

## **Australian Dairy Industry**

Represented by: Australian Dairy Industry Council Inc.  
and Dairy Australia

### **Submission to:**

The Senate Foreign Affairs, Defence and Trade  
References Committee regarding the China Australia  
Free Trade Agreement

Contacts

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## **The Australian Dairy Industry (the Industry)**

The dairy industry is a \$13 billion farm, manufacturing and export industry. Australia's 6,300 dairy farmers produced an estimated 9.6 billion litres of milk in 2014-15. Forty three thousand Australians are directly employed on farms and in dairy processing. More than one hundred thousand Australians rely on dairying for their livelihoods, including veterinarians and animal nutritionists, scientists, transport industry (drivers and mechanics), financial advisors and feed suppliers. Ninety-eight per cent of Australian dairy farms are family owned businesses.

Australia's dairy quality and safety processes are among the best in the world matched by a reputation as a reliable and innovative supplier. Dairy is a highly nutritious food with a diverse and growing range of ingredient applications.

With a farm gate value of \$4 billion, dairy is a major contributor to the economic and social fabric of regional Australian communities especially in the south-east and to the national economy in view of the downstream linkages to the retail and food service industries and exporting, especially through the Port of Melbourne.

Australia is the fourth largest dairy exporter in the world, accounting for six per cent of global trade. Approximately forty per cent of milk production is exported, worth an estimated \$2.7 billion in 2014-15. More than one hundred and twenty five Australian companies export fluid milk and dairy products.

Our Industry has the potential to grow substantially over the next decade to meet growing domestic and international demand. Realising this growth potential and expanding the industry's economic, social and environmental benefits depends on an open and transparent trading system and regulatory environment.

The Industry welcomes the chance to present this submission on the China -Australia Free Trade Agreement which was signed, in Canberra, on 17<sup>th</sup> June 2015. This is a joint submission from the Australian Dairy Industry Council (ADIC) and Dairy Australia.

The ADIC is the national peak policy body for the Australian dairy industry and represents all sectors of the industry on issues of national and international importance. Its constituent organisations, the Australian Dairy Farmers Limited (ADF) and the Australian Dairy Products Federation (ADPF), represent the interests of dairy farmers and processors and traders respectively.

Dairy Australia is the dairy farmer funded and owned services company, limited by guarantee, whose core stakeholders are farmers, processors and industry associations.

## Key points:

- The Australian dairy industry commends the Federal Government on signing a comprehensive and trade liberalising agreement with China.
- The Australian dairy industry emphasises the absolute priority of ratifying the China Australia Free Trade Agreement. Parliamentary support for this agreement, which will see the removal over time of all tariffs on dairy exports to China, is essential.
- Timing is also of the essence. The Australian dairy industry strongly urges the Federal Parliament to implement ChAFTA prior to the end of 2015, so that a second round of tariff cuts can occur on 1<sup>st</sup> January 2016.
- The ChAFTA agreement is potentially transformative for the Industry. China is globally the largest dairy importer and the expectation is that the volume of imports will expand over time.
- The Australian dairy industry has experienced a wave of positive sentiment and a significant boost to farmer confidence based on the conclusion and signing of the agreement. A failure to implement or a delay in the implementation of the agreement would have a negative impact on that sentiment and confidence – potentially damaging the industry for years to come.
- A failure to ratify ChAFTA would conservatively cost at least \$600 million over the next 11 years (the tariff phase down period specified under ChAFTA for dairy products) in lost tariff savings for Australian origin product, and would continue to cost over \$50 million per year thereafter, making it extremely difficult for the Australian industry to compete and gain further market share in the world's biggest dairy market.
- A delay in the implementation of ChAFTA beyond 2015 would cost up to \$60 million in tariff savings for Australian origin product.
- The Chinese dairy market has become increasingly sophisticated and includes an emphasis on product safety, reliability of supply and product innovation which Australian processors are well positioned to meet.
- The Industry urges the Australian Government to support the market opening measures by continuing to work constructively with the appropriate Chinese food safety authorities to make the regulatory environment as transparent, sound science based and trade facilitating as possible.
- Trade and investment go hand-in-hand. The agreement will assist in deepening the dairy supply linkages between the two nations encouraging investment and product innovation specifically targeted for the Chinese market. Chinese origin investment in the Australian dairy supply will improve productivity and confidence in the viability of the Industry.
- It is estimated that the implementation of the ChAFTA will conservatively result in growth of approximately 1.5% in employment across the industry – which translates to between 600 and 700 new jobs along the dairy supply chain mainly in regional areas. This direct job creation will also have a favourable spin-off by increasing overall economic activity and creating additional support jobs.
- The commercial opportunities that will open up as a result of ChAFTA from entry into force and the imperative of taking advantage of preferential access offers a strong incentive to achieve implementation before the end of 2015; noting that New Zealand has a head start (since October 2008 – with tariffs on infant formula and skim milk

already at 0%) and that the European Union is seeking to also conclude an FTA with China.

## Supporting comments:

The Industry welcomes the signing of ChAFTA. During the period 2009 to 2014 the rapid growth in Chinese imports of dairy products, especially whole milk powder, was the engine of growth in world trade<sup>1</sup>.

