

more give, less take



Economic Report

Trans-Pacific Partnership – highlights for agriculture

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agribusiness

Key points

- The Trans Pacific Partnership delivers tariff reductions and improved market access for Australian agricultural products. With TPP countries representing a third of Australian agricultural exports, these benefits are potentially significant. However, as a multilateral agreement, the TPP will likewise reduce tariffs and improve market access for other agricultural exporters within the TPP region. In certain circumstances this could see Australia's competitive position left steady or even eroded by the agreement, although lower tariff rates overall remain advantageous.
- The full details of the TPP are yet to be released, and hence a comprehensive assessment of the costs and benefits to Australia is not currently possible. At this stage, there is little clarity around any concessions made.

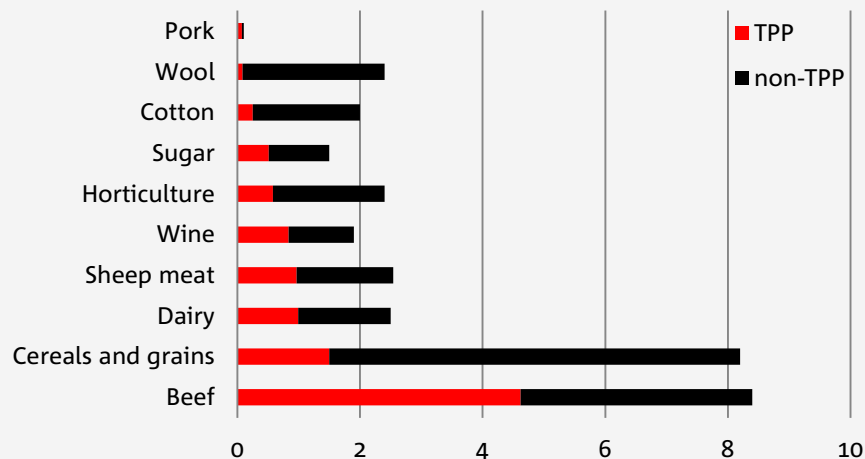
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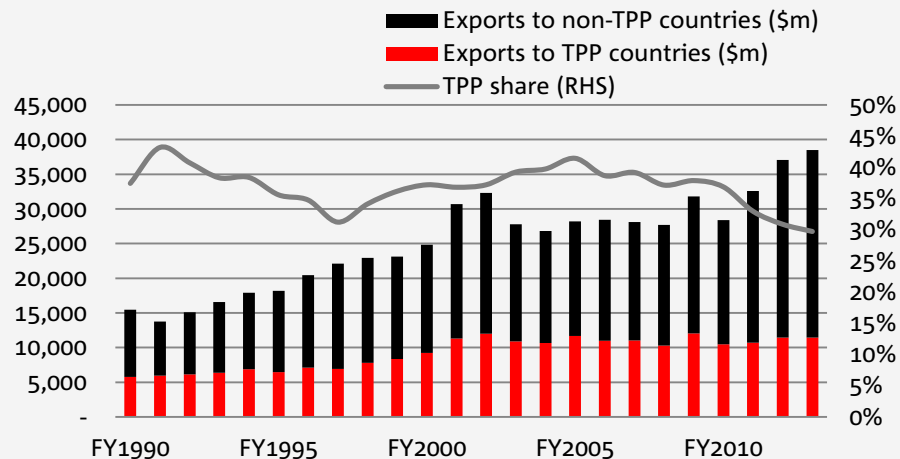
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Figure 1: Australian agricultural exports,(AUD billions, 2014)



Source: DFAT and NAB Group Economics

Figure 2: Agricultural exports and TPP share over time (AUD millions)



Source: DFAT and NAB Group Economics

Protein

Beef

Beef is Australia’s biggest agricultural export, valued at \$8.4 in 2014. Over half of Australian beef exports by value are destined for TPP countries, with the US in particular, as well as Japan and Korea being key markets. Japan – the second biggest destination for Australian beef – will cut tariffs for beef to 9% over 15 years and eliminate most offal and all processed meat tariffs within 15 years. However, it is important to note that this tariff reduction will remove the competitive advantage Australian beef was to enjoy as a result of the recently negotiated Japan-Australia Economic Partnership Agreement (JAEPA). JAEPA cut Japanese tariffs on Australian chilled and frozen beef, but the TPP will see lower tariffs for all agreement nations, improving the relative position of the US and Canada into the Japanese market. Indicative tariff schedules are shown in *figures 3* and *4*, assuming a straight line reduction in Japanese tariffs.

