

20 April 2018

Committee Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Chair,

The Australian dairy industry, represented by the Australian Dairy Industry Council Inc. and Dairy Australia, welcomes the opportunity to make a submission to the Inquiry into the Peru – Australia Free Trade Agreement (PAFTA).

Dairy is one of Australia's leading rural industries. We employ over 38,000 people on farms and manufacturing plants and contribute \$13.5 billion to the Australian economy.

Any initiative to reduce trade barriers and improve market access is welcomed. In the global dairy marketplace, we are one of the least subsidised and protected industry's in the world. Consequently, we rely on tariff and non-tariff barrier reduction to strengthen our international competitiveness.

The dairy industry commends the Australian Government for negotiating a free trade agreement with Peru. Over the last ten years Peru has been one of the fastest growing economies in the world and fastest growing economy in Latin America. The country has the same Gross Domestic Product (GDP) as Vietnam and similar consumer base as Malaysia (30 million).

Peru has a tradition of dairy consumption. Evaporated milk is consumed by most Peruvians, cheese by those with high disposable incomes and yoghurt by most people looking for a convenient, healthy snack. As the economy continues to grow (forecast GDP growth of 1.7 per cent from now to 2020) demand for these and other dairy products, particularly those that are fat free or sugar free, will increase.

Peru's raw milk production has traditionally been unable to satisfy domestic demand. Manufacturers import powdered milk to produce Peru's milk varieties, yoghurts and cheeses. Given milk powder is one of Australia's largest dairy export (\$689 million of \$3.2 billion in total), this presents a significant export opportunity for the Australian dairy industry.

Peru is currently a small market for Australian dairy. In 2017 Australia exported 118 tonnes of dairy products at a value of \$USD529k. This is predominantly due to larger supplying nations - Chile, European Union and United States, being more price competitive because of having bilateral agreements in place.

The PAFTA reduces 99.4 per cent of the tariffs Australian exporters have previously faced with Peru. For the dairy industry, tariffs are eliminated on 7000 tonnes of product per annum, growing to 10,000 tonnes (capped amount) in year five. Based on current export volumes, this provides Australia with significant export growth potential.

Following a dairy industry crisis of sorts, the Peruvian Government conducted a review of legislation to prohibit the use of powder milk in dairy production. A key part of the debate included restricting the importation of milk powder and increasing related phytosanitary measures. It is important the Australian Government reassures the Peruvian Government that pursuing such policies reduces domestic supply and increases the price of dairy products in Peru. Consequently, Peruvian consumers on low to middle incomes are significantly disadvantaged and Peruvian jobs in dairy manufacturing are compromised.

It is requested that the PAFTA be implemented in 2018. This will enable a second round of tariff cuts to occur on 1 January 2019.

For further information relating to the above please contact Mr Craig Hough, Director Strategy and Policy, Australian Dairy Farmers Limited at chough@australiandairyfarmers.com.au or Mr Robert Pettit, Manager Trade Policy, Dairy Australia at rpettit@dairyaustralia.com.au.

I wish you well in the inquiry and commend the Parliament of Australia for its work in this area.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Terry Richardson', with a stylized flourish at the end.

Terry Richardson
Chair
Australian Dairy Industry Council