



Deloitte Access Economics

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

Japan

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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, including both unprocessed and processed products.

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.

Contents

This document presents opportunities and challenges for Queensland agriculture arising from the Japan-Australia Economic Partnership Agreement (JAEPA). The opportunities are derived after a detailed analysis of Queensland's relative competitiveness in the market, review of tariff reductions for key commodities and assessment of key production and consumption trends affecting demand for agriculture products.

Overview	4
• Food consumption	5
• Queensland's agricultural exports	6
• Key Queensland exports	7
Competition in Japanese markets	9
• Market share	10
• Competitiveness	12
Food demand and supply in Japan	14
• Beef consumption	15
• Beef food balance	16
• Grain consumption	17
• Grain food balance	18
• Horticulture consumption	19
• Horticulture food balance	20
• Seafood/aquaculture consumption	21
• Seafood/aquaculture food balance	22
Changes from JAEPA	23
• Tariff rates	24
Opportunity map	25
Non-tariff considerations	27
Implications	28
Appendix	29
• Schedule of tariff reductions	30

Overview

As Japan's economy continues along the path of structural reform, its economic recovery remains weak. However, as Japan's growth faded in 2015, economic growth is expected to recover in 2016.¹

Japan continues to remain an economic powerhouse, however economic and demographic issues will remain a problem in the immediate future. For example, an ageing and declining population (partly due to Japan's advanced stage of economic development and its declining birth rate) combined with low income growth has influenced consumption patterns and shifted consumer preferences.

As a result, there has been a polarisation of Japanese consumer preferences as the gap in disposable income has widened. Japan's premium consumers, who are willing to pay extra for higher quality, continue to demand such products while the Japanese consumers with decreasing real net income have become increasingly cost-conscious.²

Japanese food consumption patterns have seen overall calorie intake decline, with composition of diets changing as well as per capita food intake declining. Between the years of 2000 and 2011, consumption per capita of beef, dairy, vegetables and seafood all declined. Meanwhile, pig meat, poultry and nuts increased.³

Demographic factors will continue to act as the chief constraint on Japan's economic growth. The population, and size of the workforce, is expected to contract steadily through to at least 2020. This contraction will act to continue to slow total consumption growth which will have flow on effects to food consumption patterns into the future.⁴

¹OECD Economic Outlook, Volume 2015 Issue 2

²Euromonitor International, 2015, Retailing in Japan

³Food and Agriculture Organisation 2013, FAOSTAT database

⁴The Economist Intelligence Unit, 2016, Japan in Brief

Food consumption

Table 1.1 provides detail of an average person's daily food consumption in Japan versus Australia. Notably Japanese diets consist of mostly of seafood, vegetables and milk while Australians consume more dairy than any other food group. While the amount of each product consumed daily differs, relatively Australians and Japanese prioritise fruit and wheat to the same extent (relative to overall consumption).

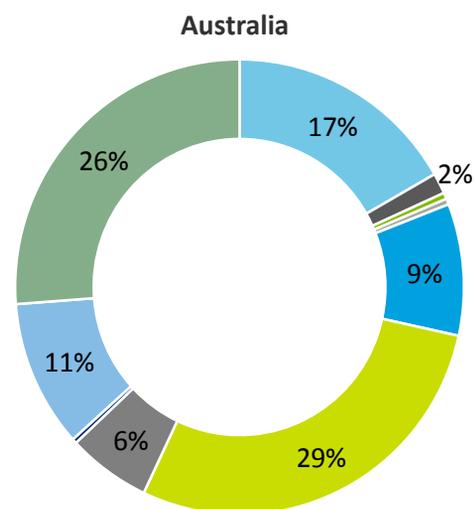
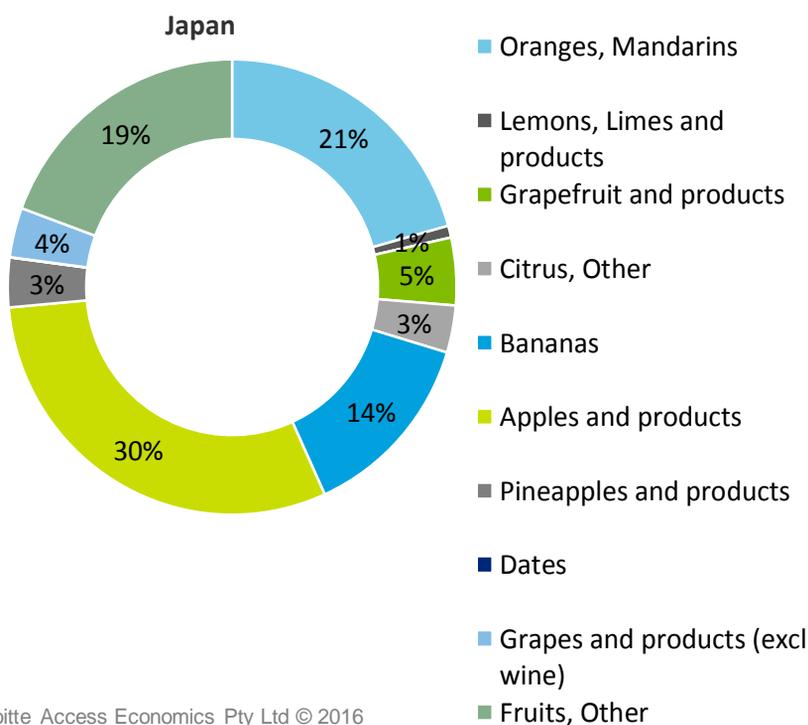
Table 1.1: Top 10 categories of food consumption – Japan

	Japan (grams per person per day)	Australia (grams per person per day)
Vegetables	278 [1]	262 [3]
Milk	195 [2]	630 [1]
Seafood	147 [3]	70 [10]
Fruits	140 [4]	258 [4]
Wheat	133 [5]	191 [5]
Rice	119 [6]	30 [15]
Alcoholic beverages	117 [7]	289 [2]
Starchy roots	83 [8]	141 [6]
Sugar and sweeteners	77 [9]	127 [7]
Pork	56 [10]	63 [12]
Beef	25 [16]	111 [9]

Source: National Geographic, *What the world eats*, 2011

Note: Rank in square brackets (out of 22).