Elsewhere, Canada and Peru will eliminate all beef tariffs within 10 years, and Mexico will remove tariffs on beef carcasses and cuts within 10 years and ‘other offal’ upon the TPP entering force. The US will also remove price based safeguards for Australian beef.

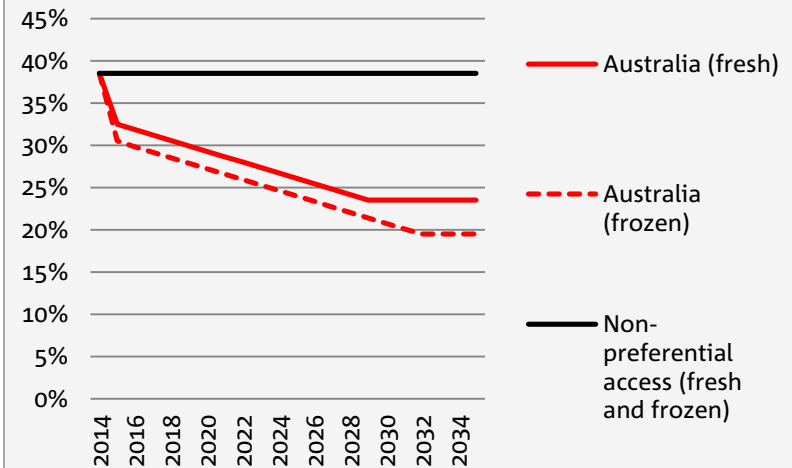
Lamb and mutton

Australian sheep meat exports were valued at just under \$1 billion in 2014, of which 38% was destined for TPP countries. All TPP countries except Mexico will eliminate tariffs on Australian sheep meat as soon as the agreement enters force. Mexico will remove tariffs within 8 years.

Pork

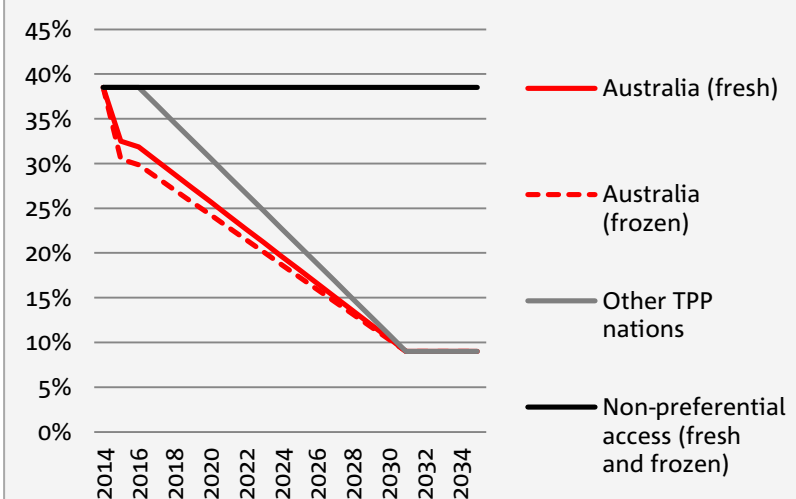
Australia is not a major pork exporter, although 70 % of Australia’s pork exports went to TPP countries last year. The agreement will reduce Japanese pork tariffs and eliminate Malaysian and Mexican tariffs. As Australia is a net importer of pig meat, it is not clear that Australia will stand to gain significantly from the agreement.

Figure 3: Japanese beefs tariffs – pre-TPP agreement



Source: DFAT and ANB Group Economics

Figure 4: Japanese beef tariffs – post-TPP agreement



Source: DFAT and ANB Group Economics

Grains, cereals and sugar

Australian grain and cereal exports were valued at \$8.2 billion in 2014, however less than a fifth of this amount was destined for TPP countries.

