

Deloitte Access Economics

Market opportunities for
Queensland agribusiness
from FTAs with China, Japan
and South Korea

Approach

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Scope

Australia recently signed Free Trade Agreements (FTAs) with China (June 2015), Japan (July 2014) and South Korea (April 2014). These agreements substantially reduce or remove tariffs on a range of Australian food and agribusiness export products including beef, grains, horticulture, seafood and processed foods, which together represent a large share of Queensland's total agricultural production and exports.

This document provides an overview of stage 1 of a two stage project. The overarching objective of the whole project is to identify where there are the strongest opportunities arising from the FTAs and what barriers exist to realising these opportunities. Principally, the focus of identifying opportunities has been on the four broad agribusiness sectors of beef, grains, horticulture and seafood/aquaculture.

The purpose of Stage 1 is to take a 'data view' on opportunities from the three FTAs and undertake consultations with Queensland agribusiness stakeholders on opportunities and barriers. Stage 2 will investigate, in more detail, the specific opportunities identified and focus on in-market consultations in China, Japan and South Korea which are expected to lead to the generation of trade and investment leads.

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This document outlines the approach taken to complete Stage 1 of the “*Market opportunities for Queensland agribusiness arising from FTAs with China, Japan and South Korea*” project. The approach to Stage 1 is outlined in two parts: the desktop review and consultations.

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Desktop review

The Stage 1 analysis was focused on four key categories of interest to Trade and Investment Queensland (TIQ) and the Department of Agriculture and Fisheries (DAF). These four categories were beef, grains, horticulture and seafood/aquaculture. For some of the individual analyses, an 'other' category was included for context, and this included large commodities such as cotton and sugar which are vital to Queensland agriculture.

In order to understand which Queensland commodities represent the greatest opportunities for increased trade and investment with the three countries (China, Japan and South Korea), the following questions were posed:

- 1. What does Queensland currently produce?**
- 2. What does Queensland currently export to these markets?**
- 3. Who does Queensland compete against in these markets?**
- 4. What are Queensland's advantages and disadvantages versus these competitors?**
- 5. What is the demand for imported produce into these markets?**
- 6. What is the strength of the tariff changes from the FTAs?**

For each question, a separate analysis was undertaken. These analyses were then brought together in an '**opportunity map**' exercise which provided insight for where the opportunities might be the strongest. Each of the individual analyses and the opportunity mapping exercise is explained further below.

Production, current exports and competition

1. What does Queensland currently produce?

To answer this question, we looked at Queensland agricultural and seafood/aquaculture gross value of production for the three years 2011-12 to 2013-14. This provides a baseline understanding as to the agricultural commodities in which Queensland is strongest, with the time series providing information on which commodities are growing or declining. The data was sourced from:

- The Australian Bureau of Statistics (ABS) 7503.0 – *Value of Agricultural Commodities Produced, Australia, 2013-14*, for agricultural production
- ABARES *Australian fisheries and aquaculture statistics 2014*, for fisheries and aquaculture production

These are considered to be the most recent and accurate sources of information on agricultural and fisheries production in Australia.

2. What does Queensland currently export to these markets?

Queensland's food and fibre exports by value were compiled for the three target countries of China, Japan and South Korea. The top 5 exports for individual commodities for the four categories of interest (beef, grains, horticulture and seafood/aquaculture) were then presented. The top 5 was considered a reasonable threshold as export value became very small after this.

Again, this data was compiled for three years to enable a time series trend to be observed and to identify which commodities are growing or declining in exports.

Data was sourced from the *Australian Bureau of Statistics 5368.0, International merchandise exports, Australia*. This is the most comprehensive, accessible and current data source on exports available.

3. Who does Queensland compete against in these markets?

For each of the four commodities of interest (beef, grains, horticulture and seafood/aquaculture), data was collected on total imports in each country. The respective market share for the top 5 countries (excluding Australia) exporting to that market was then calculated. The data used here was sourced from the United Nations Comtrade Database 2015, which is considered a reputable and current source of information.

Australia's market share was also calculated in the same manner and presented next to the top 5 countries along with its ranking. Furthermore, the proportion of Australia's market share that could be attributed to Queensland was calculated by apportioning Queensland's share of Australian exports for the respective commodities calculated from *ABS 5368.0, International merchandise exports, Australia*.

