



Deloitte Access Economics

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

Overview

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# Scope

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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.

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This document presents an overview of the findings from Stage 1, focusing on Queensland's agricultural production and how the FTAs with China, Japan and South Korea may translate into opportunities for Queensland.

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# Queensland production

Table 1.1 shows the total value of Queensland production for 2011-2014. Cattle and calves is the largest sector, followed by broadacre crops.

**Table 1.1: Value of Queensland's total agricultural production**

Commodity	Value of production (\$m), current dollars		
	2011-12	2012-13	2013-14
Broadacre crops	3,060	2,979	2,715
Fruit and nuts	940	1,136	1,064
Vegetables for human consumption	920	1,041	970
Nurseries, cut flowers, cultivated turf	315	314	293
Hay and silage	88	114	119
<b>Total value of crops</b>	<b>5,323</b>	<b>5,584</b>	<b>5,160</b>
Cattle and calves	3,450	3,461	3,890
Poultry	430	461	494
Pigs	212	216	262
Sheep and lambs	59	39	61
Other	28	26	31
<b>Total value of livestock slaughtered</b>	<b>4,178</b>	<b>4,203</b>	<b>4,738</b>
Milk	260	245	231
Eggs	159	168	190
Wool	115	100	80
<b>Total value of livestock products</b>	<b>534</b>	<b>514</b>	<b>502</b>
Seafood/aquaculture	268	277	280
<b>Total value of agricultural production</b>	<b>10,303</b>	<b>10,577</b>	<b>10,679</b>

Source: ABS 7503.0 – Value of Agricultural Commodities Produced, Australia, 2011-12; ABS 7503.0 – Value of Agricultural Commodities Produced, Australia, 2012-13; ABS 7503.0 – Value of Agricultural Commodities Produced, Australia, 2013-14; ABARES Australian fisheries and aquaculture statistics 2014. Note: Totals may differ from the sum of individual items due to rounding.

Table 1.2 shows how Australia ranks in terms of market share, and highlights Queensland's contribution to Australian exports in each market. Queensland beef has a sizable existing share in each market.

**Table 1.2: Queensland's market share of foreign import markets**

	% of Chinese imports (total 2012 to 2014 by value)	% of Japanese imports (total 2012 to 2014 by value)	% of South Korea imports (total 2012 to 2014 by value)
<b>Beef</b>			
Australia	50% - ranks 1 <sup>st</sup>	49% - ranks 1 <sup>st</sup>	51% - ranks 1 <sup>st</sup>
Queensland	54% of Australian exports (27% market share)	68% of Australian exports (33% market share)	62% of Australian exports (32% market share)
<b>Grain</b>			
Australia	3% - ranks 6 <sup>th</sup>	8% - ranks 4 <sup>th</sup>	11% - ranks 4 <sup>th</sup>
Queensland	14% of Australian exports (0.4% market share)	10% of Australian exports (0.8% market share)	7% of Australian exports (0.8% market share)
<b>Horticulture</b>			
Australia	1% - ranks 10 <sup>th</sup>	2% - ranks 10 <sup>th</sup>	1% - ranks 10 <sup>th</sup>
Queensland	17% of Australian exports (1.7% market share)	12% of Australian exports (0.24% market share)	16% of Australian exports (0.02% market share)
<b>Seafood/aquaculture</b>			
Australia	0% - ranks 24 <sup>th</sup>	2% - ranks 13 <sup>th</sup>	0%
Queensland	10% of Australian exports (0% market share)	12% of Australian exports (0.24% market share)	8% of Australia's exports (0% market share)

Source: UN Comtrade Database 2015

# Summary of opportunities

By far, **beef and beef products** represent the largest opportunity for trade and investment growth across the three FTAs. This is supported by the high export value of Queensland beef in each market and the sizeable existing market share. This, coupled with healthy tariff reductions and strong consumption growth, means that beef presents a strategic growth opportunity.

For **grains**, there appears to be limited opportunities arising from each FTA. Sorghum, however, has experienced a boom in demand, predominantly from China, and its current 2% tariff will be eliminated upon the commencement of the China FTA. However, recent media reports suggest that Chinese demand has reduced substantially, in the short term at least, due to a large stockpile of Chinese corn (which is a substitute livestock feed) and the subsequent reduction in import permits. In addition, the USA is holding higher levels of both corn and sorghum than in recent years, which could be expected to keep downward pressure on export feed grain prices in the short term.

For **horticultural products**, a common story across the three FTAs is that most products will experience large tariff reductions or will experience an elimination of tariffs. However, Queensland (and Australia more broadly) is currently a small exporter of horticultural products to each of the three markets. The horticultural market in the three countries is also highly competitive with many players. Nevertheless, there are some isolated examples of growth opportunity for Queensland, namely macadamias (in all three countries) and mandarins (in China and Japan).

For **seafood/aquaculture products**, Queensland exports to all three countries are currently very low. Prawns present the largest opportunity in the seafood/aquaculture industry in China and Japan. Prawns will experience tariff elimination in each of the three markets.

# China

Australia is the market leader in terms of **beef** imports, with a market share of 50% (of which Queensland has 54% of this share). Beef will experience elimination of the 12% tariff over ten years (with the exception of beef offal which will be over eight years). In terms of the top three competitor tariff rates, only New Zealand, with a tariff of 1.3%, has a lower tariff than Australia.

**Grain** imports are dominated by the USA and Brazil, with a combined market share of 73%. Australia by comparison has a market share of 3% and is ranked sixth overall, with Queensland accounting for 14% of Australian exports. For grains, the 2% tariff on sorghum will be eliminated upon ChAFTA commencement and cotton seed tariffs will be phased out over five years. There are no tariff reductions for wheat. Competitor tariff rates for grains are currently similar to Australia.

