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Australia's Food Export Outlook

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Key Points

- Australian Agriculture is highly dependent on food exports - 58 per cent of total food product is sold overseas, generating 70 per of the sector's total value
- Merely meeting domestic demand is inadequate to support sustainable value growth within the competitive global food market; increasing farm export volume and value is essential for Australian farmers yet faces significant issues such as water and input scarcity, climate variability and high debt.
- National agricultural export strategies can benefit diverse interests within the sector. These include reviving the national food brand initiative and providing support to exporters through: trade negotiations; regulatory integration with key trading partners; and bolstering supply chain transparency.
- Such export-focused initiatives can help improve profitability in the sector. This not only helps farmers compete with international competitors, but also ensures an affordable, local food supply to support domestic food security.

Summary

Australian farmers and agribusinesses are highly reliant on export markets to sell their produce. 58 per cent of Australia's total food production is sold to overseas consumers. Agricultural exports generate 70 per cent of the value for the sector. This reliance on exports requires continual production and value increases. Australia's modest population and gradual consumption growth leads many Australian farmers to depend on new international markets to expand and maintain profitability.

Australia's reputation as a producer of clean, green and safe food has created high global demand for Australian food products – particularly beef, wheat, canola, barley, sugar and dairy. Upholding and building this reputation is particularly relevant in breaching broader markets, where local food safety and quality concerns dominate consumer attitudes.

The government has a significant role to play in facilitating market access for Australian farmers overseas. Australian trade representatives are integral in reducing barriers and developing free trade policies with agricultural trading partners, to assist farmers in breaching developing markets.

Rapid productivity advancements to feed large markets are highly unlikely in the short to medium term due to water and input scarcity, climate variability and high rural debt. More than ever, funding in agricultural research and development is required to address productivity growth and support export targets.

Analysis

Balance of Trade

The Australian Bureau of Agricultural Research and Economic Statistics' (ABARES) latest commodity report forecasts the 2014-15 farm exports to drop by 7.7 per cent, from $41 billion last financial year to $37.9 billion. Despite this drop, the share of domestic production for export is growing. Chief ABARES commodities analyst, Jammie Penm states that Australia's share of production exported, by value, has risen over several years from 54 to 58 per cent. Despite Australia's minimal production growth, these gains have outstripped domestic demand increases for some commodities. Import volumes have increased too - particularly in seafood, out-of-season produce, and processed products. 93 per cent of food consumed domestically, however, remains primarily locally made.

Export Markets

The Department of Foreign Affairs and Trade lists Australia's top five agricultural export partners of 2012/13 as China, Japan, The EU27, Indonesia and the United States.

Australia's major agriculture export markets (by value) – 2012/2013 financial year

Major agriculture export markets	FY2013 A$m	Share of Total
Total all countries	38,268	%
China	7,494	19.6
Japan	4,180	10.9
EU27#	2,745	7.1
Indonesia	2,669	7.0
United States	2,465	6.4
Republic of Korea	2,377	6.2
New Zealand	1,478	3.9
Malaysia	1,031	2.7
Singapore	988	2.6
United Arab Emirates	838	2.2

The 27 members of the European Union in 2012/13 (EU27) were: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

Source: DFAT STARS Database, based on ABS Cat No 5368.0, February 2014 data; ABS Special Data Service.

China and Indonesia loom as Australia's most important food markets to 2050. Consumption of wheat, barley, canola, beef, sheep, sugar and dairy products is rising in both countries. These crops and livestock are land-intensive and thus in high demand from the two countries which lack arable land resources.

Australian Dairy is vital to Australia's food export ambitions. The dairy industry – traditionally tailored to the domestic market – is beginning to adapt to new demand abroad. Foreign demand and investment mean the industry has the potential to grow considerably, past its current contribution of $13 billion to the economy.

Cattle farmers and marketers, too, are increasingly looking to breach new markets in Asia. The volume of beef consumed domestically is decreasing as other meats are being substituted for mass consumption. Greater purchasing power in Asian nations has also led to increased beef demand. Australia's live cattle exports are now at record levels – exceeding $1 billion in value during the 2013-2014 financial year for the first time on record.

China

China, is struggling to meet local demand for key food products. Previously self-sufficient in grain production, China abandoned its grain self-sufficiency policy earlier this year. Many analysts suggest that long-term growth projections for grain production in China are substantially lower than official statistics and will not support domestic consumption increases.