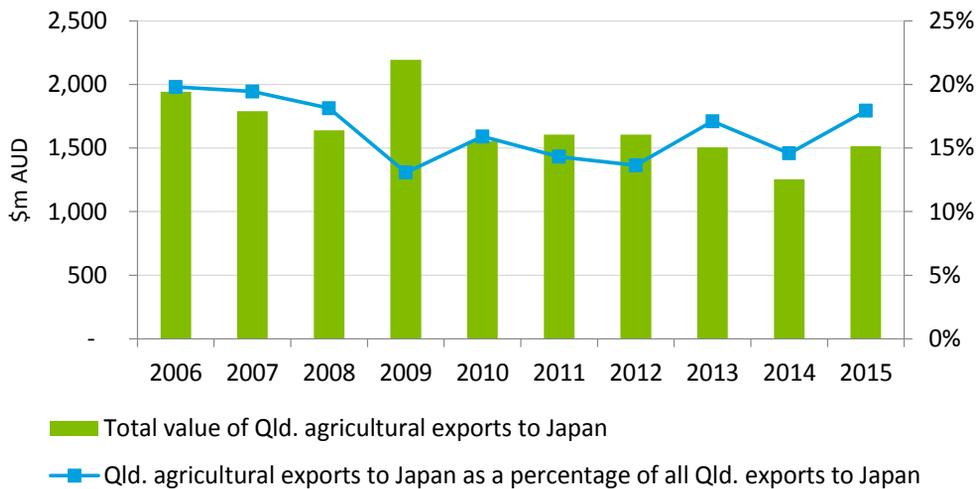
Chart 1.1: Fruit consumption – Japan



Queensland's agricultural exports

Chart 1.2 shows the total value of agricultural exports to Japan for the last 10 years (2006-2015). Agricultural product represented almost 18% of all exports to Japan in 2015. The chart shows that agricultural exports have been relatively static since 2010.

Chart 1.2: Queensland's exports to Japan



Source: ABS 5368.0, International merchandise exports, Australia, Information consultancy subscription service, unpublished data.

Note: Commodities defined as agricultural are based on the Harmonised Export Commodity Classification (HECC)

Key Queensland exports

Table 1.2 (on the following page) provides further detail of Queensland exports to Japan for the last three years. The table shows the five largest exports for each of the four key categories of interest (beef, grains, horticulture and seafood/aquaculture) and an 'other' category.

The table shows that 'beef fresh' and 'beef frozen' are by far the largest commodities by export value, together representing 77% of all Queensland agricultural exports to Japan. Importantly, these two categories also represent the majority of Australia's beef exports to Japan, showing Queensland as the dominant exporter of beef amongst Australian states. Anecdotally, it is understood that Queensland beef into Japan consists of very high value, premium products.

Grains, horticulture and seafood/aquaculture exports are small by comparison, however wheat, sorghum, macadamia and prawns have the highest export value relative to other commodities in their respective categories. Queensland cotton exports to Japan also consist of a relatively high proportion (45%) of all Australian cotton exports to Japan, though the value of cotton exports to Japan are significantly lower than China.

Key Queensland exports

Table 1.2: Key Queensland exports to Japan

	Qld. exports to Japan (\$m) – current dollars			% of all Qld. agricultural exports to Japan – 3 year average	Qld. % of Australian exports of this product to Japan
	2013	2014	2015		
Beef					
Beef – fresh	645	611	786	48%	79%
Beef – frozen	397	361	475	29%	57%
Beef offal – frozen	63	62	50	4%	67%
Beef offal – fresh	29	24	35	2%	69%
Beef tongues	15	16	22	1%	45%
Other beef products	2	3	3	0%	27%
Sub-total	1,152	1,077	1,370	84%	68%
Grains					
Wheat	41	29	23	2%	9%
Sorghum	166	8	0	4%	17%
Cotton seeds	24	18	13	1%	60%
Corn-maize	9	6	0	0%	89%
Other	8	3	4	6%	1%
Sub-total	248	63	40	8%	10%
Horticulture					
Macadamia	3	2	5	0%	18%
Mandarins	1	1	1	0%	30%
Frozen vegetables	0	1	1	0%	76%
Mangoes	1	1	1	0%	100%
Oranges	1	1	0	0%	1%
Other	2	1	0	0%	3%
Sub-total	7	6	7	0%	12%
Seafood/aquaculture					
Prawns	17	19	14	0%	83%
Tuna – bigeye	3	3	3	0%	76%
Swordfish	2	1	1	0%	74%
Tuna – yellowfin	2	1	1	0%	63%
Fish liver	1	1	1	0%	100%
Other	2	1	1	0%	1%
Sub-total	26	26	21	2%	12%
Other					
Sugar	-	-	0	0%	100%
Cotton	12	13	13	1%	45%
Wool	-	-	-	-	-
Dairy	1	1	0	0%	0%
Other	46	54	50	4%	13%
Sub-total	59	68	63	5%	8%
Total	\$1,505	\$1,254	\$1,514	100%	35%

Source: ABS 5368.0, International merchandise exports, Australia Information consultancy subscription service, unpublished data. Note: Totals may differ from the sum of individual items due to rounding.

Competition in Japanese markets

This section presents a picture on the competitiveness of Queensland's agricultural products in Japanese markets through an analysis of import market share and the factors that contribute to agricultural competitiveness.

Market share

Market share is one indicator of a country's competitiveness. Table 1.3 shows the market share of major suppliers to Japan for each of the four key agricultural categories of beef, grains, horticulture and seafood/aquaculture. This is compared to Australia's market share position and also shows Queensland's market share by calculating its share of Australian exports to Japan.

The table shows that Australia is clearly the market leader in terms of **beef** with a market share of 49% (of which Queensland has 68%, translating to 33% market share). Queensland's main competitor in this market is the USA with 40% market share.

For **grains**, Australia is a key player with 8% market share although Queensland has only 10% of this. The USA and Canada are dominant players in grains imports with 65% share between them.

For **horticulture**, Australia is a small player with only 2% market share and ranking tenth (with Queensland contributing only 12% of this). China and the USA are the two major players here combining for 58% of market share.

For **seafood/aquaculture**, Australia is a small player with only 2% market share (and Queensland only 12% of this). There is, however, less market concentration in this category with a large number of smaller players making up 45% of market share.

