, and further boost Australia's profile of producing quality goods.
68. APL also believes that an exemption from the gate price mechanism for the "non preferred cuts" or "co-products" from high yield pork cuts such as legs, shoulders) would improve Australia's competitiveness. As discussed, the gate price mechanism has the capacity to increase the supply and depresses the price of these products on third markets such as Australia which significantly depresses prices in Australia (via excess supply) for our co-product cuts (legs, shoulders etc) and consequently, in such a small market, for the entire carcass including our premium fresh cuts.

Annex 2: Tables

Table 1: Existing and indicative potential trade between Australia and Japan in 2005

TABLE 1											
Existing and indicative potential trade between Australia and Japan in 2005											
Product code	Product label	Australia's exports to Japan			Japan's imports from world			Australia's exports to world			Indicative potential trade in US\$ thousand
		Annual growth in value between 2001-2005, %		Share in Australia's exports (%)	Annual growth in value between 2001-2005, %		Quantity 2005	Annual growth in value between 2001-2005, %		Quantity 2005	
		Value 2005 in \$US'000	Value 2005 in \$US'000	Value 2005 in \$US'000	Value 2005 in \$US'000	Value 2005 in \$US'000	Value 2005 in US\$ thousand	Value 2005 in US\$ thousand	Value 2005 in US\$ thousand		
20311	Swine carcasses and half carcasses, fresh or chilled	1,968	274	5	82	102	9 Tons	40,631	-7	15,268 Tons	
	Hams, shoulders and cuts										
20312	thereof, of swine bone in, fresh or chilled	0		0	2,362	30	332 Tons	3,136	38	1,031 Tons	2,362
20319	Swine cuts, fresh or chilled, nes	9,002	-23	54	1,014,038	1	201,330 Tons	16,719	-16	4,653 Tons	7,717
20321	Swine carcasses and half carcasses, frozen	0		0	39	-3	3 Tons	7,443	19	2,532 Tons	39
	Hams, shoulders and cuts										
20322	thereof, of swine, bone in, frozen	0		0	7,566	3	1,478 Tons	4,991	19	3,059 Tons	4,991
20329	Swine cuts, frozen nes	1,535	-30	6	3,344,825	10	669,962 Tons	27,680	0	15,017 Tons	26,145

Table 2: Australian exports of pork meat (HS 0203) to selected destinations 2001-2005

Table 2: Australian exports of pork meat (HS 0203) to selected destinations 2001- 2005												
Importers	Exported value 2005 in US\$ thousand	Share in Australia's exports, %	Exported quantity 2005 (tonnes)	Unit value (US\$/unit)	Export trend in value between 2001-2005, % p.a.	Export trend in quantity between 2001-2005, % p.a.	Export growth in value between 2004-2005, % p.a.	Ranking of partner countries in world imports	Share of partner countries in world imports, %	Total import growth in value of partner countries between 2001-2005, % p.a.		
World	100,599	100	41,560	2,421	-6	-7	-18			14		
Singapore	46,183	46	18,078	2,555	-6	-12	-14	23	0	10		
New Zealand	28,035	28	10,783	2,600	42	26	50	31	0	23		
Japan	12,509	12	3,224	3,880	-22	-25	-66	1	23	8		
ROK	4,327	4	2,250	1,923	1	-4	34	8	3	34		
Hong Kong	2,564	3	2,030	1,263	19	24	45	15	1	5		
Philippines	1,572	2	2,245	700	7	7	1	58	0	-7		
Indonesia	910	1	237	3,840	28	25	74	120	0	0		

Table 3: Australian Export Volumes to Japan

Australian Export Volumes to Japan Comparison: MAT MAY 2003 - MAT MAY 2008				
Cut Description	MAT May 03 (Tonnes)	% of Total	MAT MAY 08 (Tonnes)	% of Total
Chilled Swine Meat	11,949	74%	1,099	77%
Frozen Swine Meat	3,438	21%	97	7%
Preserved Shoulders and Cuts	384	2%		
Chilled Carcasses	164	1%	114	8%
Frozen Offal	69	0%	84	6%
Frozen hams, shoulders, cuts, bone in	16	0%	13	1%
Frozen Swine Livers	16	0%		
Frozen Carcass			10	1%
Chilled hams, shoulder, cuts bone in	2	0%	16	1%
Dried belly and cuts	2	0%		
Dried Swine Meat	2	0%		
Preserved meat and offal	0	0%		
Grand Total	16,042	100%	1,433	100%

Source: APL from ABS Statistics, 2008.