Arable land and water availability is a serious issue in China. Resource scarcity and poor soils issues will impact China's agricultural productivity, at least temporarily. These challenges, amid rising food demand means that China will be a large, net importer of food for the foreseeable future. This will place pressure on international markets but provide opportunities for Australian grain growers.

Food safety concerns also drive Chinese demand for foreign products. In a recent survey by a Beijing company, 80 per cent of respondents across 20 Chinese cities stated they were unhappy with food safety in China. Another survey by AT Kearney suggests over 80 per cent of Chinese surveyed are willing to pay extra for safe food. This presents a significant opportunity for Australian exporters, provided they can market their 'clean, green and safe' goods and breach Chinese supply chains.

The beef and dairy industries, in particular, stand to benefit greatly from strong Chinese demand and investment. Australia currently holds the greatest market share of any exporting nation in supplying the Chinese market with beef, supplying 53 per cent of the country's imported product. Australia's beef and sheep industries have also drawn significant interest from Chinese investors and distributors, particularly in Australia's northern cattle stations.

Foreign investment is driving much of the growth in Australia's agricultural industries. In dairy for example, Chinese investors have bought significant shares in infant formula and milk powder processors. Such capital injections assist Australian producers by opening up supply chains and improving quality, to supply niche consumers through Chinese distributors.

Indonesia

Indonesia imports 100 per cent of its wheat for local consumption and is now Australia's biggest wheat export market. Wheat consumption has increased in Indonesia, in part due to changing attitudes that lessen the traditional emphasis on eating rice in every meal. Western fast food chains have grown in presence too, increasing demand for bread products. As the Indonesian middle-class grows, the Indonesian market will only increase in significance for Australian wheat exporters.

Like China, Indonesia's demand for milk is surging. The majority of demand growth in Asia continues with ultra-processed milk, such as sweet condensed milk and Ultra Heat Temperate (UHT) milk. UHT currently holds 90 per cent of Indonesia's dairy market. Projections suggest that Indonesia's current consumption per capita, which classifies the country as a low milk consumer, is likely to increase significantly, at 7 per cent per year. Indonesia already imports 60 per cent of its milk supply. The growth of Australia's dairy processing industry bodes well for the prospects of Australian farmers in acquiring market share in Indonesia.

Demand for Australian beef in Indonesia is also soaring. Recent figures show significant export growth for Australian beef to Indonesia; the country accounted for 55 per cent of all Australian live cattle exports last financial year and more recently, made a record cattle order of 264,000 for October to December 2014. Indonesian State-Owned Enterprises (SOEs) and companies have also made significant investments in northern cattle stations.

Barriers to Increased Exports

The demand prospects in China and Indonesia are encouraging for domestic producers but demand alone does not ensure Australian produce can reach emerging markets.

Australia's increasing export dependence means that farmers are increasingly vulnerable to markets distorted by protectionist tariff and non-tariff barriers. Farmers are particularly vulnerable compared with their overseas competitors as the provision of support funding from government is far lower than competing countries. Conflicting government support mechanisms makes it difficult for Australian farmers to compete in the global market with agricultural trading partners. Australian farmers thus benefit significantly from free trade outcomes.

The disparity of trade priorities between developing and developed countries currently prevents meaningful trade facilitation measures on a multilateral level. Australia has seen little benefit from WTO's Doha 'Development Round' of negotiations thus far in reducing trade barriers.

Tariff Barriers

Tariff barriers can severely limit the market access for Australian agricultural exporters. High tariff costs often price Australian food products out of the reach of foreign consumers. Average tariffs on food imports into China for example, are 15.1 per cent, yet subject to a further Goods tax of 13 per cent. Indonesia maintains an average applied tariff of 8 per cent on many Australian food products, subject at market to a further 10 per cent Value Added Tax (VAT). Wheat and the majority of seafood products receive no tariffs upon entry. Beef tariffs will also be zero by 2020, under the AANZFTA agreement.

Current Trade Agreements

Australia's recent FTA and EPA with key partners, South Korea and Japan respectively, will gradually reduce tariff barriers on Australian food exports. These developments follow the Thailand-Australia FTA. As an emerging market for Australian food produce, the Thai agreement was significant: Thailand will eradicate all tariffs on Australia, yet still maintain its self-sufficiency policy on key staples. This means that several key food exports to Thailand, such as high-value beef cuts, will be tariff free by 2020. Such trading arrangements allow compromise between Australia's trade goals of increasing export of high-value produce, without impinging on the food security policies of export partners.