Market share

Table 1.3: Japan's imports of major QLD-Japan exports

	% of Japanese imports (total 2012 to 2014 by value)	Cumulative percentage
Beef		
USA	40%	40%
New Zealand	5%	45%
Mexico	3%	48%
Canada	2%	51%
Chile	0%	51%
Other	0%	51%
Australia	49% - ranks 1st	100%
Queensland	68% of Australian exports (33% market share)	
Grain		
USA	46%	46%
Canada	20%	65%
Brazil	8%	73%
China	4%	77%
Argentina	3%	80%
Other	12%	92%
Australia	8% - ranks 4 th	100%
Queensland	10% of Australian exports (0.8% market share)	
Horticulture		
China	33%	33%
USA	25%	58%
Philippines	10%	68%
New Zealand	7%	75%
Mexico	3%	78%
Other	3%	98%
Australia	2% - ranks 10 th	100%
Queensland	12% of Australian exports (0.24% market share)	
Seafood/aquaculture		
China	20%	20%
Chile	11%	31%
Viet Nam	8%	39%
USA	7%	46%
Thailand	7%	53%
Other	45%	98%
Australia	2% - ranks 13 th	100%
Queensland	12% of Australian exports (0.24% market share)	

Source: UN Comtrade Database 2015.

Competitiveness

While market share might indicate relative competitiveness for certain commodities, it does tend to reflect historical factors and, as such, does not always provide the present day picture of competitiveness nor the factors that contribute to competitiveness.

Table 1.4 compares Australia against its key competitors in the Japanese market (top 20 competitors by value) against 14 key factors that contribute to agricultural competitiveness. The table shows that Australia, in general, compares well in areas of innovation (i.e. access to technology, research and development and education) and in terms of land availability and biosecurity. However Australia does not rank as well in terms of the cost of production metrics, particularly in relation to regulatory burden and the cost of inputs, and in natural resources metrics of rainfall and soil fertility (noting that in some areas of Australia soil fertility is considerably higher than the average). However, it should be noted that, given Australia's sheer size and diversity, there are pockets of high soil fertility and rainfall meaning that certain regions may score quite highly by comparison.

In terms of Australia's low ranking on regulation, this can be seen from both a positive and negative angle. There is a level of 'good and necessary' regulation to ensure Australia's reputation for high quality and safe food. However, regulation often crosses a line and becomes a 'burden' due to lack of coordination between agencies, inadequate assessment of the costs and benefits and the cumulative effect of regulations.

In terms of Australia's generally lower fertility soils (noting the exceptions) and its broadacre production systems, this actually presents as an opportunity for intensification of production systems and productivity increases. Australia's opportunity here is probably greater than what is possible in other countries, where even a small increase in carrying capacity (per unit area) gives rise to substantial production gains for the industry.

Queensland's advantage versus competitors is similar to Australia for most of these metrics. In relation to spatial proximity, area of arable land and average rainfall it is likely to rank slightly better than Australia. However, rainfall variability and drought across Australia will continue to disadvantage Australia as it creates additional complications and cost to ensure security of supply and the honouring of any contracts entered into.

Competitiveness

Table 1.4 compares Australia against its key competitors in the Japanese market (top 20 competitors by value) against 14 key factors that contribute to agricultural competitiveness.

Table 1.4: Factors of competitiveness – Australia rank against top 20 Japan importers

Theme	Factor of competitiveness	Proxy measure	Australia rank	Sample size
Cost of production	Regulatory burden	Burden of government regulation ^A	18	20
	Cost of inputs – intermediates (fuel, fertiliser, chemicals)	Pump price for gasoline ^B	12	20
	Barriers to entry/exit	Ease of doing business (starting a business) ^B	7	20
	Labour costs and labour market efficiency	Labour market efficiency ^A	11	20
Innovation	Access to technology	Theme of technological readiness (includes availability, tech absorption, tech transfer, internet usage) ^A	4	20
	Research, development and extension	Theme of innovation which includes (innovation capacity, R&D institution quality, company spending on R&D, R&D collaboration) ^A	7	20
	Education and training	Theme of higher education and training ^A	4	20
	Age of workforce (ageing population)	Age dependency ratio, people older than 64 (% of working-age population) ^B	17	20
Natural resources	Rainfall water availability	Average annual precipitation ^B	17	20
	Soil fertility	Carrying capacity - Livestock total per ha of agricultural area (No/Ha) ^C	20	20
	Area of arable land	Arable land (hectares) ^C	6	20
Market access	Biosecurity	Average no of cattle disease outbreaks per year (1995 - 2004) ^C	3	17
	Spatial proximity to export markets	Distance to Japan ^D	11	20
	Efficient supply chain and logistics	Theme of quality of overall infrastructure (road, rail, port, air, electricity, telephone) ^A	8	20

Sources:

^A World Economic Forum (WEF) 2015, *The Global Competitiveness Report 2015-16*,

^B World Bank, *Development Indicators Database 2015*,

^C Food and Agriculture Organisation (FAO) Statistics Division, *FAOSTAT database 2015*,

^D Google Maps 2015

Note: Shading colour in the 'Australia rank' column groups the factors of competitiveness by rank; dark green (rank 1-5), light green (rank 6-9), light grey (rank 10 to 15) and dark grey (rank 16-20).

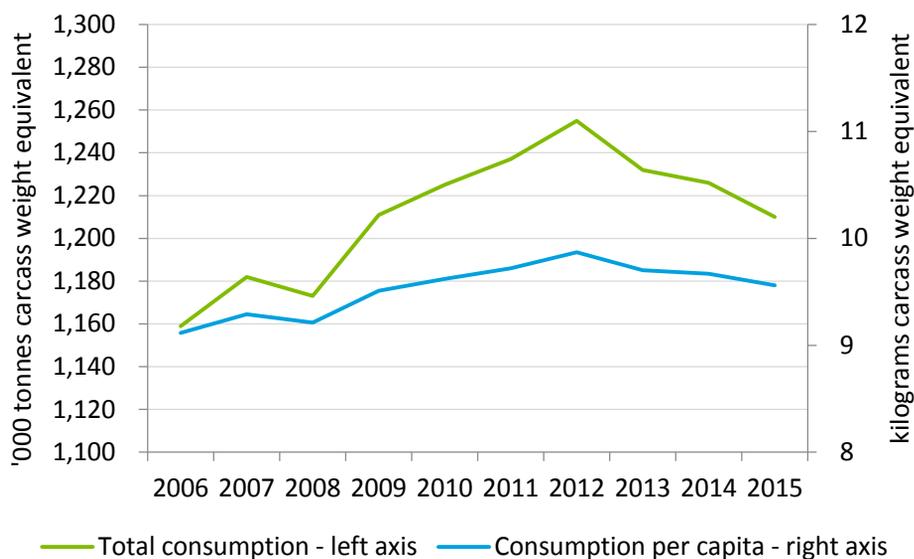
Food demand and supply in Japan

For each of the four key areas of focus (beef, grains, horticulture and seafood/aquaculture) this section presents data on consumption trends (i.e. the current and future demand for food in Japan) and the local Japanese production, imports and exports for each area (i.e. the supply of this demand). This analysis gives a sense for how Japan currently supplies its food demand and how it is likely to supply into the future.

