Food and Agribusiness services – Trade opportunities in Australia's North Asian FTAs

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Summary

1. What do FTAs do?

2. Do FTAs matter?

3. Opportunities for business – FTAs with Korea (KAFTA), Japan (JAEPA) and China (ChAFTA)

4. Securing opportunities – how to benefit

1.What FTAs do

More than just tariffs

- 'New' FTAs regulate services and investment
  - cover a broad range of economic activity

- They can do more than open markets:
  - Improve the business operating environment
  - Serve as a catalyst for market reforms in other countries

  Benefits vary. They depend on what is agreed.

Regulation of services and investment

Legal commitments for regulation

✔ Address/remove regulatory controls in foreign (and home) markets

✔ Deal with regulations governments control

✔ Create opportunities to trade and invest

✕ Address tariffs/quotas etc

✕ Address private market action

✕ Tell companies how to export or invest successfully

✕ Grant 'free' trade

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Food manufacturing services in FTAs

- Food manufacturing involves both goods and services
  - Food manufacturers make, move and sell goods

- 'Food manufacturing services' include:
  - Distribution trade, commission agents services, wholesale trade, retailing, franchising, packaging, advertising, other services incidental to manufacturing
  - Broader definition extends to hospitality – hotels, restaurants, catering, convenience stores etc

2. Why FTAs matter

Food and agribusiness is an important Australian industry

- Significant exporter and importer (Exports $40b in 2015)

- Major employer (522k in 2015)

- Contributor to broader economic activity ($53.9b industry value added, 3.3% GDP)

Dependent on access to reliable supply chains and distribution channels

Open services matter

- Services need to be the next driver of growth in Asian Pacific developing economies

- Share of GDP generated by services:
  - **In developing economies 40% - 60%**
  - In developed economies 70% - 80%

- Barriers are relatively high, especially in developing countries
  - Very few commitments to liberalize services in China and Japan's previous FTAs

Investment is a key driver of global growth

- Global FDI flows grew 25% in 2015
- World Trade flows grew 2.8% in 2015

Businesses are establishing operations in foreign markets rather than exporting

North Asia is important

Commercial opportunities for Australian business

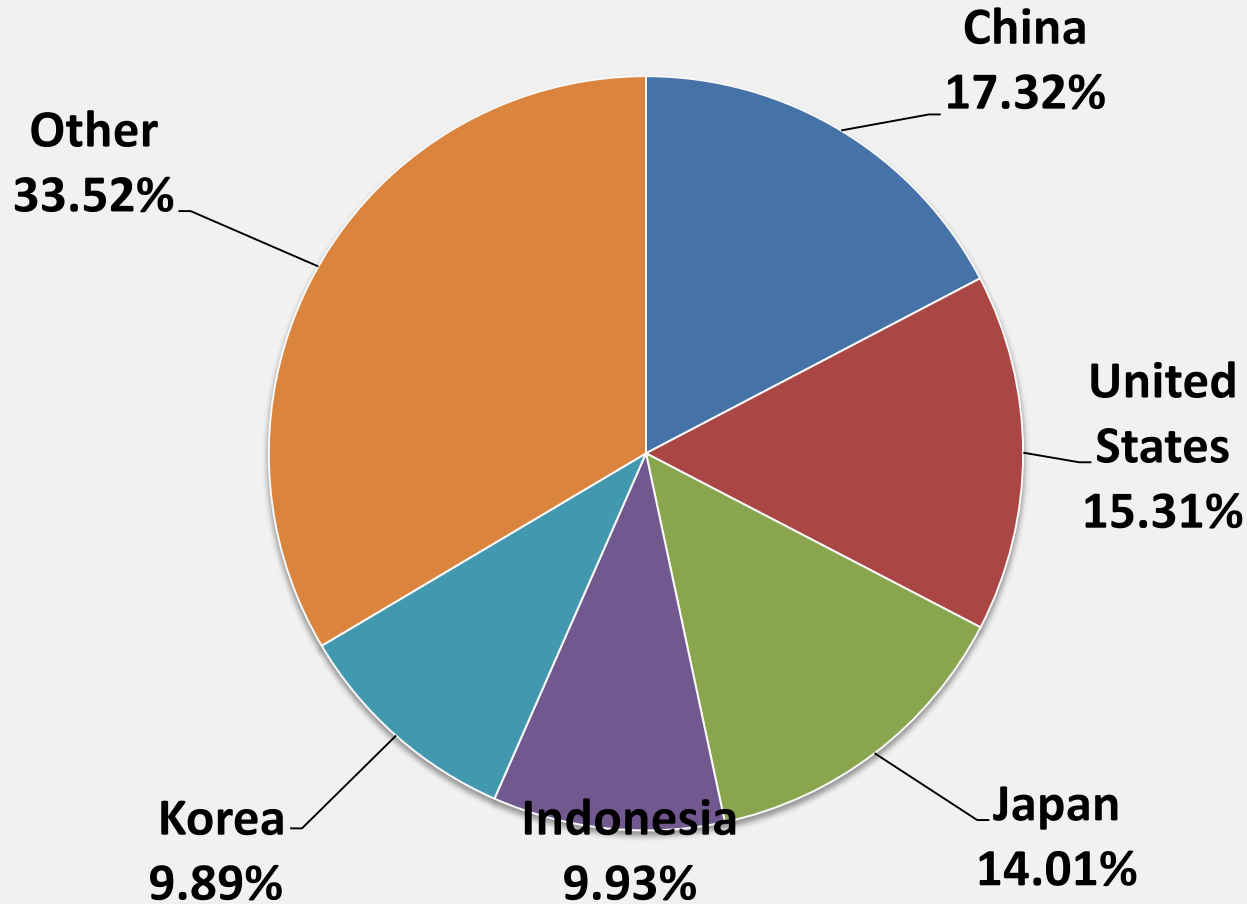• Asia to account for 60% global food demand by 2050, China 43%