Advantages and disadvantages

4. What are Queensland's advantages and disadvantages versus these competitors?

For the top 20 importers in each market (determined by total import value of the top 5 products for beef, grains, horticulture and seafood-aquaculture), Australia was compared against 15 key factors that contribute to agricultural competitiveness. These factors were sourced from Deloitte Access Economics's agribusiness opportunity mapping framework developed in 2014. Since being developed in 2014, the framework has been utilised in numerous client engagements (for State and Local Government clients) and each time the framework is tested and data is refined. The framework was employed in Stage 1 of this project as it provides an indication as to the areas of strength and weakness in Australia's agricultural competitiveness.

The 15 key competitiveness factors include:

- Regulatory burden
- Cost of inputs – intermediates (fuel, fertiliser, chemicals etc.)
- Economies of scale
- Research, development and extension,
- Age of workforce (aging population)
- Soil fertility
- Biosecurity
- Efficient supply chain and logistics
- Barriers to entry/exit
- Cost of inputs – labour costs
- Access to technology
- Education and training
- Rainfall water availability
- Area of arable land
- Spatial proximity to export markets

These factors are a sub-set of a larger list of 20 factors of competitiveness. The remaining five agricultural competitiveness factors that were either not applicable for comparing international competitiveness or data was not available include:

- Access to domestic markets (not applicable)
- Land use conflicts (no international data available)
- Length of growing season (no international data available)
- Economies of density (no international data available)
- Product differentiation/effectiveness of marketing (no international data available)

Demand for produce

5. What is the demand for imported produce into these markets?

To understand current and future demand for commodities in the markets of China, Japan and South Korea (and consequent opportunities for Queensland produce) it is necessary to answer two important questions:

What is the demand for commodities in each market?

What proportion of this demand is met by local production, and therefore what is the shortfall that is met by imports?

The **demand** in each market for the four categories of interest (beef, grains, horticulture and seafood/aquaculture) is measured by analysing historical consumption trends over a period of ten years. Future demand for these categories of interest is also reviewed, through analysis of trends in ABARES, 2014, *What China wants: Analysis of China's food demand to 2050* (for China), and ABARES, 2013, *What Asia wants: Long-term food consumption trends in Asia* (for Japan and South Korea). While there are other global forecasts available per commodity (i.e. the Food and Agriculture Organisation (FAO), Organisation for Economic Co-operation and Development (OECD)), the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) publications are the only known sources of information which forecast specific commodities for China, Japan and South Korea.

The **proportion of demand met by imports** is determined by undertaking a 'food balance' exercise. This exercise compares data on local production, exports and imports over a period of ten years for each market for each of the four categories of interest (beef, grains, horticulture and seafood/aquaculture). The trends in the food balance provide an indication of the level of, and reliance on, imports. The higher the reliance on imports in a particular market, the greater the opportunity is for Queensland agribusiness exports to this market.

Data for each market's consumption, production, exports and imports were sourced from the United States Department of Agriculture (USDA) for beef and grains and the FAO for horticulture and seafood/aquaculture. The reason for the two data sets is that the USDA is the most recent data set (with data to 2015, and is therefore preferred) however only with information for livestock and grains. Therefore the FAO was used for horticulture and seafood/aquaculture, although this data is only current to 2011.

Tariff changes

6. What is the strength of the tariff changes from the FTAs?

For the top 5 export commodities, determined in step 2, for each of the categories of interest (beef, grains, horticulture and seafood/aquaculture) we documented:

- The base tariff prior to the FTA taking effect
- The tariff after 10 years of the FTA being in place
- The tariff after the FTA has had its full effect
- The full tariff phasing schedule (as an appendix)

Given the different timeframes for phasing out of tariffs for the various commodities, the percentage point change in tariff after 10 years (the mid-point for an FTA's full effect) was selected in order to compare the relative impact of the FTAs across commodities. This was subsequently used in the opportunity map exercise (described below).

The information source for these tariff changes was the FTA tariff schedules for each of China, Japan and South Korea.