Beef consumption

Chart 1.3 shows that both total and per capita consumption of beef have experienced periods of growth and decline in Japan from 2006 to 2015. In recent years, both have been declining, with total consumption actually declining faster than per capita consumption. This is related to the fact that Japan's total population is declining, and has been since 2010.⁵

Chart 1.3: Japan – Beef consumption



Source: United States Department of Agriculture (USDA) (2015) Production, Supply and Distribution Online, livestock dataset.

Note: Specifically, the data is for 'Meat, Beef and Veal'

While Japan does still have relatively high levels of beef consumption, and does import large volumes of beef (\$3.9 billion worth in 2014),⁶ around \$10 million more than total Queensland production, it is a market that may have relatively poor prospects for significant growth.

Consumption of beef in Japan is expected to remain almost constant in the coming decades. This is due to the expected population decline, and already relatively high levels of income and consumption.⁷ Because of this, opportunities in exporting beef to Japan will need to be based around replacing domestic production and taking market share from competitors.

⁵United Nations, 2015, *World Population Prospects 2015*, Total Population – Both sexes dataset,

⁶UN Comtrade Database,

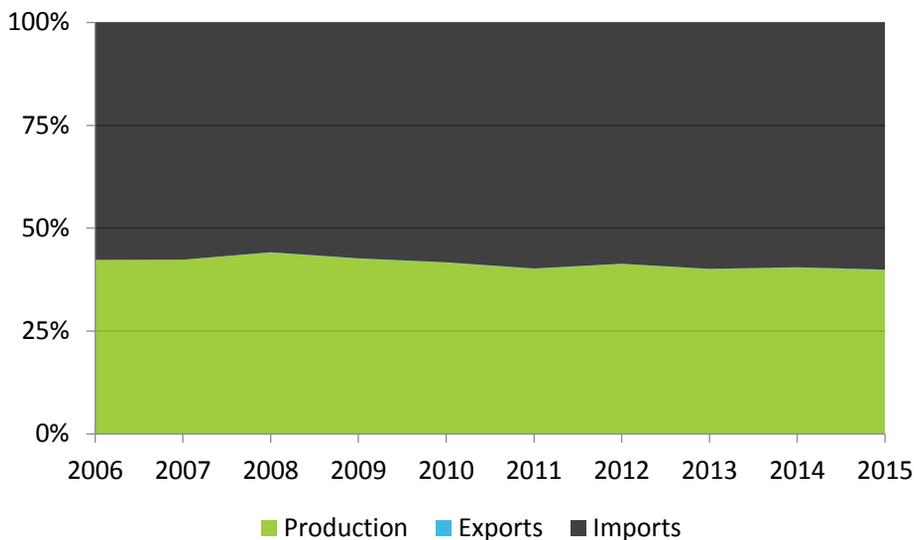
⁷ABARES, 2013, *What Asia wants: Long-term food consumption trends in Asia*

Beef food balance

The preceding observations on consumption should be tempered with the fact that imports do appear to be becoming relatively more important in the Japanese beef food balance.

Chart 1.4 shows that Japanese beef imports are now around 125% of total domestic production (worth around \$3.1 billion in 2015)⁸ and this percentage has shown an upward trend over the last decade.

Chart 1.4: Japan – Beef food balance



Source: United States Department of Agriculture (USDA) (2015) Production, Supply and Distribution Online, livestock dataset

Note: Specifically, the data is for 'Meat, Beef and Veal'

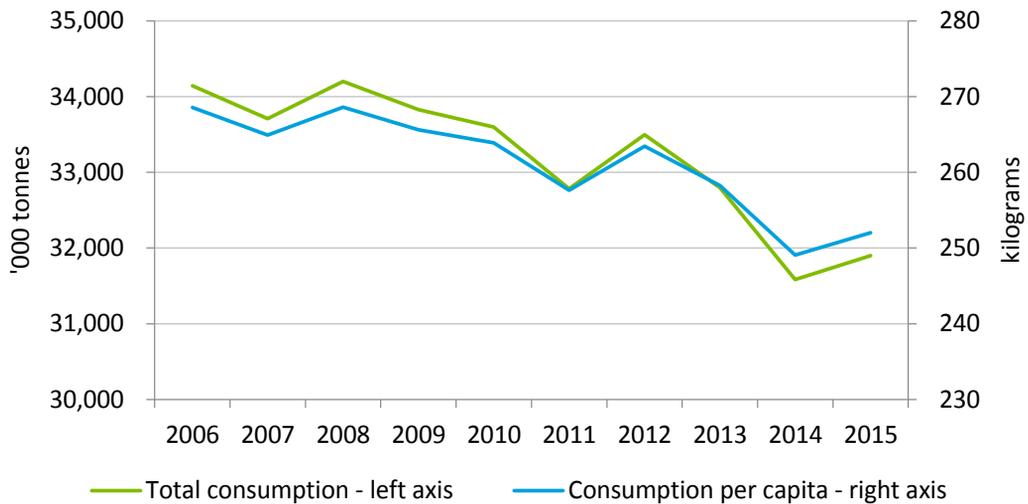
⁸This has been calculated by multiplying the volume of Japanese production as per USDA (2015) by the price implied by the value of imports as per the UN Comtrade Database and the volume of imports as per USDA (2015).

Grain consumption

Chart 1.5 shows that there has been a strong downward trend in total and per capita grain consumption in Japan over the last decade.

Grain product consumption in Japan is expected to remain almost constant over coming decades, largely constrained by a declining population.⁹ However, discussions with the Japanese Trade Commissioner revealed there is an increasing focus on high protein 'super food' grains (such as quinoa and amaranth).

Chart 1.5: Japan – Grain consumption



Source: USDA Production, Supply and Distribution Online, grains dataset.

