

# **AUSTRALIA FOOD SUPPLY/FOOD SECURITY SEMINAR 2 OCTOBER 2007**

## **Australia's Commitment to Japan's Food Security Minister Mr Allan McKinnon**

Ladies and Gentlemen, it is a great pleasure to have the opportunity to talk to you today about Australia's role in guaranteeing your food security.

I would like to echo the Ambassador's comments and thank both Consumers Japan, and you, the audience, for your time today. Australia appreciates your interest in seeking further information, from all available sources, on the Australia-Japan FTA.

Every time a Japanese family buys a basket of different foods at the supermarket it is almost certain to include Australian products. And when a group of friends eats at a restaurant they are very likely to eat at least some Australian product.

Food is certainly a key part of the economic and strategic relationship between our two countries.

Today I would like to talk about how a Free Trade Agreement between Australia and Japan might affect Japan's food supply and, in particular, how it might affect Japan's consumers.

### **The Australia-Japan food trade relationship**

Let me start by saying that Japan already imports quite a lot of food.

Indeed, Japan's food self-sufficiency rate has now dipped below 40 per cent for the first time in over a decade. Even this level of food self-sufficiency is dependent on imports of fuel, fertiliser and other inputs. Japan's policy in relation to food security policy involves securing a stable food supply through three means: enhancing domestic production, imports and stockpiles.

Australia has a key role to play as it is a source of food imports for Japan.

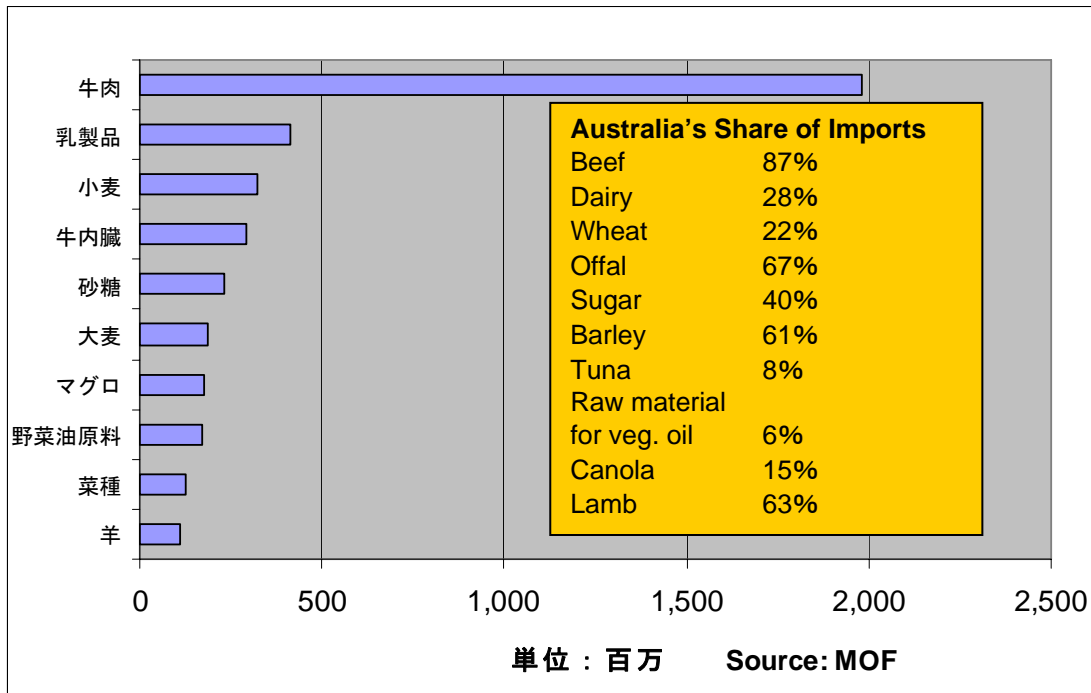
In 2006 Australia supplied 10 per cent of Japan's total food imports, up from 8 per cent a decade ago.

