

Malaysia-Australia Free Trade Agreement (MAFTA)

General Review

COMMERCIAL-IN-CONFIDENCE

October 2021

Overview

The Australian Dairy Industry Council (ADIC) is the peak national representative body of the Australian Dairy Industry, representing the interests of dairy farmers and processors through its two constituent bodies, Australian Dairy Farmers (ADF) and the Australian Dairy Products Federation (ADPF), to create a more prosperous and sustainable future for the local industry and the regional communities that rely on it.

Dairy Australia is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's research and development corporation (RDC), it is the 'investment arm' of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

The ADIC and Dairy Australia welcome the opportunity to provide a submission to the Department of Foreign Affairs and Trade (DFAT) regarding the Malaysia – Australia Free Trade Agreement General Review.

The Australian dairy industry is seeking greater clarity around quota administration and assurance on halal certification to optimise trading arrangements between Australia and Malaysia, namely:

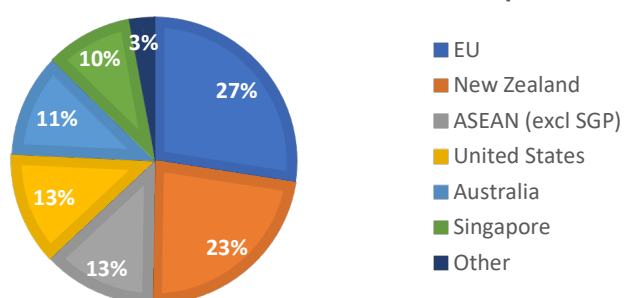
- Greater transparency regarding the liquid milk tariff quota allocation process.
- Improved access to information relating to which importers have been allocated liquid milk tariff quota.
- Up to date and easy to access information on how much of the liquid milk tariff quota has been allocated.
- A commitment to provide greater certainty to suppliers and importers in relation to the disruption caused by deregistration of Halal certification agencies.

Australia's Dairy Trade with Malaysia

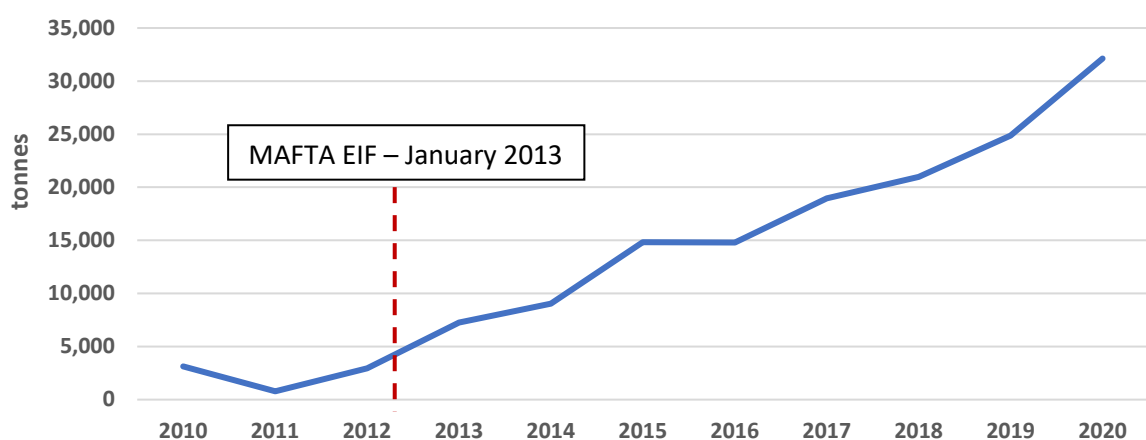
The Malaysia – Australia Free Trade Agreement (MAFTA) entered into force on the 1st January 2013. MAFTA, in addition to the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) has provided enhanced market access to Malaysia, a significant market for Australian dairy.

Malaysia is Australia's fourth largest market for dairy products, importing approximately 61,000 tonnes of dairy from Australia in 2020, equating to US\$140 million. Liquid milk (fresh, frozen and UHT) accounts for just over half of imports by volume, with just over 32,000 tonnes (US\$35 million) entering Malaysia in 2020. However, in terms of value cheese is the highest value category totalling \$59 million in 2020. Over the last five years Australia has consistently been a top five supplier of dairy to the Malaysian market.

