Bilateral Trade Wars

Understanding the implications for Australian agriculture

by ITS Global
May 2019
Foreword

The re-emergence of bilateral trade wars appear to have taken the global trading environment back decades into a bygone era. The World Trade Organization (WTO) principles of a rules based trading system are under threat and the longer term implications for Australian agriculture are largely unknown.

While there may potentially be short term opportunities for some Australian agricultural commodities, the trade wars will more likely have longer term negative impacts as United States of America (US) trade is diverted and global trading conditions become less predictable. With the help of robust analysis on the impacts, it is hoped that the Australian agriculture sector will be able to take a leadership role in trying to bring stability back to the global trading environment.

United States of America President, Donald Trump, was elected to office on a platform that included a commitment to address “unfair” trade practices and reduce bilateral trade deficits with China, the European Union and other major trade partners. The Trump Administration has sought to renegotiate existing trade agreements, employ US unilateral trade sanctions, and limit engagement in, and support for, WTO forums, in order to achieve these outcomes.

US unilateral actions are unsettling the international trading system and contributing to growing trade uncertainty. Report findings identified a wide range of risks and opportunities for Australia’s agricultural interests arising from the current trade wars, finding that some Australian products are likely to fare better than others. An overarching conclusion is that trade wars breed uncertainty – as agricultural producers, traders and buyers struggle to manage a shifting policy landscape – and uncertainty is bad for business. The longer this period of uncertainty lasts, the more commercial decisions need to be made by Australia’s exporters facing the prospect of sudden and unpredictable policy changes at the global level.

This report has been produced under AgriFutures Australia’s National Rural Issues Program. It is an addition to AgriFutures Australia’s diverse range of over 2000 research publications and it forms part of our National Challenges and Opportunities arena, which aims to identify and nurture research and innovation opportunities that are synergistic across rural sectors.

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About the Author

ITS Global is a consultancy that specialises in public policy in the Asia Pacific region. Its expertise spans international trade and economics, investment, environment and sustainability, international aid and economic development and management of strategic risks. ITS Global provides research, analysis and commercial policy advice to agriculture and agri-business industries in Australia and the region. It has a proven record consulting to Australian agriculture on trade policy developments, international trade agreements and their impacts across pork, red meat, wool, poultry, wheat, dairy, horticulture, grains and processed foods industries. Consultants have technical expertise in research and analysis on international trade and high level experience providing strategic advisory on agricultural trade interests. The consultancy has strong historical connections with leading US trade policy advisors in the United States and each of Australia’s major trading partners in leading agricultural markets.

Abbreviations

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<tr>
<th>Acronym</th>
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<tr>
<td>AB</td>
<td>Appellate Body</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>AUSFTA</td>
<td>Australia-United States Free Trade Agreement</td>
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<td>CFTA</td>
<td>China-Australia Free Trade Agreement</td>
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<td>CPTTP</td>
<td>Comprehensive and Progressive Agreement for Trans-Pacific Partnership</td>
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<td>DIT</td>
<td>United Kingdom Department for International Trade</td>
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<td>DSC</td>
<td>United States Department of Commerce</td>
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<td>DSB</td>
<td>Dispute Settlement Body</td>
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<td>EMP</td>
<td>Emerging Markets Program</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<td>FMD</td>
<td>Foreign Market Development Program</td>
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<td>HGP</td>
<td>Hormone growth promotants</td>
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<td>JAEPA</td>
<td>Japan-Australia Economic Partnership Agreement</td>
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<td>KFTA</td>
<td>Korea-Australia Free Trade Agreement</td>
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<td>KORUS</td>
<td>United States-Korea Free Trade Agreement</td>
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<td>MAP</td>
<td>Market Access Program</td>
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<td>MFN</td>
<td>Most-Favoured Nation</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>RCEP</td>
<td>Regional Economic Cooperation Agreement</td>
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<tr>
<td>TRQ</td>
<td>Tariff-Rate Quota</td>
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<tr>
<td>TASIC</td>
<td>Trade Assistance for Specialty Corps</td>
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<td>TIPP</td>
<td>Transatlantic Trade and Investment Partnership</td>
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<td>TPP</td>
<td>Trans-Pacific Partnership</td>
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<td>USDA</td>
<td>United States Department of Agriculture</td>
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<td>USMCA</td>
<td>United States-Mexico-Canada Agreement</td>
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<td>USTR</td>
<td>United States Trade Representative</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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Executive Summary

The Setting — In 2017, incoming US President Donald Trump announced a policy to reduce US trade deficits and stop trading partners taking advantage of the United States.