As can be seen on my slide, Japan's other major source countries for food imports were the US, China, Thailand and Canada.

Japan's major imported food items are corn, soy beans, wheat, beef, pork, chicken, fresh and frozen vegetables, fresh and dried fruit, prawns and tuna.

In total, Japan's agricultural imports in 2006 were worth ¥5 trillion.

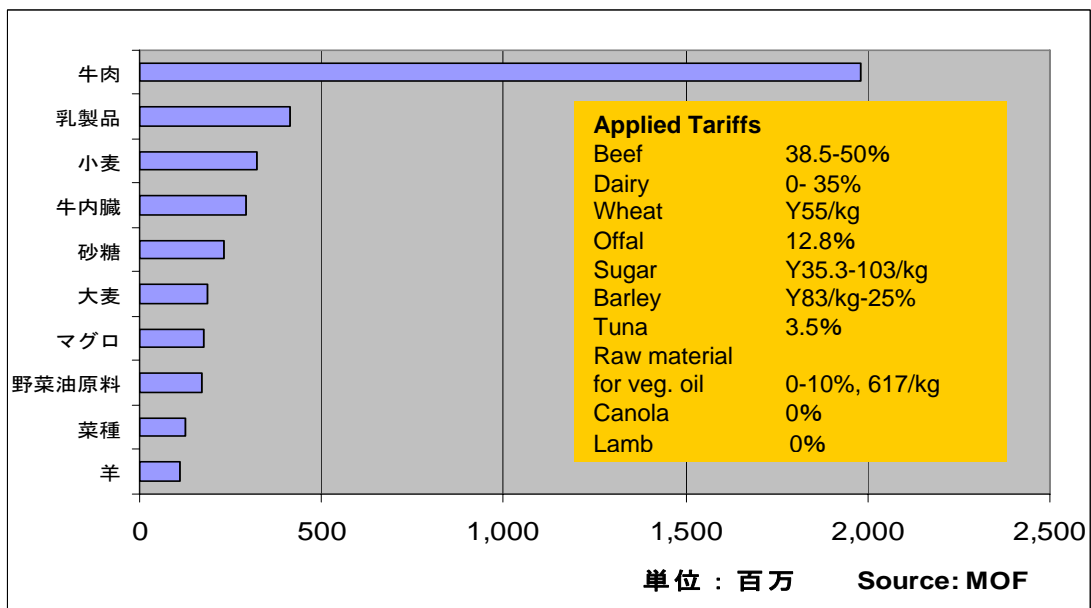
Australia's principle food supplies to Japan are beef, dairy products, wheat, offal, sugar, barley, tuna, other raw materials for vegetable oil, canola and lamb. As you can see Australia provides various per centages of Japan's total imports for each of these items.



When you look at the figures, beef stands out. This reflects the fact that Australia is a very reliable supplier with an outstanding record on food safety. For example, Australia has never had an occurrence of BSE.

### Tariffs – a tax paid by consumers

I would now like to briefly return to some of the statistics on Australia's principle food exports to Japan. In particular, I would now like to show you the tariff costs on these products. Of course, tariffs are just another name for taxes; and taxes - as you know - are costs ultimately borne by the Japanese consumer.



Again taking beef as one example, you can see a preferential tariff rate of 38.5 percent, and a snap back rate of 50 per cent, is added to the cost of these products upon import to Japan.

These taxes of course reflect Japan's policy of providing protection to the agricultural industry through restricting supply and raising food costs for consumers.

You may be aware that the OECD reports on these figures. That is, the extent to which internal prices in Japan exceed world market prices when expressed at the farm gate equivalent level. From the following table from 2005 – which should be seen as a guide - you can see that Japanese consumers paid 1.1 times world prices for poultry, 2.7 times for beef and 5.3 times world prices for rice.