• China, Japan and Korea are major food export destinations

|	
China	▪ Largest food export market ($5.2b 15/16) ▪ Australian product advantages (clean, green, trusted ▪ Online market food and bev growing (Austrade estimate 5-10% sold online)
Japan	▪ Second largest food export market ($4.2b 15/16) ▪ Largest export market for processed foods
Korea	▪ Australia supplier to local food manufacturing ▪ Online sales becoming more popular ▪ 5th largest export market ($2.96 15/16)

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Top Australian food and bev export markets 2015/16

(Source: ABARES, ABS)

China 17.32%

United States 15.31%

Japan 14.01%

Indonesia 9.93%

Korea 9.89%

Other 33.52%

Investment from North Asia is growing

Stock of Chinese, Japanese and Korean investment in Australia 2005 – 2015 (Source: ABS)
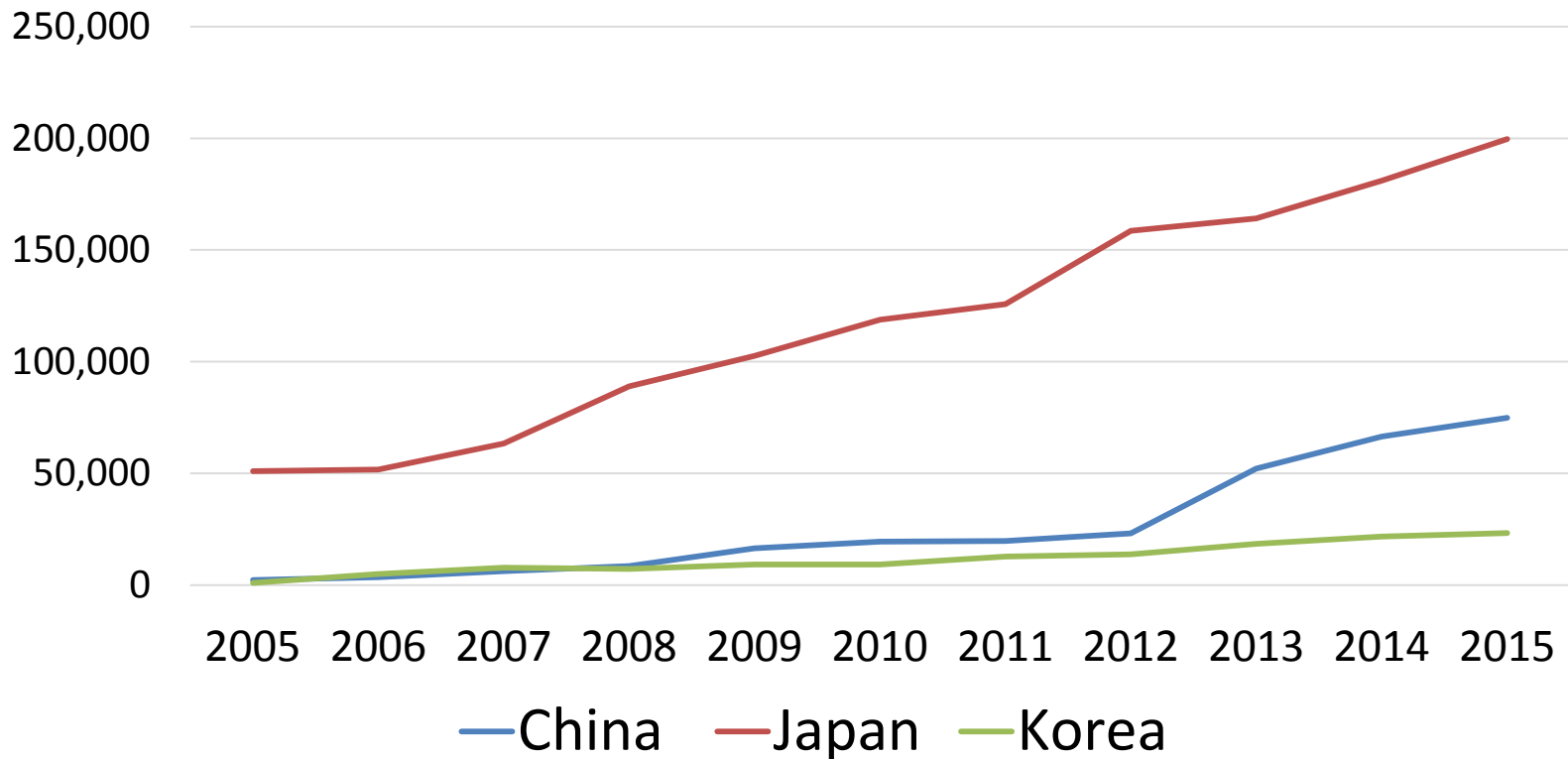
Policy agendas create growth opportunities