China, in 2014, absorbed 22.2% (2.051 million tonnes) of global dairy imports compared to 7.6% in 2009. China is Australia's largest and fastest growing dairy market, with total dairy exports to the region totaling 143,878 tonnes in 2014, an increase of 63.8% in the six year period from 2009. The value of trade increased by 74.3% to \$468.5 million.

The Australian dairy industry has a long and close relationship with China, and ChAFTA will allow our industry to further develop this long term relationship to the mutual benefit of both countries.

The Australian processing sector is investing heavily in dairy, having recently committed a significant amount of money in upgrading existing capacity and establishing further capacity. Australian dairy is well placed to grow, but the industry needs greater access to the booming China market to realise its potential

With demand for dairy in East Asia and ASEAN regions forecast to grow steadily in coming years, an open trading environment with China is essential to position the Australian dairy industry to capitalise on the plentiful opportunities for growth and top provide China with increased access to Australia's high quality, healthy, safe, value-added products.

The Industry will be able to further develop its commercial relationship with Chinese customers during the course of full tariff elimination occurring between four and eleven years after date of implementation, especially for dairy products such as infant nutrition, cheese, specialised milk powders and packaged milk. Tariffs range between 10% and 15% for the major dairy products and infant formula.

The value adding nature of the trade relationship, in essence Australian origin imports are used in Chinese food formulations will provide complementary benefits for the dairy supply chains in both nations.

The agreement also encourages collaboration and cooperation with Chinese customers and consumers, for example developing value added products, exclusively for their market.

Specifically the following outcomes:

- Infant formula: the 15% tariff phases down to zero after four years.
- Fresh (fluid) milk: tariffs of 15% will be phased to zero over nine years
- Milk powders and condensed and evaporated milks: tariffs of 10% will all be phased to zero over eleven years
  - A safeguard volume will apply for whole milk powder imports - though the volume is higher than existing trade (17,500 tonnes versus 13,376 tonnes in 2014) and contains a compound annual growth rate of 5% until at least year fifteen; equating to 34,694 tonnes;

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<sup>1</sup> Chinese imports ex Australia are defined as those entering via both mainland ports and Hong Kong.

- The WTO rate of 10% is applied for additional volume over the respective calendar year safeguard
- Yogurt: tariff of 10% will phase to zero over nine years. For buttermilk, curdled milk and cream, kefir and other fermented or acidified milk and cream the 10% tariffs will phase to zero over eleven years
- Whey and milk proteins: Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter tariff of 6% phases to zero over four years whilst the 20% tariff on concentrated milk proteins also phases to zero over four years
- Butter and butteroil: the 10%tariffs phase to zero over nine years, whilst for dairy spreads it takes four years
- Cheeses: for most cheese varieties including the bulk of the trade the 10%tariff phases to zero over nine years; exceptions are specialty cheeses where the 15% tariff phases to zero over four years
- Lactose: the 10% tariff phases to zero over four years
- Ice Cream: the 19% tariff phases to zero over four years and
- Casein, milk albumins (whey protein concentrates), milk protein concentrates
- lactoferrin: all of these products attract a 10%tariff that will phase to zero over four years

Dairy Australia estimates that tariff savings for Australian origin product, based on export volumes in 2014, will be up to \$60 million by the time the agreement is fully implemented for dairy products in the eleventh year.

China has announced it will introduce a new Food Safety Law which will be implemented on October 1, 2015. The dairy industry supports regulation that is designed to further improve the safety of food products offered to consumers, and food ingredients used by manufacturers, allowing them both to purchase with greater confidence. The enhanced focus on food safety regulation is applauded, noting the importance of any new laws to be based on sound science, and constructed in alignment with recognized international standards such as Codex Alimentarius. Regulatory structures should be developed such that they continue to facilitate trade, rather than impose obstructions which do not enhance food safety outcomes.

Enhanced cooperation between food safety regulatory agencies in Australia and China is an important development which flows from the Agreement. The dairy industry supports this being undertaken in a proactive manner, encouraging prior notification and consultation as standard procedure whenever changes to food standards and food safety regulations are proposed.

Heifer trade: in 2014 Australia's exports totaled 97,161 head, valued at \$216.2 million. China was the dominant destination, importing imported 90,384 heifers valued at \$201.1 million or equal to 93% of both totals:

- The live bovine tariffs of 10% are being phased out over five years

## Conclusion

The Australian dairy industry highlights the absolute priority of ratifying the China Australia Free Trade Agreement, and strongly urges the Federal Parliament to implement ChAFTA prior to the end of 2015, so that a second round of tariff cuts can occur on 1<sup>st</sup> January 2016.

The Australian dairy industry has experienced a wave of positive sentiment and a significant boost to farmer confidence based on the conclusion and signing of the agreement. A failure to implement or a delay in the implementation of the agreement would have a negative impact on that sentiment and confidence – potentially damaging the industry for years to come.

The implementation of ChAFTA will offer the Australian dairy industry a competitive advantage over rival supply sources, especially the European Union and the United States who collectively account for around half of world dairy trade.