	1990	1995	2000	2004
beef	1.3	1.5	1.4	1.4
pig meat	1.4	2.5	1.9	1.6
poultry	1.1	1.1	1.1	1.1
milk	4.2	4.0	3.4	2.7
rice	4.4	6.0	7.3	5.3 (ie Japan pays 5.3 times average world prices for rice)
sugar	2.6	2.5	2.1	2.6
wheat	4.3	2.6	4.2	3.5
all agriculture	1.8	2.1	2.0	2.0

The high cost of food obviously impacts on consumers. Statistics for families in Japan with the lowest income, those earning 1.3 million yen per annum, spend close to 29 per cent of their income on food, while those earning an average of 30 million yen per annum still spend almost 22 per cent of their income on food.

In drawing your attention to these statistics, I wish to emphasise that Australia appreciates that Japan needs a strong and competitive agricultural industry, but a high tariff policy has failed to achieve this outcome despite the costs to Japan's consumers

### **A committed food security partner**

Over a long period, Australia has demonstrated its commitment to the food trade relationship with Japan. Over the past 15 years Australia has supplied 17 million tonnes of wheat, nine million tonnes of sugar, about five million tonnes of beef and one million tonnes of cheese to Japan without notable interruption.

Some people ask whether it is wise for Japan to rely on another country for so much food. They point to Australia's droughts, for example, and ask whether supplies can be guaranteed.

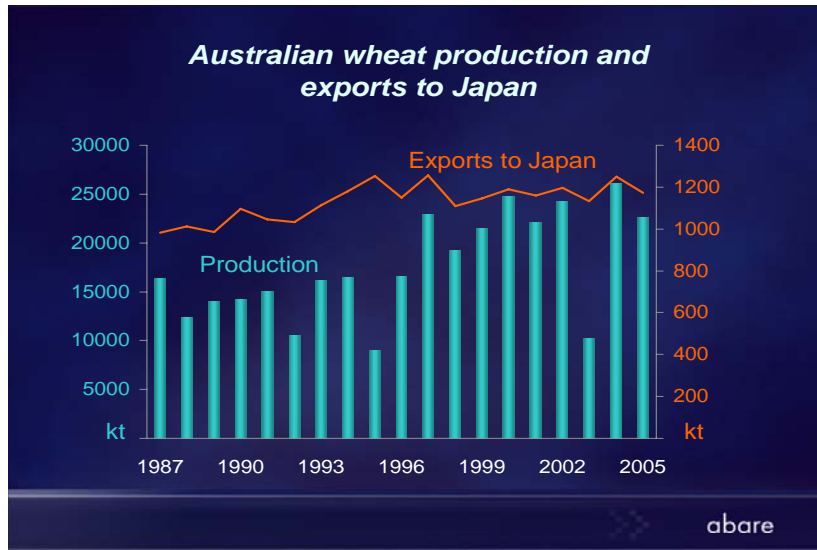
It is true that from time to time, regions in Australia may suffer from poor production results due to temporary environmental constraints and natural disasters. However, Australia is a huge country – the distance from Sydney to Perth is almost the same as the distance from Tokyo to Bangkok - and the vast distances and geographical diversification mean that even though some regions may face difficulties, other regions remain unaffected, and we can always meet our export commitments.

Australia's wheat exports to Japan are a good example which demonstrates this point about reliability:

Australia exports a special blend of wheat to the Japanese market known as ASW (Australian Standard White). This type of wheat has been developed in close consultation with the Japanese flour milling industry and is used in the production of udon noodles.

Australia consistently supplies between 1 to 1.5 million tonnes of wheat to the Japanese market each year.

Despite serious droughts in Australia over the past decade, we have never failed to meet Japan's import requirements. You will note that total wheat production in Australia has fluctuated from around 9 million tonnes to 25 million tonnes. Throughout however, our exports to Japan have been steady.