Economists pointed out trade deficits are not necessarily bad, but this was not President Trump’s view of the situation. From the outset, China was a particular target. The administration announced additional tariffs on imports of solar panels and washing machines, steel and aluminium, and considered similar measures on imported automobiles. Free trade agreements (FTAs) also attracted presidential scrutiny, with the recently-signed Trans-Pacific Partnership (TPP) abandoned in early 2017, and the North American Free Trade Agreement (NAFTA) renegotiated. Despite a tumultuous beginning to talks with NAFTA partners Canada and Mexico, the revised agreement (USMCA) was relatively well-received on its completion in 2018 (however, it is yet to be ratified by the US Congress). The agreement was regarded favourably by the American Farm Bureau, the leading US agricultural business organisation.

China has responded in kind, announcing retaliatory tariffs on almost all of the goods it imports from the US, including billions of dollars’ worth of agricultural products. Other trading partners affected by the steel and aluminium tariffs — including the EU, Canada and Mexico — have also announced retaliatory tariffs on US goods.

The US and China are — at the time of writing — negotiating an agreement that both sides hope will mark an end to hostilities. As the world’s two largest economies, any agreement inked by the US and China will have ramifications for Australia, and for all other trading nations. China has become Australia’s most important agricultural export customer. Leading Australian exports to China include wool, beef, dairy products, seafood, horticultural products and grains and other crops.

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During 2018, punitive tariffs were applied to approximately half of all goods imported into the US from China. The US also called on China to cease requiring US investors to hand over intellectual property to Chinese firms, and to end compulsory joint ventures in major industries, such as automobile manufacturing.

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Risks and opportunities

Australia can take advantage of market opportunities in new trade agreements such as the CPTPP. The US is at a disadvantage in CPTPP markets, including Japan, following President Trump’s decision to withdraw from the pact in 2017. However any gains achieved in bilateral and regional trade agreements must be considered in comparison with gains achieved by Australia’s competitors in other agreements. For example, the US is using a combination of threats and enticements on auto access to the US market to seek expanded access for US agriculture to markets including Japan. This may partly compensate the US for withdrawal from CPTPP.

A new trade environment is also emerging which delivers potential advantages to Australia’s agricultural competitors in Latin America. Improved efficiency and greater control of animal disease is raising the prospect of greater market access opportunities for agricultural producers including Brazil and Argentina. The resurgence of these producers presents a significant risk for competing Australian exporters.

Australia’s beef exports are likely to be largely unaffected by tariff actions in key markets, however a prospective US FTA with Japan threatens Australia’s current competitive position in that market. US trade talks with Brazil could see it expand its presence in the US market to the disadvantage of Australia.

Trade policy actions are projected to have an overall positive impact on Australia’s wheat exports, particularly to China. US access is currently restricted. However, settlement of the broader trade disputes between the US and China could re-open or expand this market for US exports.

China has some advantages over US producers in the Chinese market. The US is at a disadvantage in CPTPP markets, including Japan, following President Trump’s decision to withdraw from the pact in 2017. However any gains achieved in bilateral and regional trade agreements must be considered in comparison with gains achieved by Australia’s competitors in other agreements. For example, the US is using a combination of threats and enticements on auto access to the US market to seek expanded access for US agriculture to markets including Japan. This may partly compensate the US for withdrawal from CPTPP.

