

**The Office of Horticultural Market Access
(OHMA)**

**Submission to the
Agricultural Competitiveness Green Paper**

Issue 8: Enhancing Agriculture Exports

December 2014

Executive Summary

- Horticulture is Australia's third largest agriculture industry, with a gross value of production of \$8.7 billion in 2011-12 and around 60,000 people employed in horticulture production.
- A number of horticulture industries already have a strong export capability and many more are committed to developing exports. A strong export culture is seen as an important part of long term industry viability and competitiveness.
- Horticulture exports are increasing. Total exports in the year to February 2014 were valued at \$1.44 billion. This represented a 60% increase in the value of horticulture exports just two years ago.
- The majority of current horticulture exports are destined for Asia, with eight of the top twelve export markets being in Asia. In other regions, New Zealand, United States, Germany and United Arab Emirates are important export destinations.
- Import demand for horticulture products is expected to grow strongly in coming years. A recent ABARES study found that the fruit and vegetable category is predicted to show the strongest demand growth, outstripping all other agriculture products.
- To maximise the potential of Australian horticulture exports in the future a number of key challenges will need to be overcome. The priorities should be:
 - 1 Securing workable phytosanitary protocols: Lack of phytosanitary access distorts current trade (only 35% of fresh fruit and vegetable exports go to protocol markets) and will restrict future growth. A coordinated effort is needed to get protocols in place to take advantage of predicted demand growth in the future.
 - 2 Finalising Free Trade Agreements: China and India should be the next priorities after recent good outcomes with South Korea and Japan.
 - 3 Managing Fruit Fly Issues: to maintain the integrity of pest free areas and secure recognition of those areas by importing countries, as well as develop acceptable disinfestation treatments.
 - 4 Improving export performance: to have a system of domestic production and certification that wins the confidence of importing authorities in order to avoid rejections at the border and limit the need for pre-shipment inspections by importing authorities.
 - 5 Improving coordination and collaboration: taking a "Team Australia" approach involving state and federal governments and industry groups to maximise the impact of government and industry activities to open new markets and take full advantage of existing open markets.

Introduction

The Submission is made by the Office of Horticultural Market Access (OHMA) on behalf of the horticulture industries it represents. OHMA is an industry-based committee which has been established to help maximise export market access opportunities for horticulture industries.

The core function of OHMA is to provide coordinated industry advice and support to the official access negotiation process. The OHMA Committee, comprised of 10 industry-nominated, skills-based representatives, meets at least three times per year to assess industry access applications and monitor progress on market access negotiations across the board. The Department of Agriculture and the Department of Foreign Affairs and Trade are key partners of OHMA and attend Committee meetings as Observers.

OHMA also plays a role in developing industry-industry cooperation and commercial linkages that can support the official access process. For example, OHMA has been the main industry body that has developed the relationship with the China Entry-Exit Inspection and Quarantine Association (CIQA). CIQA is an affiliate of the China General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and acts as an important link between industry and government in Chinese bureaucracy.

Given the ambit of OHMA is export trade issues, this submission will focus only on that part of the Agricultural Competitiveness Issues Paper that deals with Enhancing Agricultural Exports.

Background

Horticulture is Australia's third largest agriculture industry, with a gross value of production of \$8.7 billion in 2011-12¹. Around 60,000 people are employed in horticulture production, and a further 6,200 in fruit and vegetable processing². Horticulture industries therefore make a significant contribution to the Australian economy.

The main product groups had the following gross value of production in 2011-12: fruit and nuts \$4,090 million; vegetables \$3,338 million and nursery, flower and turf production \$1,271 million.