This commitment by Australia's farmers to the Japanese market is very real. It continues to this day and is very relevant when there is talk in Japan about issues such as security of supply.

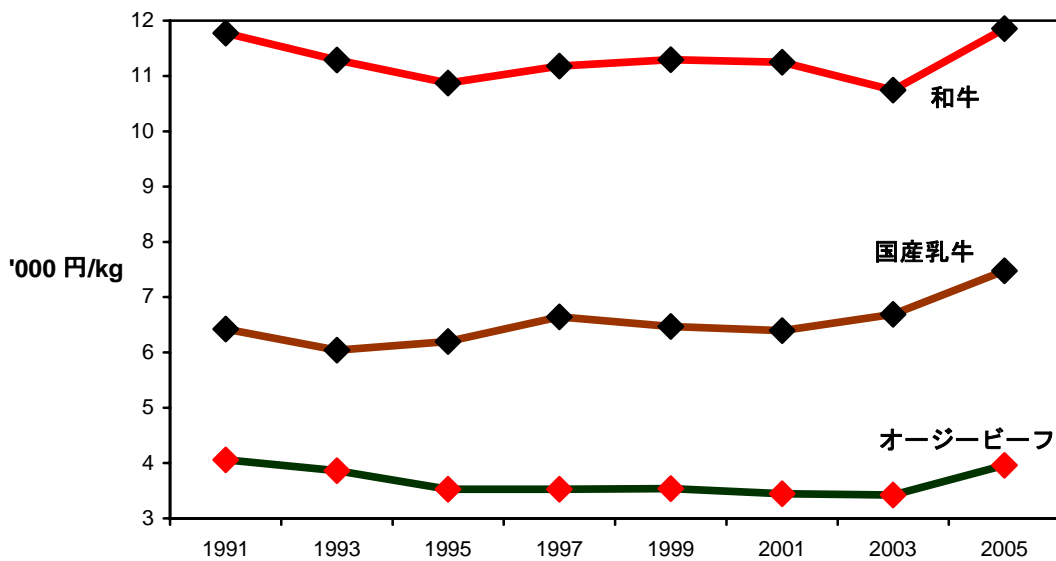
### **Other important reasons Australia is an ideal food security partner for Japan**

One important reason that Australia is an ideal food security partner for Japan is that, for many products, Australian and Japanese agriculture production is complementary and not in competition. One of the reasons for this is that Australia is in the Southern hemisphere so our production seasons for many products are different.

Counter-seasonal production periods give Japan the opportunity to source good quality, safe and competitively priced product from Australia during low seasonal production periods in Japan. This is particularly relevant to the horticulture sector where Australia has the ability to provide high quality fruit and vegetables to Japan during the off season in Japan.

Another reason why our products are often complementary is that Japanese produce is very high quality and is aimed at the high-end of the market. Australian goods are produced in larger-scale operations and are primarily aimed at competing with other exporters to Japan.

Again, beef is a good example. In 1991 Japan replaced its beef quotas with a 70 per cent tariff, which was gradually reduced to the current bound level of 50 per cent, and is applied on an exceptional basis at 38.5 per cent. But, although protection has declined, the Japanese industry has not been displaced by cheap imports. Japanese consumers continue to purchase wagyu, and as my slide indicates, have been willing to pay a premium for the domestically-produced product. Australian beef exports to Japan have increased. Primarily this is to service the more price competitive area of the market, where Australian beef competes directly with other imported beef from the United States and Canada.



## Trade and investment

I would now like to introduce an important topic related to the food trade relationship between Australia and Japan. That is investment, in particular Japanese investment in the Australian agri-food industry. In total, Japan is the third largest foreign investor in Australia. The Australian economy has benefited from Japanese investment.

Existing Japanese investment in the agri-food industry includes meat and livestock, grains and some horticultural and food processing industries.

