Australian Dairy Industry Council Inc.

8 August 2005

Ms Kate Burton
Trade Sub-Committee Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

Submitted by email to : jscfadt@aph.gov.au

Dear Ms Burton,

Inquiry into Trade and Investment Relations with North Africa (Algeria, Egypt, Morocco, Libya and Tunisia)

Australian Dairy Industry Submission

On behalf of the Australian dairy industry I make this submission to the Trade Sub-Committee's inquiry into trade and investment relations with North Africa. This submission has been prepared in consultation with the major Australian processors with an interest in dairy trade with North Africa.

The most important issues for the Australian dairy industry in North Africa are:

1. The impact of Egypt and Algeria on world dairy markets;
2. The impact of EU Mediterranean and Neighborhood Agreements on Australian trade opportunities;
3. Algerian accession to the WTO; and
4. Libyan import administration.

1. Influence on world dairy markets

The North African markets under study (particularly Algeria and Egypt) constitute an important part of the global dairy market.

- Algeria is the world's largest importer of milk powders. Importing more than 200,000 tonnes of whole milk powder, skim milk powder and butter milk powder each year, Algeria accounts for nearly one tenth of the world's international trade in milk powders.
- Egypt is one of the world's largest importers of butter and butter oil. Importing more than 50,000 tonnes of butterfat per year, Egypt accounts for about 5% of international trade in butterfat.
- While Libya, Tunisia and Morocco are less important in terms of their impact on world trade they are important markets for milk powders and butters.
- The five countries of North Africa are also important markets for other dairy products. In 2004 they imported 50,000 tonnes of cheese, 25,000 tonnes of condensed milk, 17,000 tonnes of infant powder and 15,000 tonnes of liquid milk.

Because of their dominance in the world's milk powder and butter markets anything which impedes the ability to continue to export to these countries will have a disruptive impact on the world market for most dairy products. If product is not sold in these markets it will have to be disposed of in other markets which

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would severely depress world dairy prices. Continued global access to the North African markets for butter and milk powders is, therefore, important to the Australian dairy industry whether or not product is being sold direct to these markets from Australia.

2. EU Mediterranean and Neighborhood Agreements

World trade in dairy products to North Africa is dominated by the European Union which supplies about three quarters of the five countries' dairy requirements. This is partly due to proximity and history. It is, however, being encouraged by trade policy settings which favour imports from Europe.

Under its Neighborhood and Mediterranean Partnership agreements, the EU has concluded special trade concessions with four of the North African countries.

The EU agreement with Algeria signed in 2002 is still going through the ratification process. When it enters into force the EU will have a duty free quota for milk powders of 70,000 tonnes. This will increase the EU's ability to dominate this market as all other trade (from EU and other countries) will continue to attract a tariff of 5%. The Agreement will also allow for a quota of 5,800 tonnes of cheese which will enter free while all other cheese attracts a 30% tariff.

The EU Agreement with Egypt came into force on 1 July 2004. This saw an immediate erosion of Australia's access to this important market for milk powder as the EU product now enters free while product from other sources attracts a 20% tariff. Quota access for butter and cheese while restricted to specific volumes and maintaining small tariffs gives EU a marketing advantage as European traders are able to leverage their reduced duty entitlements to increase market share in the MFN market. Australian dairy exports to Egypt, worth in excess of $50 million per annum until 2002, were only $24 million in 2004.

Agreements with Morocco and Tunisia have been in place since March 1998. Given the high tariff on dairy products into these two countries, trade is relatively small and mostly restricted to sales from the EU.

EU exports to North Africa under European Neighbourhood and Mediterranean Partnership Concessions – 2004 (tonnes)

	Powder			**Milk and Cream**			**Whey**		
Country:	Quota	Actual	MFN Rate	Quota	Actual	MFN Rate	Quota	Actual	MFN Rate
Algeria	70,000	124,165	5%			30%			15%
Egypt	Free	26,897	20%	500[1]	88*	10-30%			5%
Morocco	10,100[1]	9,134	60-109%			109%	200[1]		17.5%
Tunisia	9,700[1]	4,825*	101%			200%			27%
TOTAL	**96,300+**	**186,139**		**500+**	**1,872**		**1,000+**	**971**	

	Butter			**Cheese**		
Country:	Quota	Actual	MFN Rate	Quota	Actual	MFN Rate
Algeria			30%	5,800[2]	14,975	30%
Egypt	5,000[1]	19,491	5-15%	2,000[1]	5,038*	10-30%
Morocco	8,000[1]	26,451	32.5%	550[1]	2,466*	57.5-75%
Tunisia	250[1]	2,046*	139%	450[1]	1,502*	133%
TOTAL	**13,600+**	**55,319**		**9,500+**	**36,884**	

Free = unlimited volume, tariff-free except where indicated.
Quotas at zero tariff, except:
[1] Reduced tariff on whole quota.
[2] Reduced tariff on part of quota, the remainder at zero tariff.