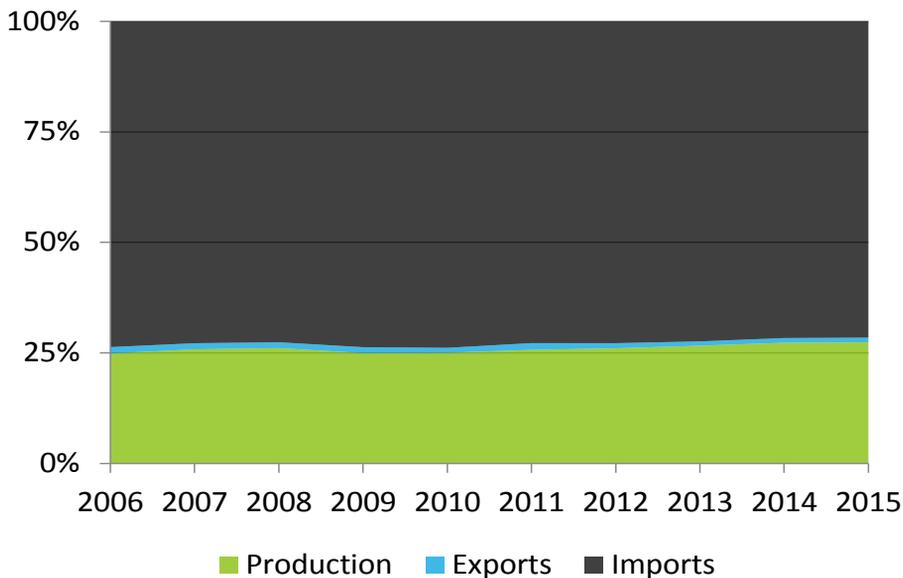
Note: The chart reflects data for barley, corn, millet, mixed grain, oats, rice (milled), rye, sorghum and wheat.

⁹ABARES, 2013, *What Asia wants: Long-term food consumption trends in Asia*

Grain food balance

Chart 1.6 shows that while Japan imported over two and a half times as much grains as it produced in 2015, this figure has been declining almost continuously for a decade. That is, domestic production has increasingly been satisfying domestic demand. This indicates that as domestic consumption has decreased, imports, rather than domestic production, have been declining. However, imports were still worth over \$6 billion in 2014, nearly nine times the value of total Australian cereals production.¹⁰ Japan's domestic production is estimated to have been worth around \$2.4 billion in the same year.¹¹

Chart 1.6: Japan – Grain food balance



Source: USDA Production, Supply and Distribution Online, grains dataset

Note: The chart reflects data for barley, corn, millet, mixed grain, oats, rice (milled), rye, sorghum and wheat.

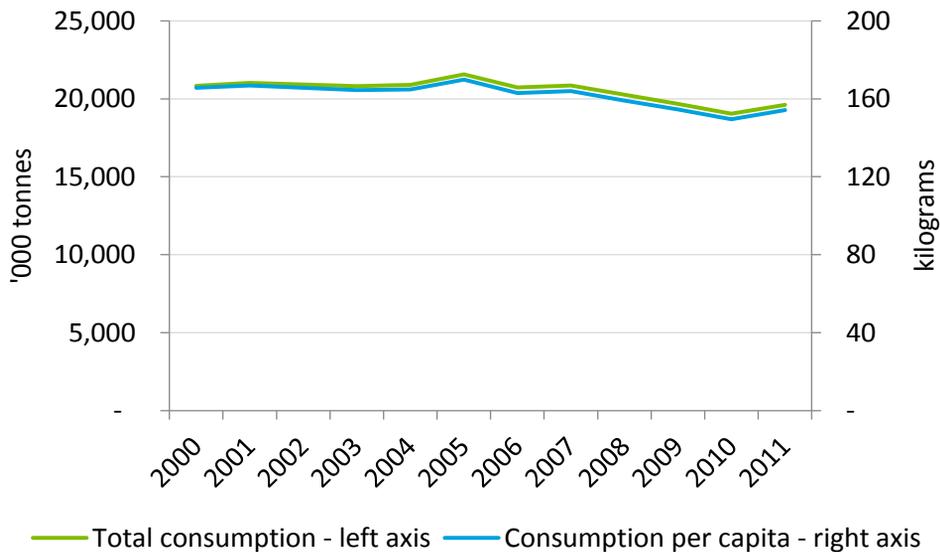
¹⁰UN Comtrade Database,

¹¹Calculated based on the methodology described in footnote 8 previously

Horticulture consumption

Chart 1.7 shows that a slow decline in per capita consumption of horticultural products has directly translated into declining total consumption in Japan. This trend is expected to continue, with the real value of consumption projected to be lower in 2050 (relative to 2007 levels).¹²

Chart 1.7: Japan – Horticulture consumption



Source: Food and Agriculture Organisation (2015), FAOSTAT statistics database - Food Balance Sheets

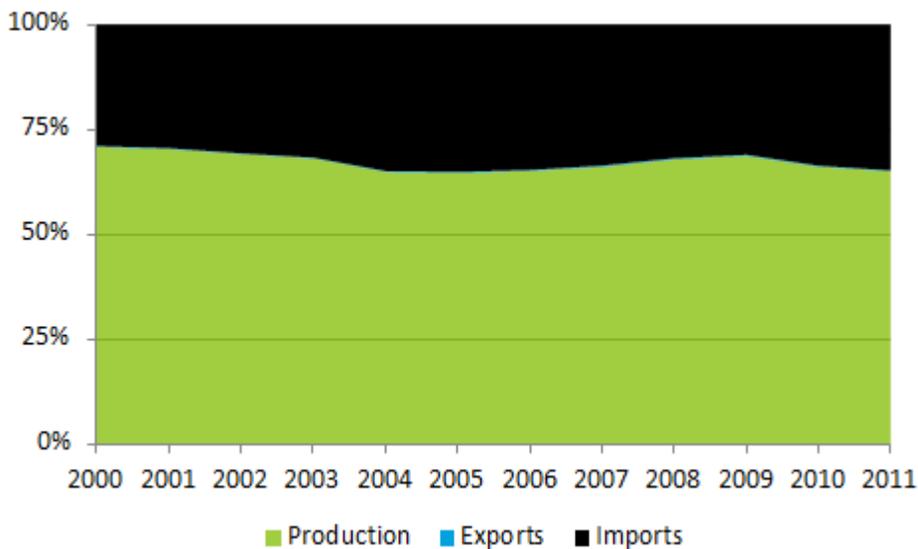
Note: Chart represents data for 'vegetables', 'fruit – excluding wine' and 'nuts and products'.

¹²ABARES, 2013, *What Asia wants: Long-term food consumption trends in Asia*

Horticulture food balance

Chart 1.8 shows that Japan now imports around half as much horticultural produce as it produces. While future changes in demand are likely to be subdued, or even negative, the reliance on imports at present means there may be opportunity to increase horticultural exports to Japan. This is obviously subject to the cost competitiveness and value offering of different exporters. In 2014, Japan's imports of fruit, nut and vegetable products were worth nearly \$5.1 billion, around two and a half times the total value of Queensland production.