Some examples of Japan's agri-food related investment in Australia include

- Nippon Meat Packers Australia Pty Ltd, owned by Nippon Meat Packers, Inc, (Nippon Ham), owns three abattoirs in Australia that together process around 166,000 tonnes of cattle (carcass weight), mainly for export to Japan.
- Rockdale Beef, a joint venture between Itoham Foods Co. Ltd and Mitsubishi Corp, is an integrated feedlot, feed mill and abattoir on 2000 hectares in the Riverina region of New South Wales, processing up to 170,000 head of cattle per year for export to Japan and other markets.
- Hakubaku Australia Pty Ltd, majority owned by Hakubaku Co. Japan, has a factory that produces dried noodles at a factory in Ballarat, Victoria, mostly for export to Japan.
- Tasmania Feedlot Pty Ltd, owned by Aeon Co Ltd, turns off up to 20,000 head of cattle per year for export to Japan at its feedlot in Powranna, Tasmania.
- Sun Masamune Pty Ltd, owned by Konishi Brewing Co Ltd, produces sake at its brewery in Penrith, New South Wales, 80 per cent of which it exports to Japan.
- Kirin Australia Pty Ltd, wholly owned by Kirin Brewery Co, produces 40,000 tonnes of malt each year at its factory in suburban Perth, Western Australia. Most of this is exported to Japan.

The role that Japanese investment in Australia's agriculture industries plays is particularly important when you consider that in some industries, Japanese-owned facilities account for a significant proportion of Australia's exports.

For example, the Nippon Meat Packers, Rockdale and Tasmania Feedlot investments alone produce around 210,000 tonnes of beef per annum – equivalent to just over half of Australia's annual exports to Japan.

### **Implications of an Australia-Japan FTA for Japan's consumers and Japan's food security**

Turning to the question of the food security implications of an Australia-Japan FTA, I would like to continue by saying that an Australia-Japan FTA would help Japan realise its food security goals by assisting Japan to secure stable supplies of food imports.

Increased competition would stimulate a more efficient Japanese agricultural industry, including by further deepening the very good commercial relationships that already exist between Australian and Japanese food buyers and sellers.

And there are also specific food trade-related measures that Japan might want included in a comprehensive bilateral FTA. For example, Japan might press for Australia to prohibit the imposition of export taxes or other restrictive measures on Australia's food exports. This would provide even further reassurance to Japan that significant interruptions to supply, such as occurred with the US ban on soy beans in the 1970s, could not occur in its trade with Australia.

### **What do the critics say...**

You may be aware that some people believe that an FTA will destroy Japanese agriculture.

Some have put forward the view that an FTA with Australia would destroy Japan's agricultural sector. This is nonsense for several reasons. Australia's agricultural production is actually much smaller than Japan's. Australia's agricultural output during 2005-06 was ¥3.7 trillion, approximately 43 per cent of Japanese output, which stood at ¥8.5 trillion in 2005.

Looking at it another way, Japan's agricultural imports from Australia were valued at around ¥478 billion in 2006, equivalent in value to only 5.6 per cent of Japan's domestic agricultural production that year.

Agriculture constitutes only 1.1% of Japan's GDP and only 3.5% of Australia's GDP.

The line of thinking that an FTA will destroy Japanese agriculture is wrong because it assumes complete substitutability between domestic and foreign goods. Japan's experience with beef showed that this did not occur. That is, liberalisation did not result in consumers swapping entirely from Japanese produced goods to imported goods.

In fact, the Australia and Japanese governments have conducted economic analysis of the likely impacts of an FTA. It was found that even if all barriers in Japan against Australia were dropped tomorrow, Australian agricultural exports would only increase by 5 per cent (the equivalent of less than 0.3 per cent of Japanese production).

The reason for the limit on Australia's exports is that liberalisation would lead to important productivity gains which would curtail Japan's imports and possibly even lead to a reduction in total imports.