Australia’s dairy exports are not expected to be adversely affected in the near term by trade policy actions taken between the US and its trading partners. As usual, the primary source of competition will be New Zealand. There may be positive impacts for Australian exports to China, as tariffs on US products create opportunities for Australia. However, Australia will need to compete with New Zealand for expanded market shares. A prospective US/Japan FTA could have negative implications for Australia, as US producers who have been disadvantaged in the Chinese market could gain improved access to Japan. This last finding underlines the negative consequences (eroding advantage over US competitors in the Japanese market) that can follow short-term gains (greater tariff advantages over US producers in the Chinese market).

There is a negligible impact on sugar exports overall. China’s tariffs on US cane sugar, plus preferential access under ChAFTA may create opportunities for Australian exporters to expand existing supply arrangements to the Chinese market. China’s apparent efforts to diversify supply sources for agricultural goods could see sugar products from Latin America entering the market to a greater degree.

For horticulture export interests, the impact is largely positive in the short-term, particularly for exports to China under the terms of ChAFTA. It is yet to be seen if Beijing’s negotiations with the US result in greater US access for horticultural goods.

It is also possible that an FTA between the US and Japan would expand access for US horticulture at the expense of current Australian access to the Japanese market.

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Australia’s wool exports to China are not directly impacted by the bilateral trade wars. US tariffs on Chinese yarn exports could impact negatively on Chinese demand for Australian wool. However the impact is likely to be small, as there have not yet been additional tariffs applied to other end uses for Australian wool, including apparel.

Australia’s exports of crustaceans may benefit from additional opportunities in the Chinese market due to tariffs on US product. However, Australian exports to other Asian destinations may suffer, as US exporters seek out alternative markets.

Recommendations: Strengthen FTAs and support WTO

The complex and dynamic forces outlined above create a need for careful planning to safeguard the viability of Australia’s agricultural exports. By continuing to press for better access to key markets, and by championing the global rules-based trading system, Australia can best defend its position as one of the world’s leading agricultural exporters.

The following recommendations are the result of the analysis being undertaken through the project which was independently commissioned by AgriFutures Australia. The recommendations are not intended and are not advice from, or to, government but have been developed to inform industry input to trade policy debate and discussions.

First, Australia should build on terms of access in existing FTAs with key trading partners (e.g., Japan, China, ASEAN, and the US) and to secure preferential access through new FTAs (e.g., the Regional Comprehensive Economic Partnership, and the prospective Australia-EU agreement) in order to neutralise the threat of any advantages accorded to agricultural competitors as a result of parallel FTAs signed by our competitors, including major producers in Latin America. Although Australia has to date achieved impressive market access advantages through bilateral and regional trade agreements, ongoing vigilance is required. Our competitors continue to push for new and revised trade agreements granting better access to key agricultural markets, especially in Asia. Australia must do likewise.

At the same time, Australia should continue to actively enforce existing rights under the WTO. As a medium-sized, open economy that is dependent on trade to underpin economic growth, Australia benefits significantly from the confidence and predictability inspired by the smooth operation of the international trade regime. By the same token, Australia is particularly exposed to any deterioration in the global rules-based trading order.

The WTO is currently hamstrung while the global trade system continues to function. Its capacity to adjudicate disputes and to advance multilaterally agreed solutions toward reform of agricultural markets is increasingly strained and uncertain. As President Trump questions key aspects of the WTO, it is incumbent on member states like Australia to stand up and defend the rules-based system.

Australia’s cotton exporters are projected to benefit from the temporary advantage offered by China’s tariffs on US exports. In 2017, the US was China’s top source of cotton imports, followed by Australia.

Australia is a major player in global agricultural trade, and is rightly recognised as an efficient, high-quality producer of clean, green products. President Trump’s trade wars and the flurry of bilateral counter-measures and negotiations they have sparked present short-term risks and opportunities for Australian exporters, and longer-term uncertainty for the sector as a whole. Australia can best manage this uncertainty by increasing access granted under new and existing FTAs, and by helping support and reform the World Trade Organization.
On taking office in January 2017, US President Donald Trump quickly made trade policy a priority for his Administration.

