

# evaluationseries

1.2 Maintaining and liberalising access to world meat markets



## **Market access** **The industry impact**

## Promise:

Defend existing access to global markets and remove remaining barriers to imports of Australian red meat and livestock. Complete trade liberalisation will increase the value of Australian red meat exports by an estimated \$5.5 billion over the next 15 years.

## Progress:

Trade barriers have been systematically reduced or removed in important markets, especially in the United States and also in Asia. Attempts to impose new barriers have been successfully defended in many trade destinations.

## Performance:

The \$50.5 million invested by the Market Access program will result in a benefit of \$416 million accruing over 23 years from 1998: a benefit-cost ratio of 8:1 in net present value terms and an internal return rate of 40 per cent.

## Definitions:

### Multilateral engagement

Discussion/negotiation/agreement between large numbers of countries.

### Bilateral engagement

Discussion/negotiation/agreement between two countries.

### Technical/Sanitary & Phytosanitary (SPS) trade barriers

Technical or other regulations (for testing, labelling, packaging, marketing, certification) applied to imports that restrict trade.

### Import tariff

A customs duty on merchandise imports.

### Tariff Rate Quota (TRQ)

An import tariff/import quota combination in which imports below a specified quantity enter at a low (or zero) tariff and imports above that quantity enter at a higher tariff.



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All benefit-cost ratios in this report come from the MLA program evaluation framework unless otherwise stated. The figures in this report represent the net present value of industry benefits to 2020 and are based on the MLA global meat industry model (CIE).

# BACKGROUND

Meat & Livestock Australia (MLA), as the service provider to the Australian red meat industry, strives to build demand, improve access to global markets, develop a competitive advantage for the industry from 'paddock to plate' and, by partnering with industry, build capability.

Remaining accountable to stakeholders and providing quantifiable returns on government and industry investment are central to demonstrating performance against these goals.

In 2005 MLA engaged the Centre for International Economics (CIE) to conduct an independent review, and to develop an effective evaluation framework\* for assessing the impact of its programs and their compliance with government priorities.

The framework provides independent estimates of the net benefits of MLA programs – including achievements relative to targets and industry benefits relative to a situation where the MLA program did not exist. It also provides for interactions between the meat and livestock sectors and the wider Australian economy, allowing national benefits to be measured. These benefits are not only economic, but also environmental and social, thereby supporting a rigorous triple bottom line evaluation of MLA initiatives.

## DIVERSIFICATION UNDERPINS INDUSTRY CONFIDENCE

Australia's red meat industries are highly dependent on export markets. In 2005-06, the total value of beef and live cattle exports was almost \$5 billion, while the total value of sheepmeat and live sheep exports exceeded \$1.5 billion. Exports account for about 60 per cent of total sheepmeat production and almost 70 per cent of total beef production.

Ready access to a diverse range of international markets provides the foundation for continued prosperity of this key agricultural sector.

In order to help shore up future profitability, the red meat industry implements a co-funded Market Access program which is delivered by MLA. MLA plays a pivotal coordinating role in this program. It also provides market access resources to the wider industry, including monitoring trade developments in overseas markets; undertaking market access research; developing industry-wide positions to support well argued submissions to government on trade priorities; and lobbying for market access improvements.

Although MLA plays a key role in providing market access services to the Australian meat and livestock industry, the success of this program relies on a "whole of industry" effort. Critical to the industry's market access achievements is the work of Peak Industry Councils: Australian Meat Industry Council; Cattle Council of Australia; Sheepmeat Council of Australia; Goat Industry Council of Australia; Australian Lot Feeders' Association; and Australian Live Exporters' Association. No attempt has been made in this evaluation to separate MLA's work from the broader industry effort.