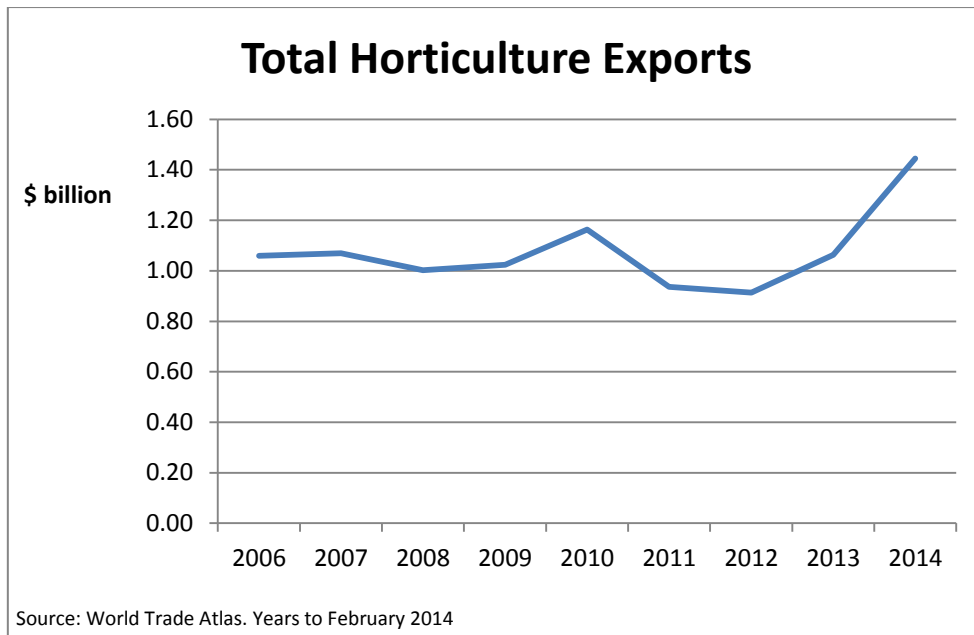
A number of horticulture industries have already developed a strong export capability and many more are committed to further developing exports. A strong export culture is seen as an important part of long term industry viability and competitiveness.

Horticulture exports are increasing. Total exports in the year to February 2014 were valued at \$1.44 billion³. This represented a 60% increase in the value of horticulture exports just two years ago. The growth has been driven by large increases in exports of nuts and table grapes and strong export growth across a number of other commodities including citrus, summerfruit and cherries.

¹ Horticulture Factsheet 2012, Department of Agriculture

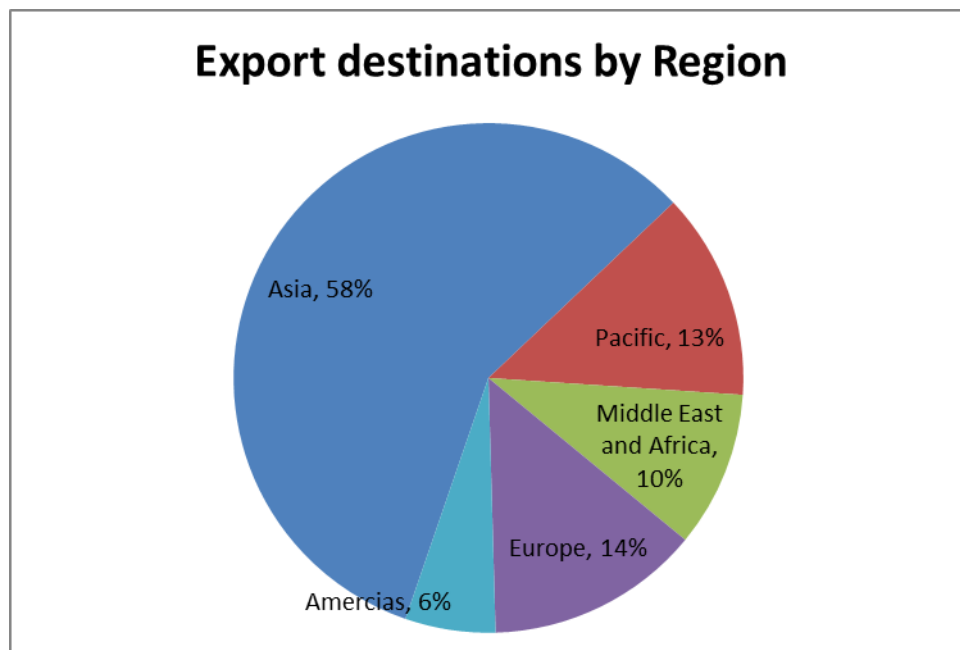
² Horticulture Factsheet 2012, Department of Agriculture

³ Source: World Trade Atlas. Horticulture is defined as all products in HS Chapters 06, 07, 08 and 20, excluding products in HS 0713.