For **horticulture**, there are many more market players, although the top five represent 81% of the import market value. Australia ranks tenth overall and Queensland represents 17% of Australian exports. Asian nations are dominant in supplying horticulture to China, suggesting that geographic proximity and lower cost of production are key elements for securing import volumes. All **horticulture** tariffs will be eliminated within 10 years with phase-outs ranging from immediate elimination for mung beans, five years for dried fruit, mangoes and macadamias and nine years for mandarins. A number of competitors already face no tariffs exporting these goods to China.

In the **seafood/aquaculture** market, Australia is an extremely small player, and Queensland represents only 10% of Australian exports. Stakeholder feedback suggests that Queensland's (and Australia's) relatively high cost of production, compared with South-East Asian nations, could limit the size of the opportunity available to the Queensland seafood and aquaculture industry. All seafood/aquaculture tariffs will be phased out completely over five years. Australia's base rate tariff is largely equivalent to its top three competitors with a handful of exceptions: Chile (0% tariff on frozen crabs), Indonesia (0% on fresh crabs) and New Zealand (0% on eels).

According to stakeholder interviews, a number of non-tariff barriers need to be considered when increasing Queensland's exports to China. These include:

- Phytosanitary requirements.
- Lack of acceptance of approved dis-infestation treatments (particularly for insect pests such as the fruit fly).
- Import protocols for mixed cargo consignments.
- A limited number of meat processing facilities in Australia have approval for the export of chilled beef products.
- Labelling requirements.

# Japan

Japan's population, and the size of its workforce, is expected to contract steadily until at least 2020. This will place fundamental constraints on future growth opportunities for Queensland agribusiness produce in Japan.<sup>1</sup>

Australia is clearly the market leader in terms of **beef**, with a market share of 49%, and over two thirds of this comes from Queensland. Queensland's main competitor in this market is the USA, which has a 40% market share. Fresh and frozen beef will experience tariff reductions of between 14 and 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 no tariff. Australia's relative tariff advantage may be diminished upon implementation of the Trans-Pacific Partnership (TPP) because signatory countries will enjoy tariffs comparable to those Australia has under JAEPA.

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 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 face no tariffs.

For **horticulture**, Australia is a small player with only 2% market share, ranking tenth among nations exporting horticultural products to Japan (with Queensland contributing only 12% of this). China and the USA are the two major players, with a combined market share of 58%. Horticulture tariffs will be eliminated once the JAEPA 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**, 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. Seafood/aquaculture tariffs will be eliminated within 10 years for the top five commodities that Queensland exports to Japan, 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.

Through consultation, stakeholders did not identify any material non-tariff barriers in relation to trade opportunities with Japan. Indeed, the trade relationship has been described as "long-standing", "well-established" and "loyal", particularly for Australian beef products.

<sup>1</sup>The Economist Intelligence Unit, 2016, Japan in Brief

# South Korea

Australia is clearly the market leader in terms of **beef**, with a market share of 51% (and Queensland has 62% of this share). Queensland's main competitors in this market are the USA with 41% market share and New Zealand with 7% market share. Tariff reductions applied to Australian beef will serve to strengthen this market further. Beef consumption is also relatively strong in South Korea compared to other commodities.

There are four key players for **grain**, of which Australia is one. The other three are USA, Brazil and China, with a combined market share of 70%. Australia has 11% market share and is ranked fourth overall. Queensland, however, is only a relatively small proportion (7%) of this. For grains, current tariffs are extremely high. Some tariff lines such as worked corn, malt and corn seed are being dramatically phased out over 10-18 years (depending on the tariff line). Malt and corn seed perhaps represent the largest opportunities for grains given there is a market presence for these commodities, as well as moderate demand growth.

For **horticulture**, there are two dominant market players, the USA and China, which together represent 70% of all horticultural imports. Australia is a minor player (ranking tenth overall) with Queensland representing only 16% of Australia's exports. For horticultural products, mung bean, macadamia, mango and frozen vegetables will all enjoy healthy tariff reductions. However, macadamia has the strongest combination of tariff reduction, demand growth and market share (although the actual value of exports in recent years is relatively low at around \$1m per annum).

For **seafood/aquaculture**, there are four main players making up 77% of imports. Australia is an extremely small player in this category and Queensland represents a small proportion (8%) of Australia's exports. With the exception of eels, there has been tariff reductions for all seafood/aquaculture products. However, without an active market presence for any of the commodities in this category, it would appear that seafood/aquaculture is not an immediate opportunity for significant Queensland trade.

# Areas of focus for Stage 2

The largest opportunity identified for trade and investment growth in all markets considered is **beef and beef products**. Beef markets in Japan and South Korea are well-established, beef exports to China are already occurring and growing and there are significant tariff reductions.

In all three markets there are opportunities for **horticultural products** that have seen export growth over recent years, namely macadamias, mandarins and mangoes.

In terms of seafood, prawns and crabs are worthy of further investigation given the tariff reductions for these two products. In terms of **seafood/aquaculture**, prawns and crabs are worthy of further investigation due to prawn (China, Japan) and crab (China) tariff reductions and sizeable demand.

In regard to **grain**, there is growth in sorghum consumption, however the tariff reductions are not substantial in China and Japan. South Korea has high tariffs on grains such as malt (269%), which will be phased out over 15 years. This may represent a potential long-term opportunity.

There may also be other opportunities for Queensland producers of goods that are not currently exported. 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.

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