Equally, the market access objectives of the Australian industry would never be attained without the work of the Australian Government. An important function of MLA's co-funded Market Access program is servicing government Ministers and departments through the provision of industry specific information and advice for use in multilateral and bilateral negotiations. Key partners of the program therefore include: the Department of Foreign Affairs & Trade (DFAT), the Department of Agriculture, Fisheries and Forestry (DAFF), the Australian Quarantine & Inspection Service (AQIS), and overseas-based Australian consular staff and officials.

The Market Access program embraces two overarching objectives:

- Defend against threats to existing market access conditions including economic threats (eg tariff increases) or technical threats (eg misuse of food safety regulations); and
- Improve market access conditions for priority markets by working with government and industry to remove existing barriers.

\* MLA's evaluation framework is explained in full in the booklet, *Why does MLA need a framework for independent evaluation?*, that accompanies the MLA program evaluation series.

# COMPETITIVE EDGE

### Collaboration achieves free lamb trade to US

In response to increasing lamb imports from Australia and New Zealand, in July 1999 the United States (US) imposed a tariff rate quota (TRQ) on all lamb imports, claiming the US industry was suffering serious injury from imports.

The Australian sheepmeat industry worked closely with the Australian Government and New Zealand counterparts to have this trade impost repealed and the dispute was elevated to a subsequent World Trade Organization (WTO) case against the US. The submissions compiled by industry and government ultimately led to the WTO's ruling that the TRQ was illegal, and the barrier was removed in November 2001.



Echard Hubel

“The US is a key market for Australian prime lamb exports. The industry has invested substantial time and effort to establish and grow Australia's position in this market. Winning the case against the TRQ restored industry confidence and encouraged lamb producers to increase

production. It has allowed the Australian industry to continue to meet growing demand for our lamb in this market.”

– Echard Hubel, Tatiara Meat Company

### Constraints in Korean beef market removed

Despite its persistent status as one of the world's most protected beef markets, South Korea is a key export destination for Australian beef.

Until 2001, Australia competed with other suppliers for a share of South Korea's 225,000 tonne import quota. This quota was abolished under the terms of the Uruguay Round and replaced by a tariff of 40 per cent. During the lead-up period in the late 1990s, the Australian industry expressed concern that ongoing internal Korean market restrictions would effectively negate liberalisation scheduled for 2001. Twelve constraints imposed on imported beef within the South Korean market were identified, including requirements that different beef distribution rules were being applied to imported versus local beef.

After consultations with South Korea broke down, Australia joined the US in a WTO case and in 2000 the WTO ruled that restrictions imposed by South Korea were illegal. The beef market was liberalised on schedule in 2001.



Paul Day

“Access to the Korean beef market has provided our company with the opportunity to grow our customer base for premium quality beef cuts. Market diversification for high value beef products builds confidence across the entire industry.”

– Paul Day,  
Teys Brothers Holdings

### AUSFTA provides future certainty

Preparations for a Free Trade Agreement between Australia and the US (AUSFTA) began in 2002, with research indicating that the Australian beef industry could be among the major beneficiaries. Market Access program participants played a significant role in positioning the Australian industry for a positive outcome. Agreement between the Australian and US governments was reached in 2004 and the AUSFTA came into force in 2005.

The Market Access program contribution included:

- preparation (including impact research) and submission of industry position papers;
- collaboration with allied US industry groups to gain support for the AUSFTA;
- representations to US congressional staff; and
- liaison with Australian Government negotiators to analyse and prepare responses to various US offers.



Stephen Deady

“We have an excellent working relationship with MLA at both policy-governmental and operational levels. Shared industry and government goals and effort have helped to secure mutually agreed outcomes. Cooperation with MLA in relation to AUSFTA was first rate.”

– Stephen Deady, DFAT trade negotiator

### Measuring industry impact

Industry impacts attributable to the Market Access program are most evident where market access is improved by reductions in tariffs or increases in quotas. For tariffs and quotas the benefits can then be measured in terms of the changes in access and the industry export response.