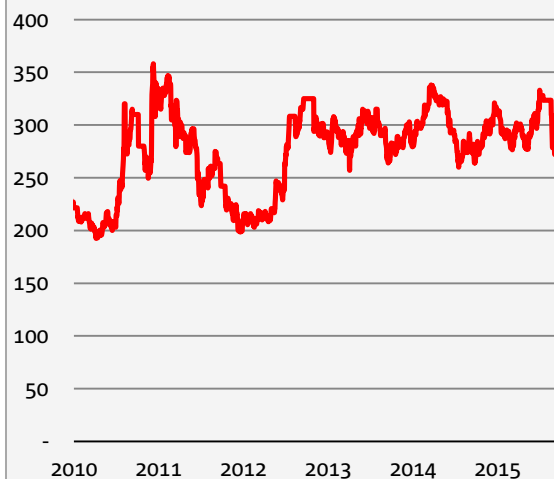
Wheat, barley and rice

The TPP provides tariff reductions and improved market access, particularly for Japan. Japanese wheat and barley mark ups will be reduced by 45% within 10 years, while new quota volumes will be created (size not yet known). Mexico will remove tariffs on wheat within 10 years and barley within 5 years. Peru will eliminate tariffs within 5 years and Canada as soon as the agreement enters force, although Canada is already a major grains exporter. Japan will also create a new 6,000 tonne quota for Australian rice, growing to 8,400 tonnes after 12 years.

Sugar

Around one third of Australia's sugar exports (\$510 million of \$1.5 billion) were destined for TPP countries in 2014. The agreement will grant and additional 65,000 tonnes to Australia's US quota upfront, as well as 23% of future additional WTO quota allocations. DTAT suggests that this could allow exports to the US to exceed 400,000 tonnes by 2019-20. Japan will remove its tariff and lower its high polarity sugar levy, Canada will remove tariffs on refined sugar, Mexico will give Australia 7% of any tariff rate quota and Vietnam will remove in-quota tariffs. While positive, these developments fell short of some industry participants' expectations.

Figure 5: Generic 1st Australian milling wheat (AUD/tonne)



Source: Bloomberg

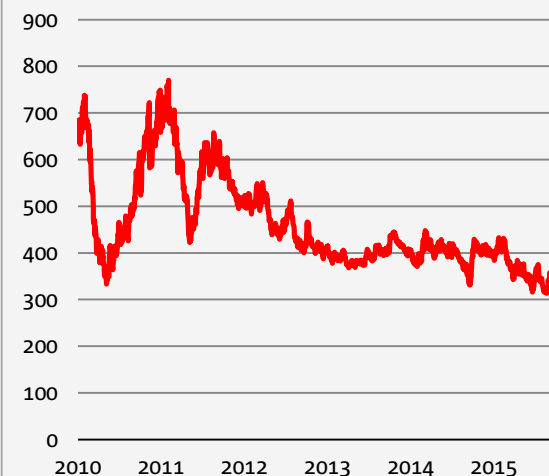


Photo: Mai Thai



Photo: John Coppi, CSIRO

Figure 6: ICE no.11 sugar (AUD/tonne)



Source: Bloomberg

Dairy

Almost 40% of Australia's \$2.5 billion dairy export industry was destined for TPP countries in 2014. Japan, one of Australia's most important dairy export markets, will lower tariffs and introduce new quotas for certain dairy products. There will also be changes to tariffs and quotas in the United States, Canada and Mexico, although the scope of these changes is not likely to be large given significant opposition from the Canadian dairy industry in particular.

Figure 7: Whole milk production (million tonnes per annum)