Chart 1.8: Japan – Horticulture food balance



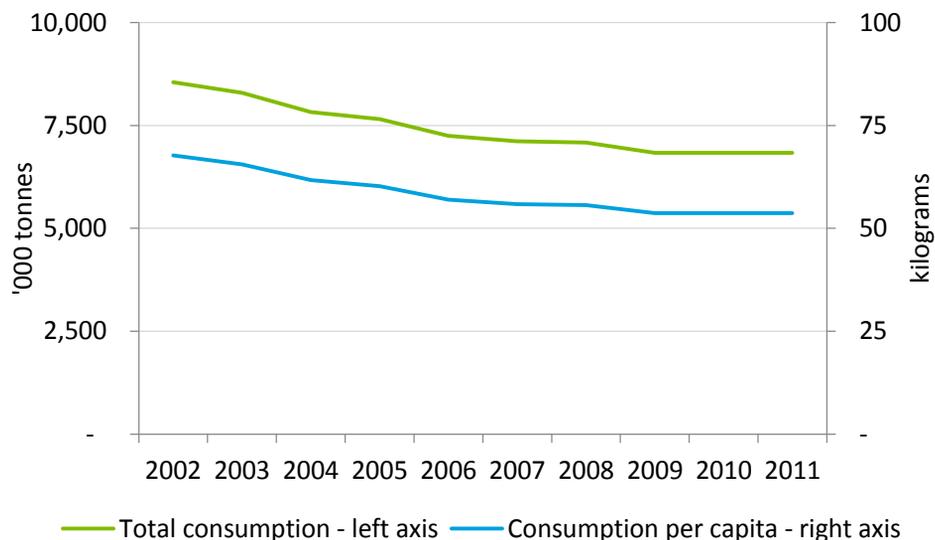
Source: Food and Agriculture Organisation (2015), FAOSTAT statistics database - Food Balance Sheets

Note: Chart represents data for 'vegetables', 'fruit – excluding wine' and 'nuts and products'.

Seafood/aquaculture consumption

Chart 1.9 shows that total and per capita consumption of seafood and aquaculture products in 2011 was around 20% lower than 2002 levels. Declining per capita consumption has been partly attributed to Japan's ageing population and changing consumption patterns amongst younger people, which is likely to continue.¹³ Given total population is also likely to decline in the coming decades, prospects for increased domestic demand are poor.

Chart 1.9: Japan – Seafood/aquaculture product consumption



Source: Food and Agriculture Organisation (2015), FAOSTAT statistics database - Food Balance Sheets

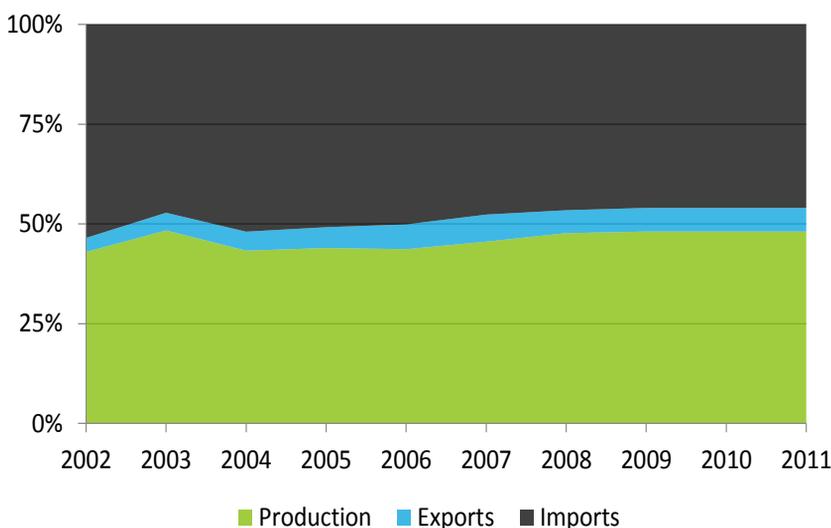
Note: Chart represents data for 'fish, seafood'.

¹³ABARES, 2013, *What Asia wants: Long-term food consumption trends in Asia*

Seafood/aquaculture food balance

Chart 1.10 shows that Japan's seafood/aquaculture balance is relatively evenly split between production and imports, and also has some exports (900,000 tonnes in 2011). The value of Japanese imports were worth \$10.5 billion in 2014¹⁴ compared to total Queensland production of \$277 million. Around 80% of Japanese seafood production is wild-catch.¹⁵

Chart 1.10: Japan – Seafood/aquaculture food balance



Source: Food and Agriculture Organisation (2015), FAOSTAT statistics database - Food Balance Sheets.

Note: Chart represents data for 'fish, seafood'.

¹⁴UN Comtrade database,

¹⁵ABARES, 2013, *What Asia wants: Long-term food consumption trends in Asia*

Changes from JAEPA

This section summarises the key changes arising from the Japan FTA for the four key categories of interest. For each key commodity export in each category, Table 1.5 shows the current tariff rate, the expected tariff rate 10 years after the FTA has commenced and the tariff rate after the FTA has had its full effect. This is then compared to the current tariffs for the top three competitors in each commodity to show the tariff differentials between competitors. This is a static picture of the present day tariffs and does not represent possible tariff changes for these competitors in the future.

The table shows that **beef** fresh and frozen will experience tariff reductions (around 14-15 percentage points) over 14 years, while beef offal and tongues will have no reductions. Competitors in the beef fresh and frozen market have the same current tariff rate of 38.5%, while for beef offal and tongues, New Zealand currently enjoys a 0% tariff. Australia's relative advantage over competitors, from a tariff perspective, may be diminished upon implementation of the Trans-Pacific Partnership (TPP). Under the TPP, the signatory countries would enjoy tariffs comparable to those Australia already has under the JAEPA.

For **grains**, tariffs will be eliminated upon commencement for sorghum and corn, while for wheat there will be no reduction. Competitors for wheat, cotton seed and corn currently have similar tariffs to Australia, while for sorghum there are two competitors (Argentina and India) which have nil tariffs.

For **horticulture**, tariffs will be eliminated once the FTA has reached its full effect. Phasing of these reductions vary from elimination upon commencement for macadamias and mangoes, 10 years for oranges (between a supply window of June to September) and 15 years for mandarins. The various tariff lines within frozen vegetables phase out differently but all within ten years. In terms of current tariffs of competitors, mango and macadamia both have competitors that have lower tariffs, namely Mexico, Thailand and Philippines for mangoes and Paraguay for macadamias.