A more difficult task is to isolate changes in market access attributable to activities of MLA and the Peak Industry Councils (changes arising from investment in the Market Access program) from those that would have occurred regardless of this effort. The question is: how much of the reduction in tariff or expansion in quota was due to the work of MLA and Peak Industry Councils, and would the result have been achieved without this effort? It is likely, for instance, that some improvements in access could have been attained from the Australian Government's ongoing efforts regardless of any industry contribution. Ascribing the contribution of MLA and Peak Industry Councils to any change in market access involves judgment, but this must be supported by factual evidence.

To allow for the contribution of others to the outcome, the benefits that can be directly attributed to the Market Access program have to be reduced to some proportion of each overall achievement.

Each of the case studies articulates a clear counterfactual argument. For example, in the AUSFTA case some increased market access would have been achieved regardless of any coordinated response by the industry through the program. However, there is clear evidence that the Market Access program contribution did enhance the final outcome.

# Beef markets

Annual gains to Australian beef producers from market liberalisation

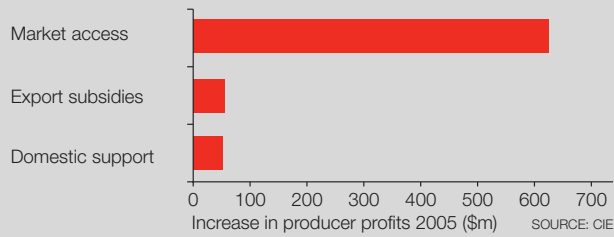


Photo courtesy of WTO



## Beef market access improvements

The ways governments protect their local industries fall into three main categories:

- restricting outside access to the local market via border protection, commonly in the form of tariffs and/or quotas ('tariffs and quotas');
- paying local producers to export some of their product to other markets ('export subsidies'); and
- providing subsidies on local production, particularly in the European Union (EU), Japan and South Korea ('domestic support').

Of these, the benefits to Australian beef producers from freer market access is substantially greater than the potential gains from eliminating export subsidies or domestic support across all countries. The priorities of the Market Access program are obviously shaped by these prospects.

## Economic trade barriers reduced or removed since 1998

- US beef quota expanded
- US in-quota beef duty removed
- US over-quota tariff reduced
- Chinese beef tariffs reduced
- Taiwanese beef tariffs reduced
- Thai beef and live cattle tariffs reduced
- Canadian competitive beef quota threat eased

An independent review by the CIE generated the following tables which list the beef market access outcomes achieved in part through the industry's market access efforts since 1998. Direct comparisons are made between outcomes 'with' and 'without' industry investment in a Market Access program. The tables also acknowledge that others have contributed to realisation of the outcomes. For each outcome, the specific contribution that the program (which incorporates the efforts of collaborating industry groups) has made is nominated. The remainder is attributed to the efforts of government negotiators.

## Economic trade barriers: measuring the benefits of access improvements

Outcome	Improvement	'Status quo'	Program contribution
AUSFTA negotiated	Agreement effective 1 January 2005: – In-quota beef duty eliminated immediately – Expansion in beef quota from 2007 to 2022 – Reduction in over-quota tariff from 2013 to 2022	No change in access arrangements	30%
EU expansion and increased market access	Ten countries join EU in 2004 Australia's high quality beef (HQB) quota expands by 150 tonnes	No additional HQB quota – extra sheepmeat quota only	80%
China WTO accession	China joins WTO in 2002: – Beef tariffs decrease from 39% to 25.2% Reductions phased in between 2002 and 2004	No change in market access	10%
Taiwan WTO accession	Taiwan joins the WTO in 2002: – Beef tariff reduced from NT\$27 to NT\$10 per kg Reductions phased in between 2002 and 2004	No change in market access	30%
Australia-Thailand FTA negotiated	Australia-Thai FTA implemented on 1 January 2005: – Beef tariff reduced from 51% to 40% immediately and phasing to zero by 2020	Beef tariff reduced from 51% to 49% on implementation	70%
Easing Canadian beef quota threat	Supplementary import permits suspended in 2005 A push to move from a country-specific to a global competitive quota was defused	10% chance of a move to a competitive quota from 2003 onwards	20%