Non-tariff barriers

Non-tariff barriers can include special safeguards, quota allocations and support structures for national food schemes, particularly for staple foods. Many of these barriers are unavoidable for Australian exporters, as they are mechanisms of national self-sufficiency and food security schemes.

Several Asian nations maintain self-sufficiency programmes that create challenges for international producers looking to access developing markets. In China government subsidies, funded by import tariffs, have been used to encourage higher production. This creates market distortion and thus difficulties for Australia to compete with and reach the Chinese market.

Producers face vulnerability to reactionary import policies, often hinged on biosecurity fears. While important for safety and biosecurity, these policies often stifle longer-term, efficient food trade between trading countries. Australia's self-induced live-export ban in 2011, for example, deeply disrupted trade flows. Australian live-exporters have also faced barriers in accessing several Middle-Eastern markets due to strict safety regulations. Such policies can cripple farming businesses, many of which are solely reliant on international markets.

Stagnant Production

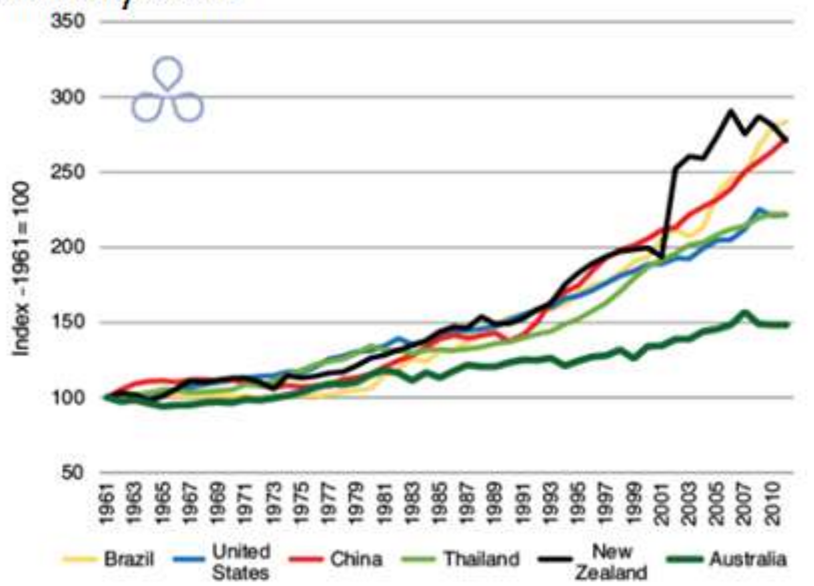
ABARES September commodity report forecasts crop and livestock production to decline by 7.9 per cent and 2.1 per cent respectively in 2014. This balances the expected record highs of 2013-2014.

Australia's competitive agricultural sector relies on continual production growth. National Farmers Federation President, Brent Finlay [suggests that](#) within such a competitive global food system, Australia must aim towards doubling production volume and continuing to increase value in the sector by 2050. He suggests Australia's export target should be to export 90 per cent of all produce overseas.

These goals look unlikely on the basis of Australia's Total Factor Production (TFP) growth, currently increasing at only 1.4 per cent per annum. This will need to improve to 2 per cent to double production volumes by 2050. As seen in Figure 2 below, Australia is falling behind competitors including New Zealand, the U.S and Brazil in productivity growth.

While many trade barriers can be remediable through trade agreements, production capacity is finite. Australian agriculture's greatest challenge is continuing to improve production efficiencies and restore sustainable profitability for many struggling Australian farmers.

Figure 2: Comparisons of Rates of National Agricultural Productivity Growth



Source: USDA (2014)
http://ers.usda.gov/data-products/international-agricultural-productivity.aspx#.com