Fresh fruit accounts for around 40% of total exports, nuts are 29%, fresh vegetables 16%, processed products 16% and nursery/cut flowers are 1%.

The majority of current horticulture exports are destined for Asia, with eight of the top twelve export markets being in Asia. In other regions, New Zealand, United States, Germany and United Arab Emirates are important export destinations.

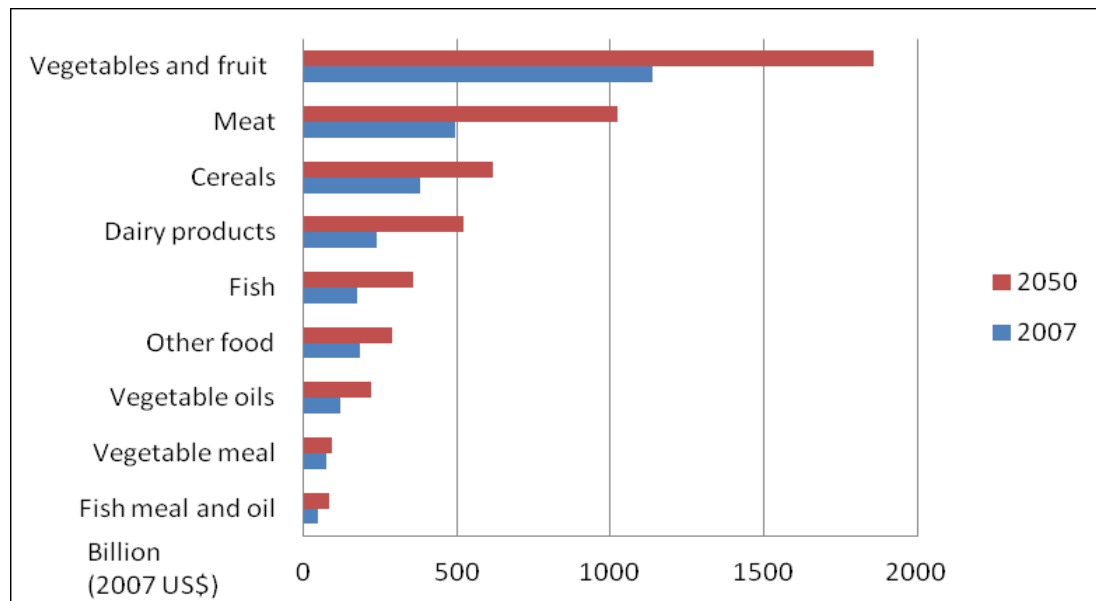


Top 12 Export markets		
	Average Annual Exports 2011-13 (\$million)	Main products
Hong Kong	137.1	Table grapes, citrus, summerfruit, cherries
Japan	121.7	Macadamias, citrus, asparagus
New Zealand	120.4	Almonds, table grapes, processed fruit.
United Arab Emirates	72.2	Carrots, almonds, summerfruit.
India	70.9	Almonds
Singapore	69.1	Carrots, Table Grapes, citrus.
Indonesia	52.6	Table grapes, Potatoes, mandarins
United States	51.0	Almonds, Macadamias, oranges
China	46.2	Macadamias, citrus, table grapes, walnuts
Malaysia	43.5	Citrus, table grapes, carrots
Thailand	37.7	Table grapes, potatoes, almonds
Germany	35.0	Almonds, onions