## Technical trade barriers reduced or removed since 1998

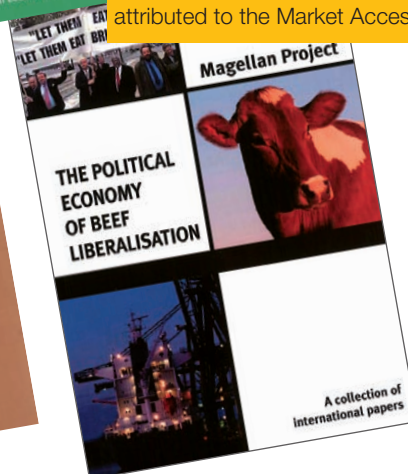
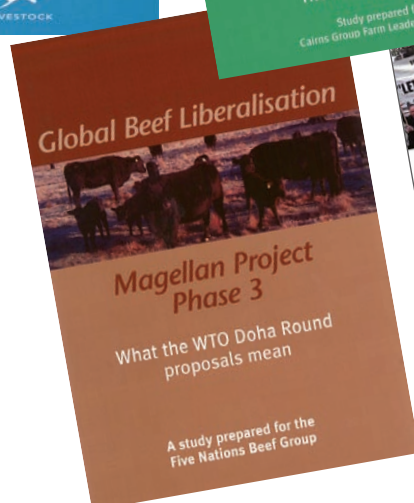
- South Korean ban on freezing chilled beef eliminated
- Anti-competitive restrictions on distribution of imported beef in South Korea removed
- US country of origin labelling deferred
- EU HQB carcase weight limit eliminated

## Fast financial facts

Beef industry investment in program 1998-2006	\$30.3 million
Industry value added 1998-2020 <sup>†</sup>	\$359 million
Internal rate of return	40%
Benefit-cost ratio	12:1

## Technical trade barriers: measuring benefits of improved access

Outcome	Improvement	'Status quo'	Program contribution
South Korea chilled beef restrictions removed	South Korea imposes ban on freezing chilled beef in 1999 Ban lifted mid-2002 following MLA involvement in discussions	Restrictions continue indefinitely – 50% ongoing reduction in chilled beef imports	40%
South Korea WTO case win	Korea imposes range of restrictions on imported beef in 1999 WTO case brought by Australia and US rules restrictions illegal - the last is removed in 2001	Restrictions continue indefinitely	16%



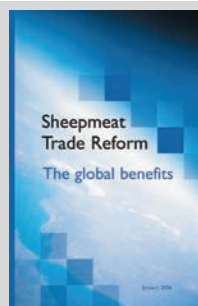
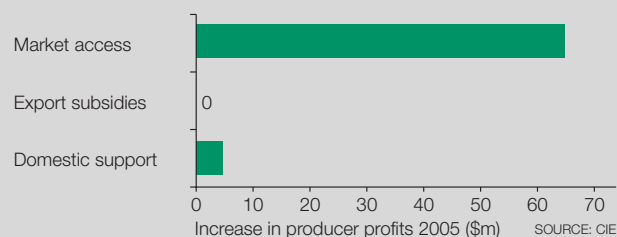
## Peak Industry Councils have critical role in program

The Peak Industry Councils include: the Australian Meat Industry Council, the Cattle Council of Australia, the Sheepmeat Council of Australia, the Goat Industry Council of Australia, the Australian Lot Feeders' Association, and the Australian Live Exporters' Association. MLA is the market access service provider to these industry organisations, which are responsible for leadership, formulating policies and setting strategic imperatives for the sectors they represent. They provide the commercial contacts and reasoning essential to building cogent arguments in support of change and reform, and are required to provide policy advice to the Commonwealth Minister for Agriculture, Fisheries and Forestry on sector-specific issues. The Peak Industry Councils therefore make an invaluable contribution to the success attributed to the Market Access program.