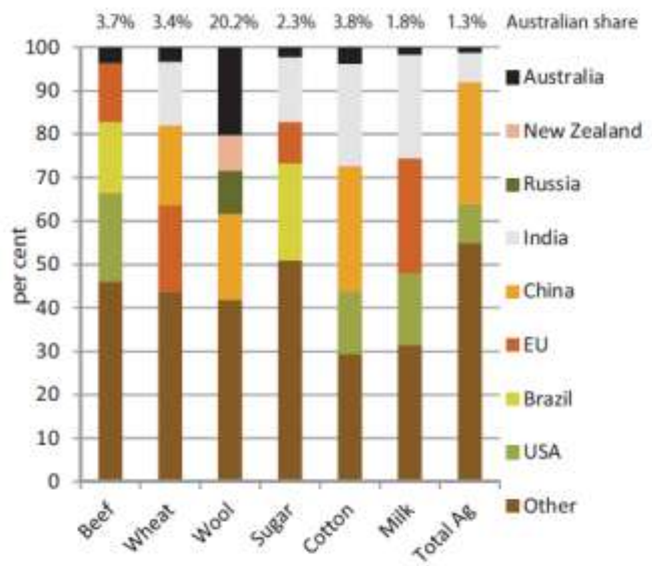
The building of further production efficiencies will be problematic. Productivity constraints including scarce water availability, input costs and climate variability will continue to intensify. Improving productivity growth among these limitations requires a strong research and development base.

The recent [Agricultural Competitiveness Green Paper, however,](#) did not inspire faith in public research and development (R, D&E) programmes. As public funding for R, D&E lags behind, the private sector will increasingly need to fill the gap. Capital Investments will need to come primarily from joint ventures between multinational firms and foreign equity funds in the [absence of strong interest](#) in agricultural assets from Australian superfunds. This is not ideal, as private research funding lacks the strategic and holistic outlook to develop the sector as a whole. To comprehensively address declining productivity growth, Australia needs to develop an intensified and integrated investment plan, involving both the public and private sectors.

Export Competitors

Australia will likely remain a small player in the global food market, despite the rising real value of food exports. Projections from 2007 suggest Australia will only contribute to 3 per cent of global export growth to 2050. Figure 3 below highlights Australia's relatively minor role in producing many key commodities compared to major competitors.

Figure 3: Share of the Value of Global Agricultural Production, Australia and the top Producers



Source: ABARES 2013a and FAOSTAT 2014.
https://agriculturalcompetitiveness.dpmc.gov.au/key-documents [accessed 28/10/2014]

In dairy, New Zealand is Australia's main competitor. It is the largest exporter of milk to the Asian market. NZ's dairy industry grew significantly after deregulation measures and substantial foreign investment, much of which followed the FTA reached with China 2008. But the growth of New Zealand's dairy industry is slowing. Farmland values have skyrocketed. New Zealand, and other major dairy exporters, cannot supply growing demand in the Asian region. This provides an opportunity for investors to look across the Tasman to dairy investments in Australia, provided local producers can forge links with Asian supply chains.

Other Australian competitors, who also produce a number of our key food commodities, currently show greater production growth potential. Beef producers, in particular, face competition from Brazil and Argentina. This is often cited as a reason to refocus on 'value-adding' food production in Australia as a means of differentiating Australian produce from competitors and building export value growth for the sector.

Processed Foods: A Potential 'Value-Adding' Export

Building Australia's processing capabilities is often seen by policymakers as a solution to Australia's stagnant production growth, allowing for greater returns for farmers prior to produce export to emerging middle class markets. Exporting processed goods can add value through domestic packaging operations and by reducing distribution costs to overseas markets.

Pro-processing analysts often mimic similar suggestions prominent 20 years ago. Australia faces significant challenges in maintaining profitability in the processing sector. One challenge is maintaining constant supply of cost-effective food inputs. Relatively high labour and energy costs also prevent Australian processors from retaining competitiveness in the global market. The under-performance of many domestic processing industries and gradual influx of processed and ready to eat foods represents an increasing risk to Australian food security.

Export Strategies to 2050

Trade Negotiations

Australia will continue to negotiate for free trade deals. With a China-Australia FTA agreement pending, the Australian government will continue to campaign for significant tariff reductions for food exports to China. Agricultural exports will remain a big bargaining chip in the agreement, which is expected to be reached sometime this year. Other bilateral negotiations continue with other key Asian agricultural partners, such as Indonesia and Malaysia.

Tariff barriers are generally higher on processed products than raw imports. In order to develop export markets for processed products, trade representatives must negotiate substantial tariff reductions for processors to reach developing markets.

Regulatory Integration

Improving the integration between regulatory processes with trading partners should be a key focus of the government. Remedying slow and costly regulatory processes can be improved in partnership with foreign governments. Cooperative initiatives demonstrate the worth of such arrangements. New South Wales' dairy cooperative, Norco reached an agreement with Chinese authorities; successfully arguing their regulatory standards were adequate to meet Chinese food safety requirements. This made fresh milk exports viable, maximising the shelf life of their products in China. Norco is now selling milk in major Chinese supermarkets for $9.50 per litre**.** Trade commitments to areas of regulatory integration on a wider scale will generate substantial growth for Australia's agricultural industries.