Enhancing Horticulture Exports

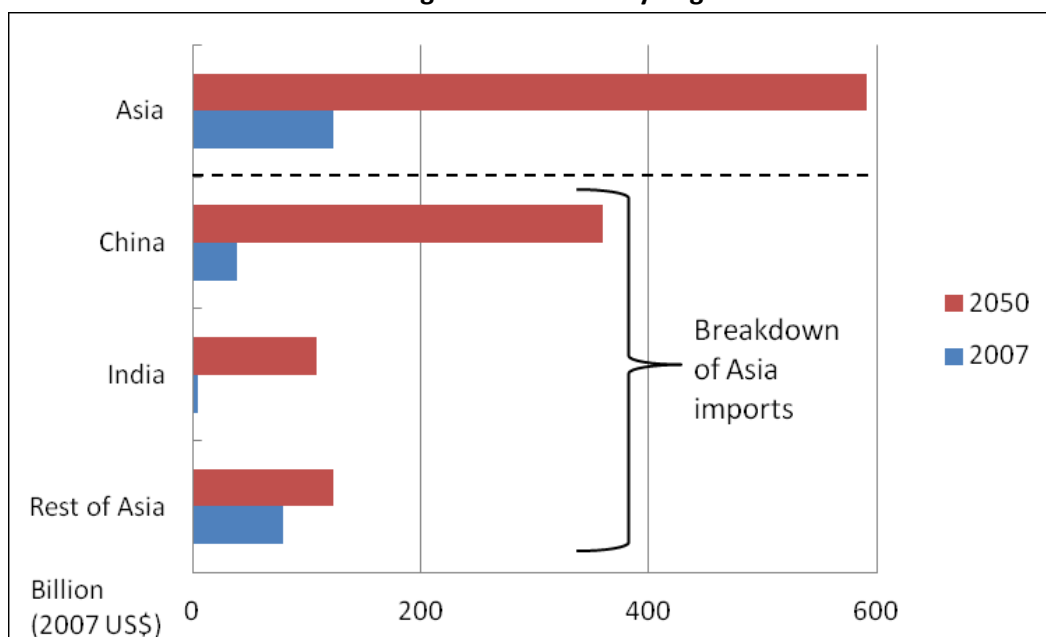
A number of recent studies have shown that import demand for horticulture products is likely to grow strongly in coming years. ABARES found that total value of world agri-food imports is expected to rise by 174% by 2050. Within that total increase, the fruit and vegetable category is predicted to show the strongest demand growth, outstripping meat, cereals and all other agriculture products. By region, the strongest demand growth is expected in Asia, in particular in China.

World agrifood demand by commodity grouping



Source: Food demand to 2050: Opportunities for Australian agriculture, ABARES 2012.

World agrifood demand by Region



Source: Food demand to 2050: Opportunities for Australian agriculture, ABARES 2012.

Australian horticulture is well-placed to take advantage of this potential growth in import demand, particularly in Asia, given the regional proximity and reputation as a supplier of high quality fresh produce.

However, there are a number of key challenges that require a government and industry response in order to develop horticulture exports.

1 Securing workable phytosanitary protocols

Lack of phytosanitary access is a major impediment to trade. Currently only around 35% of fresh fruit and vegetable exports go to protocol markets. Lack of phytosanitary access causes distortions in the trade and can mean that exporters cannot send the products where they would get the best returns. Even when protocols are in place they can often include onerous requirements that make trade uneconomic.

The process of negotiating protocols is incredibly slow. Recent protocols for cherries to China and table grapes to both Japan and Korea all took more than 10 years from when the industry originally lodged the request for access. These delays are frustrating for industry and can act as a deterrent to further export development.

Key markets such as China, Japan, Korea, Taiwan, New Zealand and the US all require protocols to be in place for trade. There is a growing trend for other countries in Asia toward greater phytosanitary restrictions, in particular Thailand, Vietnam and Malaysia. There is also increasing uncertainty around access to China via Hong Kong. If this 'grey channel' were ever closed it would highlight the limited phytosanitary access Australian products currently have direct to the mainland.

Industry and government have discussed these issues over a number of years, including at a dedicated Horticulture Market Access Roundtable held in Melbourne in 2013. From an industry perspective the key points are:

- Ensuring the Department of Agriculture is adequately resourced to carry out the phytosanitary negotiations, both in terms of overall staff numbers and specific negotiating capability.
- Developing country strategies for securing phytosanitary access and ensuring those strategies are given priority within the overall bilateral relationship for a particular country. Country strategies should draw a clear link between import and export market access issues in horticulture.
- Maximising industry support to the official negotiation process, through technical advice and direct input where possible, and in developing commercial linkages or industry cooperation activities that can support the government processes.