<sup>†</sup> Benefits are presented as changes in industry added value. All results are net present values in 2006 dollars, calculated over a 23-year horizon (1998 to 2020) using a 5 per cent real discount factor.

# Sheepmeat markets

Annual gains to Australian sheepmeat producers from market liberalisation



## Sheepmeat market access improvements

The bar graph (above) measures the gains to Australian sheepmeat producers from global trade liberalisation. The benefits clearly favour improving the sheepmeat industry's access to overseas markets, predominantly achieved through elimination of restrictive import quotas and reductions in tariffs. This also indicates where future program activities should be focused to achieve maximum industry benefit.

### Economic trade barriers reduced or removed since 1998

- US lamb safeguards eliminated
- US lamb and mutton duties removed
- Chinese lamb tariffs reduced
- Taiwanese sheepmeat tariffs reduced
- Thai sheepmeat, live sheep and goat tariffs reduced

### Fast financial facts

Sheepmeat industry investment in program 1998-2006	\$20.2 million
Industry value added 1998-2020 <sup>†</sup>	\$57 million
Internal rate of return	38%
Benefit-cost ratio	3:1

An independent review by the CIE generated the following tables which list the sheepmeat market access outcomes achieved in part through the industry's market access efforts since 1998. Direct comparisons are made between outcomes 'with' and 'without' industry investment in a Market Access program. The tables also acknowledge that others have contributed to realisation of the outcomes. For each outcome, the specific contribution of the program (incorporating collaborating industry groups' efforts) is nominated. The remainder is attributed to the efforts of government negotiators.

## Economic trade barriers: measuring the benefits of access improvements

Outcome	Improvement	'Status quo'	Program contribution
US lamb safeguards removed	Introduced in July 1999 Removed in November 2001	Safeguard continues until July 2002 50% probability safeguard is maintained a further 12 months (at same level)	50%
US FTA negotiated	Agreement effective on 1 January 2005: – Lamb and mutton duties eliminated immediately	No change in access arrangements	30%
China WTO accession	China joins WTO in 2002: – Lamb tariffs decrease from 23% to 16.4% – Lamb offal tariffs decrease from 20% to 18.2% Reductions phased in between 2002 and 2004	No change in market access	10%
Taiwan WTO accession	Taiwan joins WTO in 2002: – Sheepmeat tariffs reduced from NT\$14.25 per kg or 19% to NT\$11.30 per kg or 15% (whichever is higher) Reductions phased in between 2002 and 2004	No change in market access	30%
Australia-Thailand FTA negotiated	Australia-Thai FTA implemented on 1 January 2005: – Sheepmeat tariffs reduced from 32% to 30% immediately and phasing to zero by 2010 – Live sheep and goat tariffs of 31% reduced to zero immediately	No change in market access	50%

<sup>†</sup> Benefits are presented as changes in industry added value. All results are net present values in 2006 dollars, calculated over a 23-year horizon (1998 to 2020) using a 5 per cent real discount factor.

## Effective collaboration achieves improved market access

Breaking down multilateral, bilateral and technical barriers to beef and sheepmeat market access is a continuous, often tediously slow process that comprises many iterative phases of negotiation. The process requires high-level coordination, and success depends on establishing and maintaining productive government-to-government and industry-to-government relationships. The Market Access program therefore involves a steady stream of activities intended to build and foster relationships with allies, and to wear down resistance to open market access over time, often with only gradual pay-offs.

Through the Market Access program, industry personnel proactively ensure that government officials are provided with detailed information about markets and the likely commercial impacts of trade policy changes or developments in international negotiations. Such intimate industry knowledge is otherwise difficult for government officials to obtain but is vital to arguing the case for improved market access for particular industries.

This collaborative approach across industry sectors and with government agencies has been essential to the successful execution of the Market Access program strategy.

