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RESEARCH NOTE

TRADE LIBERALISATION: IMPROVING PROSPECTS FOR AUSTRALIAN AGRICULTURE INVESTING

Recent progress to liberalise trade improves the prospects for Australian agriculture in 2016 and beyond. Australian agriculture's competitiveness is set to increase as market access improves and government support for Australia's export competitors is wound back. We expect these factors to be capitalised into and improve the value of Australian agricultural land.

TRADE LIBERALISATION THROUGH FREE TRADE AGREEMENTS

Since the turn of the century the importance of multilateral trade negotiations has fallen. Countries have tried to circumvent their complexities by negotiating bilaterally with their major trading partners.

The Australian Government recently completed historic free trade agreements (FTAs) with three of its largest export markets; China, Japan and Korea. These agreements involve tariff reductions currently worth over $A6b annually. The FTA's make Australian agricultural and processed food exports more competitive.

Probably the most important FTA is the China-Australia Free Trade Agreement (ChAFTA). This was signed in June 2015 and came into force on 20 December 2015. Its significance lies in the recent growth of Australia's agricultural exports to China and the forecast growth in Chinese demand for food and fibre over the next 10-20 years. The Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) predicts China will account for over 40% of global growth in agricultural demand by 2050.

The agreement reduces tariffs on a wide range of Australian agricultural exports to China over the next 4–11 years, the most significant of which are summarised in the table below.

HIGHLIGHTS OF THE CHAFTA

CHAFTA AGREEMENT		A$ VALUE OF AUSTRALIAN EXPORTS TO CHINA PA	% OF AUSTRALIAN EXPORTS FOR EACH COMMODITY	FORECAST CHINESE IMPORT GROWTH TO 2050	ANTICIPATED RANGE OF INVESTMENT IN LAGUNA BAY FUND 1
Beef	Tariffs (currently 12%–25%) will be eliminated within 9 years.	$758m	9%	7.7% pa	Livestock 20% - 40%
Sheep Meat	Tariffs (12%–23%) will be eliminated within 8 years	$359m	9%	9.8% pa	
Dairy	Tariffs (currently 0%–20%) will be eliminated within 4 to 11 years	$295m	5%	3.1% pa	Dairy 10% - 20%

Wine	Tariffs (14%–20%) will be eliminated within 4 years	$269m	17%	Not Available	Permanent crops 20% - 40%
Horticulture	Tariffs on all fruit, vegetables and nuts (currently 0%–30%) will be eliminated within 4 years	$111m	5%	3.5% pa	

Source: Department of Foreign Affairs and Trade, ABARES

Until now the absence of a bilateral FTA with China has meant Australian producers and exporters have faced significant tariffs on most agricultural products, and have been at a competitive disadvantage to countries that have an FTA with China. The ChAFTA addresses this issue, and also gives Australia a significant advantage over other large exporters, such as the US, Canada and European countries.

ILLUSTRATION FOR THE BENEFIT OF TARIFF REMOVAL – AUSTRALIAN WINE EXPORTS TO CHINA

Australian wine competes for significant market share with other exporting countries in many markets around the world, including the European and Chinese markets.

When tariffs for individual countries entering the European market were reduced to zero by FTAs import volumes for those countries rose dramatically. Chilean wine exports to Europe grew 15% in 2009 when tariffs on their products were eliminated while South African exports increased 23% in 2012[1].

The Chinese wine import market has doubled since 2010 and China is expected to overtake the US as the world's largest consumer of wine in 2016. It is already Australia's third largest export market for wine. Yet Australian wine producers had been left behind by major competitors who signed FTAs with China years ago. China's wine imports from Chile, for example, have increased almost eleven-fold since its FTA with China came into force in 2006.

With the ChAFTA there will be a phased tariff reduction on wine imports from Australia until it is eliminated on 1 January 2019. Tariffs on bottled wine will fall from 14% to zero and tariffs on bulk wine will fall from 20% to zero.

Being able to compete on the same terms as others is a significant opportunity given Australia has an outstanding product that is highly desired by global consumers. We expect Australian wine producers will start seeing results almost straight away and that the experience of Chilean and South African exporters to Europe sets a fitting precedent.

THE WTO AGREEMENT – NAIROBI PACKAGE

In December 2015 at the tenth WTO Ministerial Conference at Nairobi, Kenya, all 163 member countries agreed to progressively ban the use of export subsidies worth $A15b annually. This is the first major agricultural agreement since the WTO was formed in 1995 following the Uruguay Round of trade talks.

1. Impact of Tariffs on Australian Wine in the European Union, Australian Grape and Wine Authority, February 2015

Developed countries have agreed to immediately eliminate export subsidies on most commodities, while those on sensitive products such as processed foods, dairy and meat products must be eliminated by 2020. Developing countries have been given concessions to wind back subsidies over a longer period, some up to 2030.

During periods of high agricultural prices export subsidies have limited impact on world prices. However the Nairobi decision is significant not least that it emphasises the level of sovereign risk inherent in some countries while Australian agriculture has virtually no government support.

Furthermore even small changes to market support programs can have significant impacts on supply decisions by producers and ultimately on land values. For example, OECD modelling shows that a reduction of US Government market price support of 1% of the gross value of production can reduce land rentals by 4.3% leading to an 11.7% reduction in land values over 3 years, (OECD 2008).

CONCLUSION

Prospective investors into Australian agriculture are ideally positioned to benefit as the environment shifts to one of greater trade liberalisation and reduced government intervention. The elimination over time, of subsidies and tariffs on agricultural products, will boost Australia's already strong position in this global industry, increasing its competitiveness and thereby the profitability of its stakeholders.

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