2 Finalising Free Trade Agreements

Tariffs add a significant cost to horticulture exports in many markets. For example, tariffs on horticulture products in China are in the range of 10%-30%, in Japan 10-40%, in India 30%-40% and

in South Korea 30%-50%. Tariffs on some individual products can be much higher and can prevent trade altogether.

Horticulture industries have appreciated the government's efforts in securing trade agreements with key markets, including the most recent successes with South Korea and Japan. We want to continue close collaboration with DFAT to secure FTAs with China and India as the next priorities and ensure good outcomes for all horticulture products in those agreements.

Regional agreements such as the Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) can have a positive effect on trade liberalisation and we appreciate the need for Australia to be part of those agreements for geo-political reasons. However, their direct commercial value for horticulture is limited when duty free access has already been secured through bilateral FTAs. The allocation of government negotiating resources to such regional agreements needs to be carefully considered against the direct benefit that could be gained from additional resources being allocated to technical market access issues such as phytosanitary protocols.

3 Managing Fruit Fly Issues

Fruit flies are the number one pest of quarantine concern for most importing countries. Limited recognition of pest free areas and onerous treatment schedules imposed by importing authorities restrict export potential and profitability.

Increased fruit fly numbers due to recent wet seasons coupled with increasing budget pressures in State and federal governments have made maintaining pest free areas more challenging. A National Fruit Fly Strategy was developed in 2008 and a related action plan released in 2010. However implementation has been patchy and many of the projects outlined in the Strategy have not yet been completed.

Effectively managing fruit fly issues will be crucial to further enhancing horticultural exports. A coordinated, well-resourced approach involving industry, state and federal governments is required. From a market access perspective, the focus should be on maintaining the integrity of designated pest free areas and securing recognition of these areas by importing countries.

Resources should also be dedicated to developing effective disinfestation treatments, particularly alternatives to cold treatment such as irradiation and methyl bromide, and securing recognition of those treatments by importing countries and international bodies such as the IPPC.

4 Improving Export Performance

To maximise export opportunities in the future, industry will need to ensure it is able to deliver a consistent supply of high quality product that is able to meet the demands of the consumer and the requirements of the importing authorities. On the latter point, there is a role for both industry and government in ensuring that Australian production and certification systems are efficient, cost effective and credible in the eyes of importing authorities.

Pre-shipment inspections by importing authorities add cost and logistical complications to the export process. Having shipments rejected on arrival is even more costly. The aim of both industry and governments should be to have a system of domestic production and certification that wins the

confidence of importing authorities and avoids rejections and limits the need for pre-shipment inspections.

5 Improving Coordination and Collaboration

Effective partnerships between industry and government will be important to enhancing horticulture exports, including through:

- Taking a “Team Australia” approach involving state and federal governments and industry groups to maximise the impact of government and industry activities to open new markets and take full advantage of existing open markets.
- Industry setting clear and realistic priorities for market access based on industry export strategies. Both industry and government should work through the Office of Horticultural Market Access (OHMA) as the main conduit for communication between industry and government on market access strategies and priorities.
- Developing industry-government strategies for horticultural market access for each of the major markets. The government-industry collaboration on China since August last year has been useful (although it is too soon to see concrete results) and could be duplicated for other markets.

Summary Conclusions

Horticulture is the third largest agriculture industry and it makes a significant contribution to the Australian economy and employment. A number of horticulture industries already have a strong export capability and many more are committed to developing exports further.

Australian horticulture exports have increased in recent years and further import demand growth is predicted over the coming decades, particularly in Asia. A recent ABARES study found that the fruit and vegetable category is predicted to show the strongest import demand growth, outstripping all other agriculture products.

To maximise the potential of Australian horticulture exports and take advantage of these opportunities in the future a number of key challenges will need to be overcome. The priorities should be:

- Securing workable phytosanitary protocols
- Finalising Free Trade Agreements
- Managing Fruit Fly Issues
- Improving export performance
- Improving coordination and collaboration

OHMA and the horticulture industries it represents are ready to work with the Government to develop joint responses to these challenges in order to further develop horticulture exports from Australia.