

AUSTRALIA – AGRICULTURAL ECONOMY AND POLICY REPORT

March 2009

POLITICAL SITUATION: Australia is a parliamentary democracy. The Labor (ALP) government, elected in November 2007, is headed by Prime Minister Kevin Rudd. The ALP's policy aspirations include: fair distribution of the benefits of economic growth, continuous improvement in the welfare and living standards of the Australian people, and the reallocation of resources to those most in need. Other party objectives include: more democratic control, ownership and participation in Australian industry; maintenance of world peace and an independent Australian position in world affairs. The British monarch is recognized as sovereign and is represented in Australia by the Governor General.

ECONOMIC SITUATION: Australia has a Western-style capitalist economy, with GDP per capita on par with the more developed countries in the world. Australia has enjoyed 17 consecutive years economic growth. That record may end in 2009, as the global economic turndown from the financial crisis hits Australia; all of its top trade partners (US, China, Japan, New Zealand, EU) are either in recession or expect slower growth. Although global economic growth is slowing, Australia looks to be better positioned than many countries to weather these changes, entering this period with solid banks (four of the world's 20 AAA-rated banks are Australian), a large budget surplus (which will now likely slide into deficit), and high interest rates (because of concerns over 2006-08 inflation, now not a problem) with room to cut. The Australian dollar rose sharply through 2007 and early 2008, peaking at nearly US\$.99 in July 2008, before sliding back sharply into the US\$.67 range, below its long term average of around US\$.72. 2008 Crop conditions improved which resulted in a substantial rebound in rural production over the the previous year and which has been positive for the rural sector.

TRADE SITUATION: Australia is an active and vocal participant in the multilateral trading system. Australia is one of the founding members of the GATT, the founder and leading force behind the Cairns Group of agricultural producing and exporting countries, and a co-founder of APEC. Australia is actively seeking an ambitious result from the current World Trade Organization (WTO) Doha round of trade negotiations. It has shown an increasing interest in pursuing bilateral free trade agreements (FTAs). Australia has FTAs with the U.S., Thailand, Singapore, Chile, and a joint FTA with ASEAN and New Zealand. FTAs under consideration or being negotiated include: Australia-China (being negotiated); Australia-Malaysia (being negotiated); Australia-Japan (being negotiated); Australia-Indonesia (feasibility study); Australia-Korea (FTA study), and Australia-India (under study). In addition, Australia has a long-standing Closer Economic Relations agreement with New Zealand that went into effect in 1983.

Australia runs a large overall trade deficit, with the deficit with the United States being the largest bilaterally. Mineral resources and agricultural commodities constitute nearly two-thirds of Australia's total goods and services exports.

AGRICULTURAL SITUATION: Australian agriculture is relatively unprotected based on traditional measures of assistance, such as tariff barriers and domestic support for the farm sector. However, a very stringent quarantine regime effectively bans or severely restricts imports of many agricultural products. This quarantine regime has created substantial tension with Australia's trading partners and is currently the focus of a few separate dispute settlement cases against Australia in the WTO.

Australia's domestic 'Amber Box' (production/trade distorting) supports are mostly for the dairy sector and expenditures remain below WTO commitments. In 2005/06 (July-June – latest figures available as of 2/26/08), Australia notified a total aggregate measure of support (AMS) of A\$206.6 million, versus A\$471.9 million allowed for the period. Of specific notifiable support in 2005/06, all was for milk. Australia also notified A\$14.06 million in de minimis support, which included sugar (A\$13.18 million), wheat (A\$0.08 million), and non-product-specific (A\$0.8 million) (Source: WTO).

AGRICULTURAL TRADE SITUATION: Australia is a leading producer and exporter of beef, lamb, wool, wine, wheat, and barley. Australia is a large aggregate net exporter of agricultural products (including forest and fish products), with exports of US\$22.6 billion and imports of US\$9 billion in 2007, up 2 and 25 percent, respectively, from 2006. Australia runs a large, positive balance of trade with the United States in agricultural products. Major U.S. exports to Australia are pork, fresh and processed fruits and vegetables, soybean products, and fish and seafood. Principal U.S. imports from Australia are red meat and wine. (Source: Global Trade Atlas).

REGULATORY SYSTEM: Australia's "acceptable level of protection" for plant and animal health is set at a very high level and the corresponding quarantine system is one of the strictest and most conservative in the world. Many competitive agricultural products are completely denied entry or have highly restricted access.

Quarantine and SPS market access issues for agricultural products have been major trade irritants between the United States and Australia. During the negotiations of the Australia-U.S. Free Trade Agreement, there was recognition by industry that quarantine issues were problematic with Australia—in fact they are the biggest irritant in our agricultural relationship. As a result, Australia-U.S. bilateral cooperation on quarantine and SPS matters has been strengthened by the 2005 implementation of the U.S.-Australia Free Trade Agreement. The FTA establishes a Committee on Sanitary and Phytosanitary Matters and a Standing Technical Working Group on Animal and Plant Health Measures. These committees have been very helpful in making progress on issues of importance to Washington to US exporters.

With regard to biotechnology, Australia has a substantial, risk assessment based regulatory framework for dealings with gene technology and genetically modified organisms, and the Australian Government is supportive of the technology. The Government's regulatory body has approved the commercial release of biotech cotton and canola. Biotech cotton is grown widely and is not very controversial. When biotech canola was approved for release, substantial concerns surfaced about keeping biotech and conventional crops separate. Using their marketing powers, most Australian states and territories have invoked restrictions on biotech crops in their jurisdictions to stop biotech canola from being grown. New South Wales and Victoria lifted their ban on biotech canola in time for the 2008 crop. The remaining states (Tasmania, South Australia and Western Australia) have decided that they will keep their bans in place. South Australia indicated that they were going to 'observe' what happened in the other states so they may revisit their decision in a few years.

FAS COOPERATORS: The following cooperators are active in the Australian market: California Cherry Advisory Board; California Strawberry Commission; California Table Grape Commission; Cranberry Marketing Committee; Oregon Sweet Cherry Commission; Organic Trade Association; U.S. Livestock Genetics; U.S. Meat Export

Federation; and Washington State Fruit Commission. These cooperators have a good understanding of the advantages of the Australian market (ideal market for counter-seasonal products) and main obstacles (rigorous quarantine regime, strong "Buy Australian" attitudes among consumers).