Export Support

Consumer demand for safe and quality assured food products will drive future demand. A growing middle-class in the region is increasing the number of people who can afford and demand Australian products. Furthermore, evolving consumer attitudes are driving food demand. For example, grass-fed beef products in the U.S, and organic vegetable products in China, are increasingly sought after. Exporters require improved supply chain systems to meet this demand. The government-backed Exporter Supply Chain Assurance System (ESCAS) needs to be constantly improved to ensure foreign buyers are receiving the products they demand and exporters continue to receive premiums for their quality goods.

The demand for 'clean' products has led to a deal between Australia's major organic certifier, The National Association for Sustainable Agriculture Australia (NASAA), Global Logistics Company 20cube and Chinese regulators to provide greater transparency across the organic supply chain to China. These types of developments are integral if Australia is to improve access to niche markets in Asia.

Brand Australia

Late last year Australia's international trade promotion agency, Austrade completed a preliminary study into a 'Brand Australia' initiative. The two-year-project was designed to deliver a national food brand by building on the existing credentials of Australian produce in foreign markets: food safety and quality ('clean, green and safe') and innovation. The strategy targets existing and emerging markets to achieve higher returns for Australian producers while building a solid reputation to compete against strong global competition.

Establishing a strong 'Australia brand' is a challenge, however, due to the fragmentation of Australian agriculture. Weak coordination between regional farming groups creates opposition to a national branding initiative. Doubts exist over maintaining a reputable, unblemished supply across Australia's vast volume of exported produce. The premise, however, that rare supply issues will deem an entire 'Australia Brand' untenable is unjustified.

Government-led market research into 'Brand Australia' has seemingly stalled due to lack of funding. For the sake of the sector and wider-economy, Austrade and DFAT must maintain focus in building and strengthening the reputation of Australian produce as world-leading in biosecurity, quality and innovation.

Exporting Expertise

From a food security perspective, Australian exports would do little to alleviate scarcity issues in importing nations. Instead, as former Austrade chief economist Tim Harcourt suggests Australia's role could be pronounced in domestic agribusinesses exporting expertise and technical knowledge to build capacity in Asian countries to 2050.

While China and Indonesia emerge as significant markets for Australian produce, they are emerging competitors too. Both countries enjoyed double digit growth in agriculture in the five years to 2011. Production growth overseas, such as in China and Indonesia, provides opportunities for Australian exporters of agricultural services and technologies.

Export Growth and Domestic Food Security

A weaker Australian dollar will provide benefits to exporters in the short-term. This improves conditions for businesses competing with cheap imports, and can boost the affordability of Australian goods for overseas consumers. At this rate a stable AUD can help improve the food surplus over the medium-tem.

Australia's export potential and domestic food security prospects are closely associated. Maintaining profitability within a highly-competitive global food market is of primary importance for both aims; production advances have a significant influence over the supply of affordable local and ready-to-eat produce.

Free Trade deals with high volume or net-exporting countries may place pressure on local producers competing for Australia's domestic market. Thus, future agreements with countries such as China increases the likelihood that Australian consumers will buy more imported products to retain current food affordability, and pay higher prices for Australian produce. Thus, all measures to improve the competitiveness of Australian farms will influence local food affordability and availability.

Improving access and export volume to overseas markets remains the primary focus for farmers to boost their profitability and value. Yet improved productivity is required for long-term growth. The recent Agriculture Green Paper, however, appears pessimistic of Australia's production increase potential.

Conclusion

Australian exports are increasing. But demand patterns alone will not ensure continual export growth and the integration of the Australian and Asian food markets to the future.

The opportunities for Australian farming must be matched by equal efforts and commitments to facilitate growth and trade. Important strategies include further improvements to supply chains transparency and regulatory integration. The national food brand initiative is also very important, particularly in marketing the quality and safety of Australian produce to emerging wealthy markets in Asia.

Although ultimately beneficial for farming businesses, free trade outcomes could create risks to the availability of comparatively cheap, local produce. Policymakers must look at increasing R, D&E spending to improve the competitiveness of local producers domestically; not only to advance export increases, but to assist suppliers in sustaining the affordable local produce for domestic consumers.

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