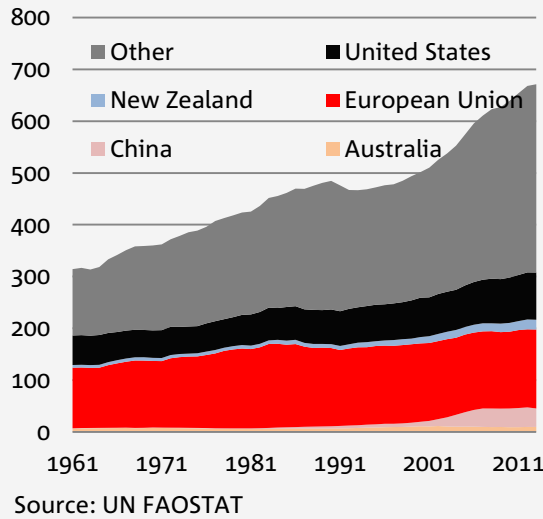


Figure 8: Major dairy exporters by value (million USD) 2013

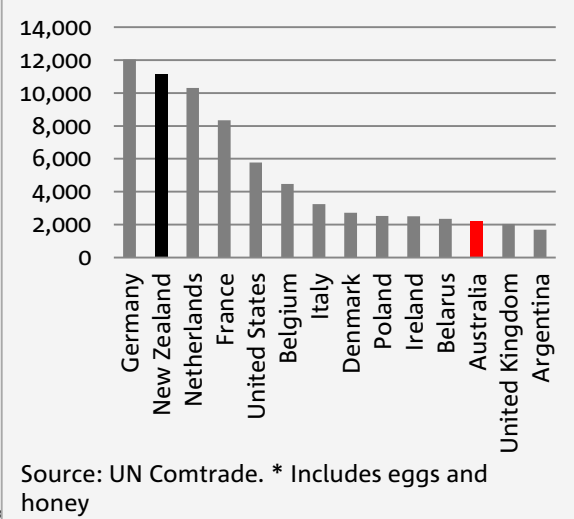
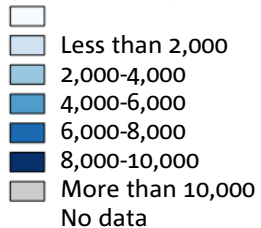
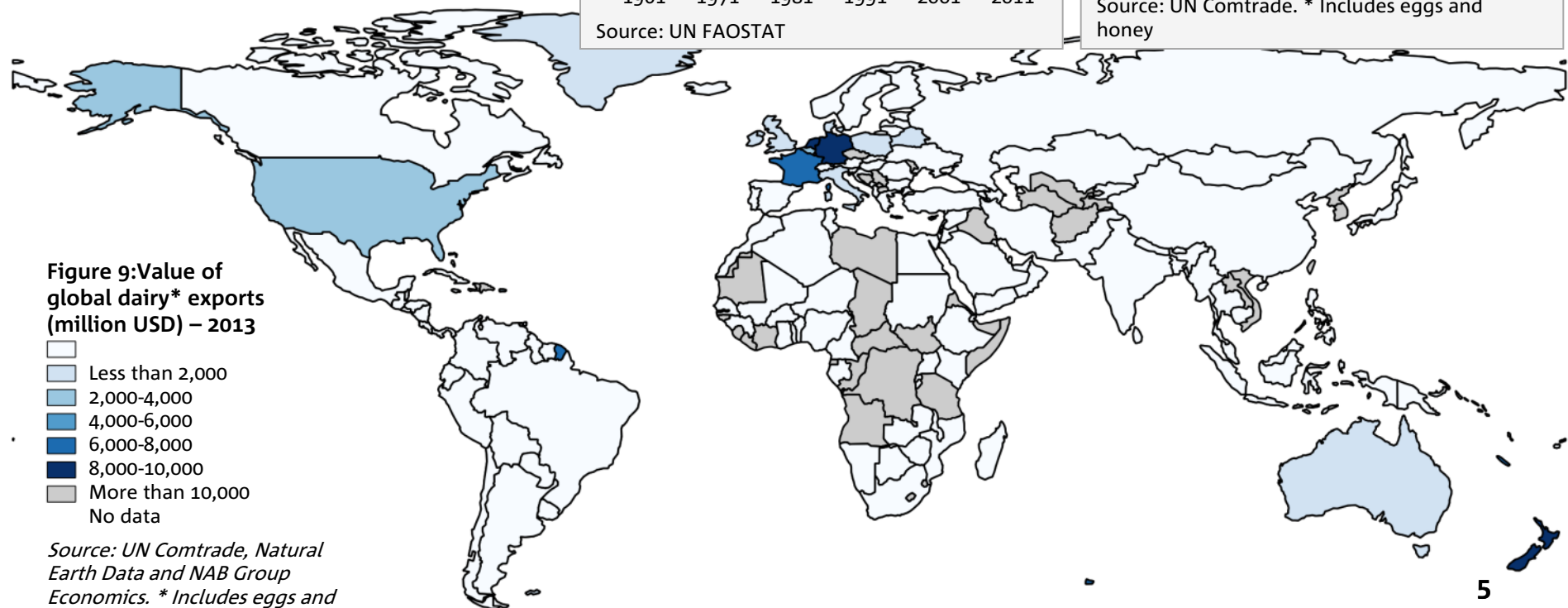


Figure 9: Value of global dairy* exports (million USD) – 2013



Source: UN Comtrade, Natural Earth Data and NAB Group Economics. * Includes eggs and honey.