Opportunity map

The last section brings together the preceding analysis through an ‘opportunity map,’ which combines Queensland’s export value, Queensland’s competitive advantage (represented by market share), the strength of the FTA changes (tariff after 10 years) and consumption growth. This map highlights where the opportunities for increasing agribusiness trade and/or investment may be the strongest for that particular country. The sectors with a large export market, large market share, high tariff reductions, and strong consumption growth were considered the commodities with the greatest potential for growth. This is because:

- A commodity that has a **large export market** has established buyers in the end market and a platform in which to grow exports. This commodity has clear advantage over a commodity that has less buyers or an unestablished market.
- **Large market share** is an indication of competitive advantage. The higher the market share the greater the Queensland advantage is over its competitors in some way, be it price or quality.
- **A commodity that has high tariff reductions** from the FTA means that, all things being equal, the commodity will become lower in price in the end market due to the removal of duties. This commodity will therefore increase in price competitiveness compared to a commodity that has little or no tariff reductions. However, there is potential for not all of the tariff reduction to be passed on to the end consumer.
- **A commodity that has strong consumption growth** in the end market means that overall supply may increase to meet growing demand. This is contrasted to a commodity where demand is static or declining and where growth would only be possible through taking market share from competitors.

Commodities that meet all the above criteria are extremely well positioned for growth and represent the biggest opportunities for Queensland.

Consultations

In Stage 1 a consultation process was employed in order to understand the views of government, industry bodies and producers/exporters on:

1. **The trade opportunities with China, Japan and South Korea as a result of the Free Trade Agreements**
2. **Non-tariff barriers in those markets**
3. **The role of government in enhancing trade opportunities and / or overcoming non-tariff barriers.**

There were two methods by which stakeholders were contacted in Stage 1:

- **An online survey** sought to capture the views of 106 stakeholders across the above areas of enquiry, with approximately equal representation across the three stakeholder groups of government, industry bodies and producers/exporters. The survey was open for approximately two weeks. The response rate achieved in this time was 32%. Responses were received approximately equally across each of the stakeholder groups.
- **Interviews** were conducted with representatives of six relevant industry groups to understand, in more detail, their responses to the survey questions.

Consultation findings

The key themes emerging from the Stage 1 consultations can be summarised as follows:

- The FTAs are welcomed and the tariff reductions, coupled with favourable exchange rates, improve the competitiveness of our agribusinesses products in those markets and in certain circumstances also improve market access.
- Australia (and Queensland) remains a higher cost producer (relative to our global competitors) for agri-food products according to stakeholders and does not have the scale (at the moment) to meet every possible customer opportunity. Therefore, there is a need to focus the collective attention on higher value, premium products.
- Where trade relationships are already well established (e.g. beef into Japan and South Korea), the FTAs are seen to deliver immediate, tangible tariff benefits and enhanced opportunities for incremental trade.
- Where trade relationships are not already well established (e.g. horticulture into China), the FTAs are seen to be an enabler of opportunities over the medium-term; however, stakeholders have voiced concern that non-tariff barriers represent serious challenges to realising the apparent opportunities.
- Specific examples of non-tariff barriers include:
 - Phytosanitary regulations are complicated and are difficult to navigate (especially relevant for fresh and chilled product with short shelf-life).
 - Lack of acceptance of fruit fly treatment protocols for Queensland fruit.
 - Import protocols for mixed cargo consignments result in longer processing time at port and duplication of paperwork (potentially putting the entire consignment at risk).
 - Restricted importation windows for some products require prompt harvest timetables (in Queensland) and highly coordinated and timely transport options into market.

The findings from Stage 1 consultations have been incorporated into the relevant Stage 1 reports and have also informed the recommendations for further research in Stage 2.

The Stage 2 consultation process will incorporate in-market contacts for China, Japan and South Korea and the line of enquiry will be tailored towards specific trade opportunities.

Opportunities for detailed investigation in Stage 2

The combined desktop analysis and the consultations provided insight into where the opportunities for Queensland agribusiness lie. An initial list was developed by identifying the strongest opportunities evident in the 'opportunity mapping' exercise, which was then cross-checked against the findings of the consultations, particularly around whether any significant non-tariff barriers may hinder exports. The key output of the Stage 1 analysis was an initial 'short list' of commodities with high growth potential in each market.

An additional analysis that needs to occur, as part of Stage 2, is around commodities not currently exported but where Queensland has strong capability. Identifying these opportunities would involve analysis to match Queensland's production capability, technical market access for each commodity, tariff reductions, and more detailed consumption analysis in each of the three markets down to the specific product level.

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