- China, Japan, Korea all understand their economies need reform
  - TPP and bilateral FTAs, particularly with US have provided justification for domestic reforms
  - China has triggered review of an APEC wide FTA

- Building appreciation of importance of services a long term program driven by Australia in APEC

3. Opportunities for business – FTAs with Korea, Japan and China

4 things FTAs can do:

1. Provide commercial opportunities	➢ Make it easier to access or invest in foreign markets (market access)
2. Improve the business operating environment	➢ Make it easier to operate in foreign markets ('beyond the border')
3. Expand investment	➢ Enhance security of investments and IP in FTA markets, encourage investment in Australia
4. Promote economic reform	➢ Support more open and competitive services in the region ('standard setting')

i. Deliver commercial opportunities

New rights to deliver more services from Australia

➢ Eg: Right to supply some services to Korea without establishing a commercial presence

➢ Eg: Commitments to make online services delivery to China more secure

• Provide packaging services to Korea (cross border basis)

• No imposition of customs duties on electronic transmissions

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Rights to establish and operate abroad more freely

➢ Eg: New rights to establish and provide some retail and wholesale services	Removal of economic needs tests for establishing large stores for private wholesale trade in Korea, some exceptions

WTO commitments for a range of services guaranteed

➢ Eg: General rights of equal treatment to domestic providers in all 3 agreements	Includes wholesale trade services, advertising, packaging, distribution, franchising

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iii. Improve the business operating environment

Support transparency in regulation/decision making

➢ Eg: Provisions for publication of laws, regulations, notification of changes in laws, in China	Similar rights accorded for Korea, Japan FTAs

Ease movement of people and skills across borders

➢ Eg: Temporary entry commitments for personnel ➢ Access for lower skilled workers in ChAFTA (457 visas)	Includes contractual service suppliers, dependents and spouses in all agreements

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Ease impediments to doing business

➢ Licensing and registration	Eg: Provisions to ensure reasonable and objective administration of licensing and authorisation procedures in China
➢ Freedom of data transfer	Eg: Guaranteed freedom of transfers and payments for transactions related to trade in services, all agreements
➢ Ecommerce	Eg: ChAFTA accords online consumer protections in a manner equivalent to consumer protections in other forms of commerce

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iv. Expand investments in FTA markets

Grant enforceable legal protections

➢ Australian investments in Korea and Japan receive certain protections (eg: from expropriation)

➢ China will treat *existing* Aus investments equally to domestic investments

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Enhance protection of intellectual property rights

- ➢ Eg: ChAFTA:

  - ➢ China agreed to make IP databases publicly available on the internet

  - ➢ Fwk to consider IP rights and issues of interest to private stakeholders at request of a party

v. Encourage foreign investment in Australia

➤ *Direct investments in Australia from North Asia will become more attractive*

– FIRB screening threshold raised from $252 million to $1,094 billion (non sensitive sectors)

– Equivalent to treatment

given to other FTA partners

Asian investments in Australia are increasingly strategic

➢ Strategic regional investment by Chinese firms
  ➢ Pattern of acquisition by Chinese food companies - secure supplies of foodstuffs to the Chinese market

  ➢ Notable in dairy, beef and horticulture sectors, increasingly in processed food

  ➢ Eg: Bright Food

光明 光明食品（集团）有限公司
BRIGHT FOOD (GROUP) CO., LTD.

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vi. Serve as vehicles for economic reform

Set standards for more open services markets through binding legal standards

> ➢ Longer term benefits from more open services markets in the region

> ➢ Important in time of increased protectionism and uncertainty in global trade

Securing opportunities – how to benefit?

How to benefit?

➢ 'Benefits' of FTAs are difficult to measure and quantify

- gains are dynamic, economy wide

➢ They will be realised over time

- Factor in to investment decisions

What can FTAs do?

➢ Support continued liberalisation	Eg: receive benefits of subsequent liberalisation by Korea and Japan (MFN)
➢ Build on liberalisation commitments	Eg: ChAFTA work program to advance investment and services commitments (March 2017)
➢ Facilitate dialogue on specific barriers	Eg: Review non tariff measures under ChAFTA on a case by case basis in TBT Committee

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Over to business….

➢ Governments negotiate FTAs, but business trades and invests

➢ Realisation of FTA opportunities require more than legal commitments:

- – Sound business strategy
- – Good understanding of the market
- – Supportive policy environment

Thank you

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