MALAYSIA - DAIRY IMPORT SOURCES 2020 (BY VOLUME)



AUSTRALIAN LIQUID MILK EXPORTS TO MALAYSIA 2020 (BY VOLUME)



Liquid Milk Quota

Liquid milk is subject to three tariff quotas under MAFTA. For each the in-quota tariff rate is 0 per cent and the out-of-quota tariff 20 per cent. The tariff quotas are additional to those provided under AANZFTA, and subject to annual growth in perpetuity. Details of these tariff quotas are presented in the table below.

HS CODE	DESCRIPTION	IN-QUOTA TARIFF	OUT-QUOTA TARIFF	2021 TARIFF QUOTA VOLUMES (litres)	SUBSEQUENT YEARS ANNUAL GROWTH
0401.10.100	OF FAT CONTENT, BY WEIGHT, NOT EXCEEDING 1%: MILK: IN LIQUID FORM	0%	20%	126,667 [^]	3%
0401.20.100	OF FAT CONTENT, BY WEIGHT, EXCEEDING 1% BUT NOT EXCEEDING 6%: MILK: IN LIQUID FORM	0%	20%	996,282 [^]	9%
0401.40.110	OF FAT CONTENT, BY WEIGHT, EXCEEDING 6% BUT NOT EXCEEDING 10%: MILK: IN LIQUID FORM	0%	20%	26,095	3%

[^] Thirty-five per cent of the quota allocation for HS 0401.10.100 and HS 0401.10.100 are open license.

Under the agreement 35 per cent of the tariff quotas for 0401.10.100 and 0401.20.100 the import licensing arrangements are subject to an open licensing system that was intended to allocate licenses on a first come, first-served basis allowing anyone to apply for a license. There is also meant to be no restriction on the imports in terms of packaging (bulk vs retail).

The agreed arrangements under MAFTA for liquid milk have been beneficial from a market access perspective, however, there have been issues with how the arrangements have been implemented. Industry has found it challenging as there appears to be little published information made available by the Malaysian Government on Liquid Milk quota allocation outcomes or current utilisation of quota allocation. As a result, importers have reported difficulties in understanding if the total quota volume has been utilised, and therefore not knowing what the applicable tariff rate will be on arrival of a specific shipment of liquid milk. An additional risk relating to this issue is quota underutilisation – it's challenging to determine if Australian dairy is maximising its tariff free access.

This circumstance seems to be at odds with the commitment Malaysia has made under Annex 1, Appendix 1 Para 4, where it states, "Details of quota administration will be promptly published, including information on procedures for the submission of applications for licences."

The MAFTA General Review could be used to help resolve these issues.

Specifically, the Australian dairy industry is seeking:

- Greater transparency regarding the liquid milk tariff quota allocation process.
- Improved access to information relating to which importers have been allocated liquid milk tariff quota.
- Up to date and easy to access information on how much of the liquid milk tariff quota has been allocated.

Halal Certification

The Australian dairy industry has supplied halal certified product into Malaysia over the long term and recognises the importance of maintaining and complying with an effective and trusted Halal certification system. The arrangements for Australian product to be recognised as Halal compliant in Malaysia are effective and generally efficient. However, there is a continued risk regarding the potential deregistration of certification bodies by the Department of Islamic Development Malaysia (JAKIM) and the disruption this can cause to shipments already in transit, as well as to product already manufactured and packaged.

While the specific arrangements regarding Halal certification fall outside the scope of MAFTA, the General Review can serve as an opportunity to deliver a commitment to establish a process which would provide greater certainty to suppliers and importers.

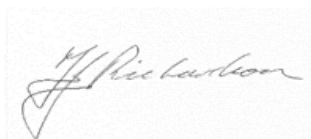
In Conclusion

The Australian dairy industry recognises the enhanced market access that MAFTA has delivered and welcomes the opportunity to have its views considered as part of the MAFTA General Review.

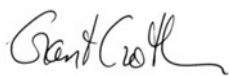
The industry is seeking greater transparency and improved access to information on liquid milk quotas as aligned to the intent of the Agreement. In addition, we request an enhanced commitment to provide greater certainty on the accreditation of Halal certification agencies, complementary to the purpose of MAFTA in facilitating trade between Australia and Malaysia.

ADIC and Dairy Australia would be happy to provide additional background or technical detail on all these requests, as may be required.

Yours sincerely,



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Chair
Australian Dairy Industry Council



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