I wish to state again, the reality is that Australia simply does not have the capacity to cause the damage to Japanese agriculture that some people claim. Nor do we have the desire, given the importance of Japan as a customer and strategic partner.

### **More detail on the economic modelling**

Joint research by Australian and Japanese Governments shows an EPA between Australia and Japan would increase Japan's economic growth by up to ¥650 billion per year, or 0.13 per cent of GDP.

This is greater than for any of Japan's other bilateral FTAs – those already signed or under negotiation.

This same research found that the impacts of an FTA on Japanese agriculture would be relatively minor.

Interestingly the research also showed an EPA between Australia and Japan would increase Japan's total exports by between 18 and 24 per cent, with some very impressive gains in agriculture, admittedly though of a low base.

And as I have just mentioned, an FTA would also stimulate Japan's own ongoing economic reform efforts, including in the agricultural sector.

But what about the most important of the Japanese crops – rice?

Late last year the agriculture committee of the Diet tasked MAFF to calculate the potential impact on Japanese agricultural producers of tariff removal for certain Japanese agricultural products. MAFF produced calculations for beef, sugar, dairy, barley and wheat. Australia has requested information on these calculations but despite this we have not been provided with any details.

Interestingly MAFF produced no calculation for rice. Rice is Japan's largest crop accounting for around 37 per cent of all production. Just slightly less than the combined total production of all vegetables (including melons).

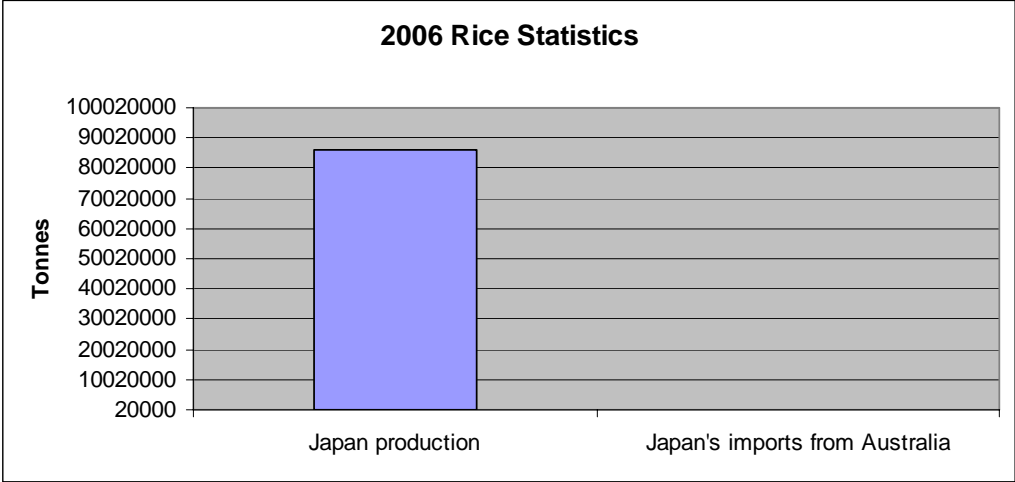
And rice is the most important crop in terms of employment as well. More than 1.4 million of Japan's 1.8 million farmers are rice farmers.

And of course, when commentators say that Japanese agriculture cannot be reformed because of its historical and cultural importance and even because of its role in flood mitigation and the environment, they are talking about rice.

So rice is important and policy makers would want to consider the potential impact of an FTA on the rice sector.

The only reason MAFF didn't make an estimate of the potential impact of an FTA on the rice sector is that there is no impact. Let me explain why.

In 2006 Japan produced 8.6 million tonnes of rice. Japan's imports of rice from Australia were only 20000 tonnes. As can see from this chart the difference is so great that Australia's imports simply do not even register.



To Australia, it is clear that despite the exaggerated claims, agriculture should not be a showstopper. Australia acknowledges that agriculture is sensitive in Japan but Australia and Japan are good friends and should be prepared to have a frank discussion to explore the business deal of an FTA.