For **seafood/aquaculture**, tariffs will be eliminated within 10 years for all the top five commodities with the exception of bigeye tuna. These tariff reductions will happen immediately for prawns, swordfish and fish liver, and over 10 years for yellowfin tuna. Australian prawns currently have a higher tariff than the top three competitors whereas, for other product lines, the tariffs are largely similar across the competitor field.

Tariff rates

Table 1.5: Japan tariff rates – Australia (base rate and under FTA) versus key competitors for each key export commodity

	Australia tariff rate				Top 3 competitors for each commodity by market share – current tariff rates		
	Base rate in FTA	Tariff rate from FTA (after 10 years)	Change in % points after 10 years	Tariff rate from FTA (full effect)	Competitor 1	Competitor 2	Competitor 3
Beef							
Beef – fresh	38.5%	26.4%	12.1%	24.0%	38.5%	38.5%	38.5%
Beef – frozen	38.5%	25.6%	12.9%	23.0%	38.5%	38.5%	38.5%
Beef offal – frozen	12.0%	12.0%	0.0%	12.0%	12.0%	0.0%	12.0%
Beef offal – fresh	12.0%	12.0%	0.0%	12.0%	12.0%	N/A	N/A
Beef tongue	12.8%	12.8%	0.0%	12.8%	0.0%	N/A	N/A
Grains							
Wheat	89.1%	89.1%	0.0%	89.1%	89.1%	89.1%	89.1%
Sorghum	1.5%	0.0%	1.5%	0.0%	0.0%	1.5%	0.0%
Cotton seed	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Corn-maize	16.7%	0.0%	16.7%	0.0%	16.7%	16.7%	16.7%
Horticulture							
Macadamia	5.0%	0.0%	5.0%	0.0%	2.5%	N/A	N/A
Mandarin	17.0%	6.4%	10.6%	0.0%	17.0%	17.0%	17.0%
Frozen vegetable	8.0%	0.0%	8.0%	0.0%	8.0%	8.0%	4.2%
Mango	3.0%	0.0%	3.0%	0.0%	0.0%	0.0%	0.0%
Orange	16.0%	1.5%	14.5%	0.0%	16.0%	16.0%	16.0%
Seafood/aquaculture							
Prawn	2.9%	0.0%	2.9%	0.0%	0.0%	0.0%	1.0%
Tuna – bigeye	3.5%	3.5%	0.0%	3.5%	3.5%	3.5%	3.5%
Swordfish	3.5%	0.0%	3.5%	0.0%	3.5%	3.5%	3.5%
Tuna – yellowfin	3.5%	0.0%	3.5%	0.0%	3.5%	3.5%	0.0%
Fish liver	6.4%	0.0%	6.4%	0.0%	6.4%	6.4%	5.9%
Other							
Sugar	39.2%	39.2%	0.0%	39.2%	39.2%	27.8%	39.2%
Cotton	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Wool	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Lamb	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Sources: 'International Trade Centre (ITC) 2015, Market Access Map – tariff comparison' is used for competitor rates; 'Japan-Australia Free Trade Agreement, Part 3 Schedule for Japan' is used to calculate tariff change in 10 years' time and tariff at full effect

Note: The current tariff rates represent Ad Valorem Equivalent (AVE) tariff according to ITC methodology for each commodity, therefore are an adjustment to account for numerous tariff lines.

Opportunity map

This 'opportunity map' brings together the analysis in the preceding chapters by combining the value of Queensland food and fibre exports, tariff changes represented in the Japan FTA, Queensland import market share, and consumption growth in Japan for specific commodities.

The sectors which are large, blue and are located towards the top right of the chart are those with the greatest opportunity for growth in the Japanese market. This is because they represent the strongest combination of:

- Being an established export market (ball size);
- Strong competitive advantage represented by market share (horizontal axis);
- Large tariff reductions from the FTA (vertical axis); and
- Strong consumption growth in the Japanese market (ball colour – where blue represents strong recent and expected continued growth, green represents moderate demand growth and grey represents static or declining demand growth).

The opportunity map shows **beef** frozen and fresh as being the largest opportunity for trade and investment growth, given its established market and Queensland's dominant market share. The tariff reductions applied to Australian beef will serve to strengthen this market further. While beef consumption has been declining over the past three years, imports are becoming more important to meet demand over domestic production.

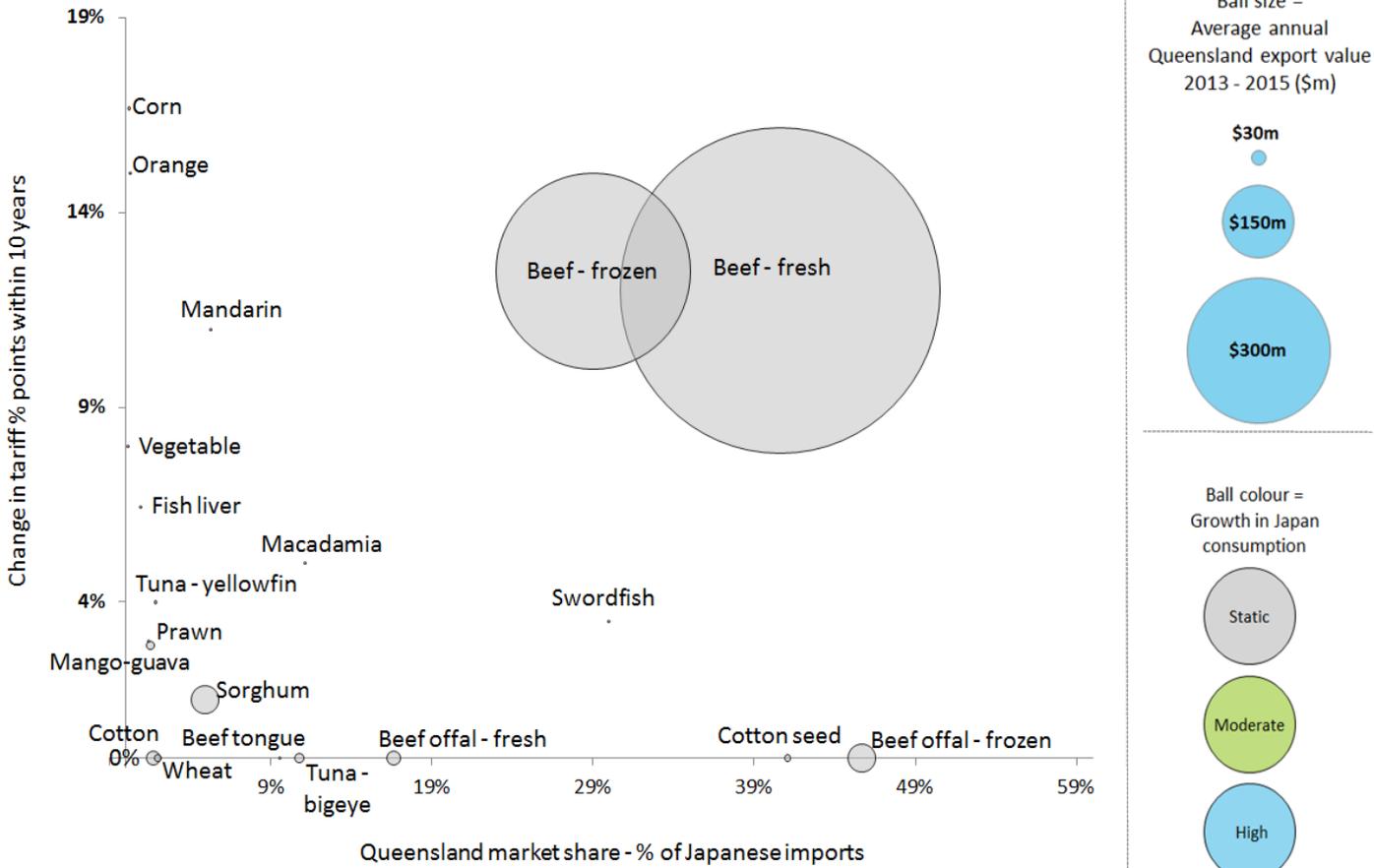
For **grains**, there appears to be limited opportunity arising from the FTA with the exception of sorghum and corn. Sorghum will experience a 3% tariff reduction for two of its tariff lines (and 0% reduction for others) and, given it is an established market, is a leading opportunity for grains. Corn however, is currently only a small export to Japan but has a higher tariff reduction.