### Red Meat Market Access Committee

The Red Meat Market Access Committee is an industry-government initiative that involves representatives from all relevant government departments and is the premier market access forum. It supports collaboration by seeking to deliver the best possible outcomes across all forms of market access impacting on the Australian red meat industry internationally.

A whole-of-government partnership with the red meat industry, the Red Meat Market Access Committee has overall responsibility for identifying, prioritising and seeking solutions to market access issues. The primary role of the partnership is to set priorities and to progress market access issues that, for various reasons, have not progressed through traditional channels either in government or in the red meat industry.

## MLA collaboration with trade negotiators

MLA's role in its collaborative relationship with industry and the Australian Government is to brief government officers on the industry's preferred outcomes (to optimise economic value) in market access negotiations.

### DFAT rates MLA support

"MLA's skilled and accessible staff members have a solid understanding of trade issues and comprehend the importance of maintaining a constructive working relationship with government. MLA personnel working on trade issues are well respected within both government and industry organisations for their initiative in advocating industry positions and providing support to government negotiations."

*Source: Survey of Australian Government personnel, September 2004 (Peter Berry Consultancy)*

### Doha Round – a trade negotiation marathon

The Market Access program's input to the Doha Round of the World Trade Organization (WTO), which is dedicated to reducing global trade barriers, has comprised two major activities: direct participation in negotiations, both in multilateral

forums and through DFAT; and commissioning high level, newsworthy research to support the case for trade liberalisation.

A number of studies referred to as the Magellan Global Beef Trade Liberalisation series were completed. This initiative arose out of collaboration with like-minded beef industries of other Pacific rim nations. These studies have highlighted the benefits of trade liberalisation to red meat industries and are used not only to support industry positions in negotiations, but to increase more general awareness of beef trade issues in the WTO environment.

The first Magellan study, commissioned in 2000, examined the cost of barriers to trade. Two additional studies in the series were released in 2003. A further study engaged leading academics located in the most protected beef markets to analyse the politics surrounding beef industry protection and to develop strategies to progress liberalisation.

For the sheepmeat industry, a study released in 2003 examined industry priorities for future trade negotiations. It quantified the effect of current barriers and identified where Australian producers could make the largest gains from trade liberalisation. A subsequent sheepmeat report published in 2006 quantified the global benefits of sheepmeat market liberalisation. These studies formed the basis of a proactive trade advocacy campaign aimed at highlighting the benefits of trade reform among WTO trade negotiators and officials.

The Market Access program persists in its efforts to achieve an advantageous outcome of the Doha Round for the Australian red meat industry.

## International industry collaboration

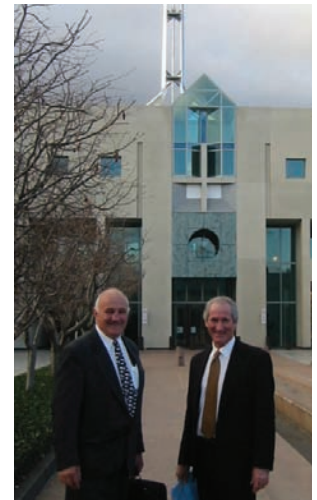
### Tri-Lamb Group

The Tri-Lamb Group comprises producer representatives of the world's major lamb trading partners: Australia, New Zealand and the US.

The Sheepmeat Council of Australia, in conjunction with MLA, continues to foster strong international trade relationships with the US and this has resulted in a second three-year Memorandum of Understanding. The MoU incorporates an agreement to share market and trade information, and to jointly fund an ambitious campaign in the US to highlight the nutritional benefits associated with eating lamb.

### Five Nations Beef Conference

The Magellan project resulted from collaboration between producer representatives of key global beef trading nations that constitute the Five Nations Beef Conference: Australia, Canada, Mexico, New Zealand and the US. The Conference continues to exchange information on market and trade development, animal identification, and animal health and welfare. Trade liberalisation continues to be an issue of mutual interest.