Libya does not have any special arrangement with the EU at this time.

3. Algerian WTO Accession

Algeria is currently negotiating access to the World Trade Organization. As Algeria is currently one of the world's largest dairy importers Australia has an interest in ensuring that the terms of accession are as liberal as possible.

Algeria has a small dairy industry producing around 1 million tonnes of milk per year (about 10% of Australia's production). The Government fixes prices at the farm gate and retail level as a result of which State owned milk processors are currently delivering milk to consumers at a loss.

The industry is protected from imports with a tariff of 5% for milk powders and 30% on most dairy products. Current negotiations with Algeria are on the basis of binding these rates and then reducing the 30% lines over a phase in period. As the 30% lines serve no real purpose in protecting local industry there is no reason that they could not be reduced substantially on accession to the WTO. Similarly, the maintenance of a 5% tariff on milk powders is an impost on importers and consumers that serves no domestic farm policy objectives and so should be removed.

The removal of these tariffs will take on particular importance when the Partnership Agreement with the EU comes into force which will mean that some product from the EU will be imported under quota duty free. If Algeria is able to offer this concession to the country which supplies 75% of it's dairy imports, it should also be able to extend it on an MFN basis to other countries.

Since the market was liberalised in 1997 the six state importing organisations now compete against around 300 private importers dealing with milk and dairy products. We are concerned to ensure that the terms of Algeria's accession to the WTO do not permit a return to dominance of imports by state trading enterprises.

Algeria also imposes a number of technical barriers on dairy trade which are inconsistent with internationally accepted practice, impose costs on dairy imports and generally favour imports from the EU rather than Australia.

- Algeria arbitrarily sets the shelf life for dairy products and requires that product must have 80% of its shelf life remaining at the date of importation. For bulk products (which constitute most of the trade) the shelf life is normally determined by the manufacturers depending on production methods, storage and end use. As such the arbitrary imposition of a shorter period impedes the ability to meet customer requirements. Moreover, the requirement that 80% still remain at the time of import makes it very difficult for exporters from Australia to meet the requirement given the long shipping times.
- Algeria does not accept Australia's electronic health documentation system (EXDOC) operated by AQIS. There are extra costs incurred in the preparation and transmission of manual certificates – particularly as Algeria requires that all documents must be in a uniform format.
- Algeria only accepts NATA Certificates of Analysis for dairy products. Other countries accept certificates from the manufacturers' laboratory. The Algerian requirement is both costly and time consuming.

4. Libyan import administration

Australian exporters to Libya have often been uncompetitive because of the fickle nature of Libya's import administration.

- Milk powders are often, but not always, imported under Government tenders. The timing and requirements for these tenders are not always clear.
- Libya sometimes requires that a proportion of the selling price (typically 10%) is held back by the Government until the buyer indicates full satisfaction with the sale. Again this requirement is not always enforced.

- Libya sometimes applies differing testing requirements (for bacteria etc) and different health specifications for product from different countries. For example product from New Zealand is currently not required to have certificates for testing for salmonella where as product from Australia is still required to be accompanied by certified results of these tests.
- Sometimes Libya does not release used shipping containers which requires exporters to reimburse shipping companies for the loss.

The uncertainties in trading with Libya have resulted in it being treated as a residual spot market by Australian suppliers. As such exports exceeded $100,000 in 2002 when world prices were low and stocks high. Since then, however, Australia has not made any sales of dairy products direct to Libya.

These figures do, however, considerably understate the amount of Australian dairy product that ends up in Libya. A large (but unquantifiable) amount of Australian sales to other markets (especially the United Arab Emirates) is ultimately destined for Libya.

Australian exporters of dairy products consider that Libya has considerable potential and as such would benefit from a more reliable and transparent import regime. This is particularly so as Libya appears to be entering a period of greater political stability.

Conclusion

The North African markets, particularly Algeria and Egypt are some of the largest dairy markets in the world. As such anything which impedes global exports to these markets will have a negative impact on world prices and so the Australian dairy industry.

Due to geography and history Australia holds a relatively small portion of North African dairy markets. This position is, however, being further eroded by recent trade policy changes which have given the EU an even greater advantage. There is some scope here for the Australian Government to support Australian commercial interests – particularly in the context of Algeria's application to accede to the World Trade Organization.

There is also scope for the Australian Government to support trade by assisting in the removal of technical barriers to trade to the region, particularly Algeria and Libya.

Thank you for taking the time to consider the Australian dairy industry's interests in your inquiry into trade with North Africa. If you would like to discuss any of the issues raised in this submission, please contact Phill Goode at Dairy Australia on telephone (03) 9694 3817 or pgoode@dairyaustralia.com.au.

Yours sincerely,

Allan Burgess
Chairman