For **horticultural products**, the five key exports for Queensland (macadamias, oranges, frozen vegetables, mandarins and mangoes/guavas) will all enjoy a tariff reduction. However, exports are not strong for horticultural products to Japan. In terms of specific commodities, oranges and mandarins have the largest tariff reductions under the FTA, however the orange tariff reduction applies to a four month supply window between 1 June and 30 September. Macadamia's tariff of 5% will be eliminated in year 1 of the FTA and, given Queensland market share of 10% (Australia market share is 62%), this perhaps represents the biggest opportunity for horticultural trade to the Japanese market. One implication of the strict supply windows for certain horticultural products into Japan is a heavy reliance on prompt harvest schedules (in Australia) and highly coordinated and timely transport routes through to Japan.

For **seafood/aquaculture** products, total demand has been relatively static in the five years to 2011. With the exception of yellowfin tuna, all seafood/aquaculture products will have some tariff reduction. Perhaps the biggest opportunity in this category is prawns and shrimps which will experience an immediate tariff reduction of 2.9% upon the commencement of the FTA and is Queensland's predominant export seafood/aquaculture commodity with an annual average export value of \$16.7m.

Opportunity map

Chart 1.11: Opportunity map of key Queensland export commodities to Japan



Non-tariff considerations

Through consultation, stakeholders did not identify any material non-tariff barriers in relation to trade opportunities with Japan at first, outside of horticulture, where strong phytosanitary requirements restrict trade. Indeed, the trade relationship has been described as “long-standing”, “well-established” and “loyal”, particularly for Australian beef products. A reflection of the relationship can also be seen in the level of investment in Australian-based agribusinesses by Japan-based companies. With the further benefits afforded by the JAEPA, and associated tariff reductions, it is understood that Japan-based companies are already considering significant additional investments in Australia’s agribusiness sector.

Implications

The analysis above suggests that the major opportunity for Queensland in terms of value is in increasing beef exports to Japan, given the relatively high tariff reductions and Japan's increasing reliance on imports. However, given beef is a well-established export market to Japan, Stage 2 should also focus on the comparatively smaller (but still significant) opportunities in other categories, such as high protein 'super foods' (including quinoa, amaranth and chia).

In terms of horticulture, while Japan's consumption is declining, its increasing reliance on imports coupled with large tariff reductions should present increased export opportunities. Therefore, priority should be given to horticultural products that have begun to export, namely mandarins, oranges, mangoes and macadamias.

In terms of seafood, prawns are worthy of further investigation given the tariff reductions for this product.

However, there may also be other opportunities for Queensland exports to Japan where exports do not currently occur. Identifying these opportunities would involve analysis to match Queensland's production capability, market access for each commodity, and more detailed consumption analysis for Japan down to the specific product level. This will occur in Stage 2.

Appendix

Schedule of tariff reductions

Table A.1 shows the proposed tariff reduction schedule over 20 years for key export commodities.

Table A.1: Japan – Schedule of tariff reductions

Commodity	Tariff rate (%)																					
	Base rate (%)	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9	Yr10	Yr11	Yr12	Yr13	Yr14	Yr15	Yr16	Yr17	Yr18	Yr19	Yr20	
Beef																						
Beef – fresh	39	33	32	31	30	29	29	28	28	27	26	26	25	25	24	24	24	24	24	24	24	24
Beef – frozen	39	31	29	28	27	27	27	26	26	26	26	25	25	24	23	22	21	20	20	20	20	20
Beef offal – frozen	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Beef offal – fresh	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Beef tongue	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13
Grains																						
Wheat	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89	89
Sorghum	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cotton seed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corn-maize	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Horticulture																						
Macadamia	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mandarin	17	16	15	14	13	12	11	10	9	7	6	5	4	3	2	1	0	0	0	0	0	0
Frozen vegetable ^A	6	5	4	3	2	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mango	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Orange	16	15	13	12	10	9	7	6	4	3	2	0	0	0	0	0	0	0	0	0	0	0
Seafood/aquaculture																						
Prawn	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tuna – bigeye ^B	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Swordfish	4	3	2	2	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tuna – yellowfin	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: 'Japan-Australia Free Trade Agreement, Part 3 Schedule for Japan' is used to calculate tariff reduction schedules

^A The rate presented here is for broccoli. Other frozen vegetables have base rates ranging from 6 to 10% and are typically phased out over 5-7 years

^B The FTA foreshadows that Bigeye Tuna's tariff rate will be re-negotiated in five years' time.

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