Fibres

Wool

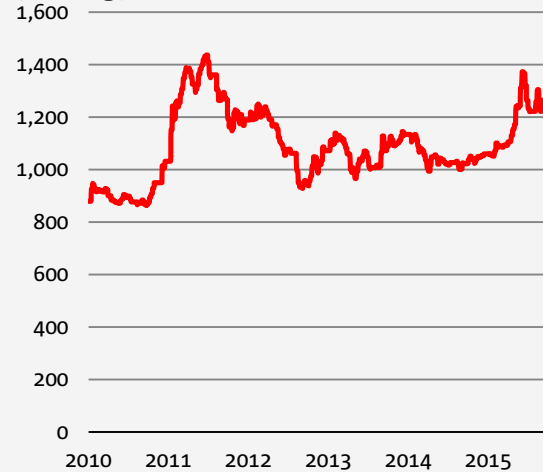
Australia exported \$2.4 billion worth of wool in 2014, although the majority of this was destined for China. TPP countries only accounted for 3.4% of Australian wool exports last year. Nevertheless, the TPP will remove tariffs on Australian wool upfront. Wool textile products produced within the TPP zone will also enjoy preferential treatment within the zone.

Over the long term, combined with increasing Chinese labour costs, this may see increased textiles manufacturing in the TPP region. However, it is not clear that this will materially improve the prospects for Australian wool exporters, given the structural changes in the industry.

Cotton

Like wool, TPP countries are not a major focus of Australian cotton exports (12% of a total of \$2 billion in 2014), reflecting the dominance of the Chinese textiles industry. The agreement does see most countries eliminating tariffs upfront, although US tariffs will follow the previously signed Australia-US Free Trade Agreement, in which tariffs will be removed by 2023.

Figure 10: Wool - Eastern Market Indicator (AUc/kg)



Source: Bloomberg

Figure 11: Cotlook A cotton (AUD/tonne)



Source: Bloomberg



Photo: CSIRO

Wine and horticulture

A quarter of Australia's \$2.4 billion horticulture export industry was destined for TPP countries in 2014. The TPP will see lower Japanese tariffs for Australian oranges within 6-7 years (depending on season) and remove Japanese fruit juice tariffs within 10 years. All Canadian and most Peruvian and Mexican horticultural tariffs will be removed as soon as the TPP enters force.

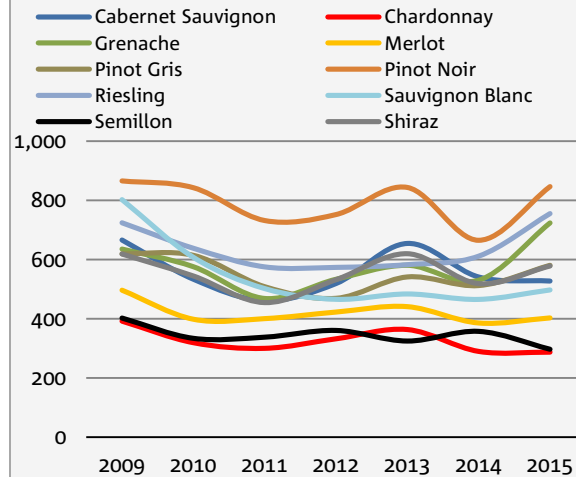
45% of Australia's wine exports (of a total of \$1.9 billion) were destined for TPP countries in 2014. The TPP will improve Australian market access in Malaysian, Vietnamese, Peruvian and Canadian wine market, but other wine producers, such as the US, will also see improved access.

Seafood

Vietnamese, Peruvian and Canadian seafood tariffs will be removed upfront, and those in Japan and Mexico will be eliminated over 15 years.

However, Australia is now a net importer of seafood, and it is not clear what improvements other TPP nations will have to the Australian seafood market.

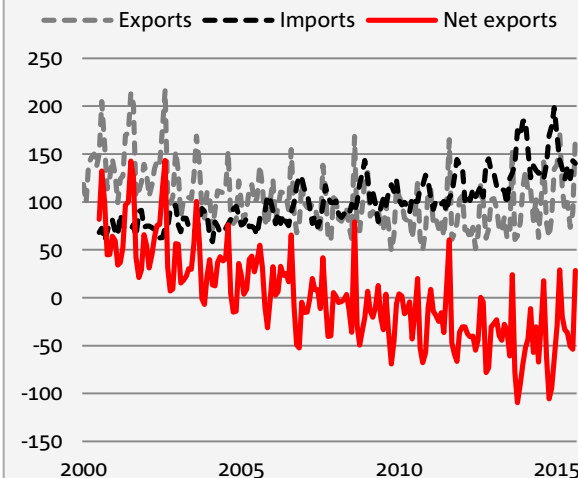
Figure 12: Volume weighted wine grape prices by variety (AUD/tonne)



Source: Wine Australia, NAB Group Economics



Figure 13: Net seafood exports – Australia (AUD millions monthly)



Source: ABS, NAB Group Economics

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