The joint modeling certainly shows that these difficulties are not as great as many believe.

It is most realistic to look at the impact of an FTA over a longer time frame, which would take account of the need for implementation.

The negotiated outcomes in an EPA could allow ample time for Japanese agriculture to adjust even to small impacts.

Australia has shown flexibility in responding to concerns of the agriculture sectors of those countries with whom we have already concluded FTAs.

We have agreed to mechanism such as transitional periods for tariff reductions in the case of the most sensitive.

An FTA would lead to export increases for both Australia and Japan. This is of course the purpose of the FTA, in promoting further trade.

Japan's production was forecast to be only 0.6 per cent less *over a 20 year period* than it would be in the absence of an FTA. This level of change is very small relative to the downward pressure on Japan's agricultural production caused by domestic factors, including the current rate of decrease in participation from the Japanese agricultural sector, which has averaged 1.5 per cent *per annum* since 2000.

As I have already mentioned, an FTA would not undermine Japan's self-sufficiency levels since Australian and Japanese farmers often do not compete in the same markets or at the same price-points.

## **An FTA could help Japan to maintain or even improve its level of self-sufficiency.**

Our joint modelling demonstrated that Japan's agricultural exports would increase significantly as a result of an FTA.

Joint research showed that productivity improvements would give Japanese agriculture exports a boost, albeit from a small base.

Grains exports would rise by 192 per cent, dairy by 107 per cent, livestock and meat by 20 per cent and processed food by 8 per cent.

The increase in agricultural exports would be driven by productivity gains stemming from more contact with international markets and increased market opportunities for the high quality produce for which Japan is famous, such as wagyu, rice, fruit, processed food and other emerging products including fresh milk.

This will assist Japan's efforts to promote its own exports to Japan's premium export markets including Shanghai, Hong Kong, New York or London. It could help Japan to reposition its agriculture industry as a more "offensive" rather than "defensive" industry.

Australian and international experience with structural reform shows that an industry that has restructured and taken on a more "offensive" outlook will actually do better than a protected industry with an inward focus.

## **Conclusion**

Ladies and Gentlemen, in concluding my talk today, I wish to reiterate some of my key points.

The Australia-Japan bilateral relationship is in excellent shape. It is a relationship based on shared values – we are both liberal democracies – and common strategic interests. We both respect human rights and promote multilateral "rules-based" approaches to solving international problems.

Our national interests are closely aligned. We are both advanced market economies which depend on open and stable markets for our exports and national prosperity. Australia believes there should be parity between our trade and economic relationship, and the other aspects of our strategic partnership.

Australia is an ideal food security partner for Japan. Over many years Australia has demonstrated that it is a reliable partner for Japan and that Australian food is high quality and safe. For many products, Australian and Japanese agricultural production is complementary - not in competition. And for rice, Australia simply does have the production to affect the Japanese market.

Australia and Japan have much to gain from a bilateral FTA, across the full spectrum of both our economies.

The FTA negotiations with Australia are a significant opportunity for Japan to make improvements for Japanese consumers. Not only through lower prices but also through further ensuring security of food supply by closer integration with the sources of supply in Australia. An FTA would lead to a more competitive and strengthened domestic production

capacity in Japan. And an FTA could also improve Japan's food security through improving investment links and therefore greater integration of our agri-food industries and increased linking of supply chains.

I acknowledge that the issues I have raised today touch on elements of what is an important public debate in Japan on food safety and food security. Ultimately, I think the key message today is that, we are two friendly countries with a warm, close and highly beneficial relationship. The FTA negotiations are about exploring ways to improve our bilateral relationship. If these negotiations are to succeed, there must be benefits for both Australia and Japan – because it is only on this basis that our governments will agree to conclude and implement a new bilateral trade framework.

It is my firm belief that together we can further strengthen our mutually beneficial economic partnership. I look forward to your questions at the panel session.