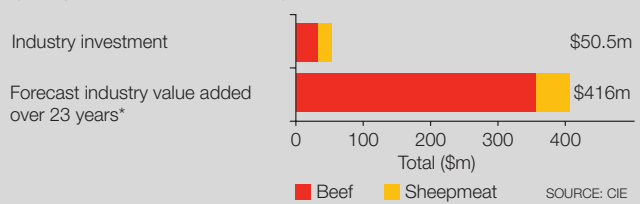


AMIC's Roger Fletcher and MLA Chairman Don Heatley visit the Minister for Trade, Canberra

# Removing and reducing barriers: the market access pay-off



## Benefits from market access (net present value 2006)



## Lessons learned

Improvements to market access usually have a long lead time but are worth the effort. This effort comprises the initiatives constituting the Market Access program and persistence with these projects over years that can extend to decades. The Doha Round is a good example; even if it was to fail in specific objectives, the outcome can be appreciated in the context of successive rounds of WTO (previously GATT) trade talks.

A major strength of the program is its strong working relationship with government. Government collaborators value: timely provision of detailed information about the industry and its priorities; better understanding of complex regulatory issues and other barriers to trade; and pragmatism, particularly the program's grasp of the challenging environment in which policy decisions are made.

The Market Access program has helped to position the red meat industry as one of Australia's most resourceful and cohesive agricultural industries, and its leadership is regarded as persuasively pro-trade. The only criticism has related to the industry's occasional inflexibility stemming from its self-interest where trade-offs are concerned.

In addition, the Market Access program provides significant industry benefits through mitigating future risk by:

- Limiting the likelihood that minor market access incursions will escalate. Anticipation, vigilance, good preparation and incisive, well-articulated responses can forestall the development of more intractable trade disputes in regions such as the Middle East, where maintaining an open trade environment is vital.
- Ensuring the Australian industry's priorities and views remain prominent in inter-government relations. Diplomacy and persistence have kept meat and livestock market access issues on agendas at times when diplomats would have found it easier to proceed without them. The US 'country of origin' labelling issue and Japanese beef safeguards are two obvious examples. It is likely these issues will re-emerge, and the program will be crucial to defending the industry position and reducing the risk of unfavourable outcomes.

Unfortunately protectionist sentiment is still evident worldwide and has been increasingly expressed through the use of technical (SPS) barriers. Broader protectionist sentiment has also complicated the Doha Round discussions and delayed a multilateral WTO outcome. This, in turn, has sparked growth in the number of Free Trade Agreements, which are creating both opportunities and potential competitive disadvantages for the Australian industry. These must all be addressed, and positions formulated, by the Market Access program.

Most recently, the program has highlighted the role of

\* 1998-2020

increasingly complex food safety standards in market access restrictions. Technical barriers to trade are becoming more diverse and complex, and require scientific rationale, not only in relation to food safety but also to animal health and welfare, and environmental standards. The program, in association with the Food Safety program, is providing leadership in coordinating activities with other organisations where their technical input improves the industry's future capacity to meet rising standards that determine access to markets.

Overall, objective independent evaluation shows that the Market Access program has delivered substantial and quantified industry benefits with additional potential gains, particularly if further market liberalisation is delivered in North Asia and the European Union.

## Fast financial facts

### Total Market Access program

Industry investment to 2006	\$50.5 million
Forecast industry value added over 23 years*	\$416 million
Internal rate of return	40%
Benefit-cost ratio	8:1

### Beef market access

Beef industry investment to 2006	\$30.3 million
Forecast industry value added for beef over 23 years*	\$359 million
Internal rate of return	40%
Benefit-cost ratio	12:1

### Sheep market access

Sheep industry investment to 2006	\$20.2 million
Forecast industry value added for sheep over 23 years*	\$57 million
Internal rate of return	38%
Benefit-cost ratio	3:1

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