On the third day of his presidency, Trump signed an Executive Order withdrawing the US from the Trans-Pacific Partnership (replaced by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership – CPTPP), a 12-member Asia-Pacific trade pact representing about 40 per cent of the global economy that had been strongly supported by the Obama Administration. This early act set the tone for an aggressive approach to trade policy, guided by a belief that trade is a zero-sum game, and that US interests are best served by negotiating ‘deals’ bilaterally rather than through multilateral engagement.

As the world’s second-largest economy and America’s most important trading partner, China has been a primary trade policy target of President Trump since the beginning of his presidency. Trump’s actions towards China typify his belief that the US achieves superior trade policy outcomes through bilateral deal-making, rather than through structured regional and multilateral negotiations. Actions to date include an expanded use of presidential trade policy levers – including key sections of the 1974 US Trade Act and 1962 US Trade Expansion Act which invoke national security concerns, unfair trade practices and do not require approval of the US Congress. Using these levers, Trump has to date applied additional tariffs of 25 per cent on US$50 billion worth of imports from China, and 10 per cent on a further US$200 billion worth of Chinese imports.

At the same time, the Trump administration has applied tariffs on imports of steel and aluminium products from a range of trading partners including the European Union (EU), India, Japan, Turkey, Canada and Mexico. Each of these parties has responded with trade policy reactions of its own, including retaliatory tariffs on US goods, as well as challenging the tariffs under the WTO (World Trade Organization) dispute settlement rules.

Alongside tariff policy actions, the US has sought to initiate ‘trade deals’ and ‘trade agreements’ with various partners. The agreements are aimed at leveling the playing field for US exporters – countering what the US considers are the ‘unfair advantages’ enjoyed by foreign providers in accessing the US market while maintaining high barriers to US exports, and addressing the advantages accorded to competitors in key markets arising from the CPTPP.

As the world’s second-largest economy and America’s most important trading partner, China has been a primary trade policy target of President Trump since the beginning of his presidency.

Outlines the scope of the ‘bilateral trade wars, including the trade policy actions taken by the US and its trading partners since the beginning of 2017 as well as new and prospective FTAs of the US arising from the current trade environment. Annexes I and II provide a detailed compendium of the policy actions and trade agreements.

Assesses the implications of the ‘bilateral trade wars’ for Australia’s agricultural exports given the competitive trade landscape and current policy environment.

Presents the findings of analysis of the projected impacts of the bilateral trade wars taking into account US tariff actions and prospective free trade agreements (FTAs). For each agricultural product category it demonstrates whether the likely net impact is positive or negative and the degree by which Australian exports could be affected.

Sets out conclusions and recommendations. It recommends how Australian agriculture can seize the opportunities and counter the threats to export interests posed by the bilateral trade wars and support the global rules based trading system.
Objectives

The main objectives of this project are to help Australian agricultural stakeholders understand how the trade policy actions taken by the Trump Administration – along with retaliatory measures implemented by key trading partners – could impact Australian agriculture. By mapping and assessing these forces, the project is intended to better equip Australian industry and government to manage and mitigate these impacts, and take advantage of emerging opportunities.

Objective 1
Identify markets and products where trade is most affected to provide a baseline business-as-usual case.

Objective 2
Provide a detailed assessment of recent trade policy developments emanating from US trade policy and counterparts and their likely impact on trade flows and market opportunities.

Objective 3
Provide Australian agricultural stakeholders with a range of outcomes that could eventuate from the current period of trade policy uncertainty.

Objective 4
Equip decision-makers to position themselves to both take advantage of opportunities created by the dynamic trade environment, as well as address the most serious looming challenges.

Methodology

The objective of this study is to investigate the likely impacts on Australia’s agricultural export interests of the ‘bilateral trade wars’ currently underway between the US and key trading partners.

While it is difficult to foreshadow the implications of the immediate trade tensions against the medium to longer term US bilateral trade deal negotiations, detailed information on these negotiations to date was compiled and analysed. The commitments made and/or mooted under each negotiation were assessed, and projected effects on Australia’s export interests were teased out.

Expert consultation

ITS Global consulted agricultural and economic policy experts located in the US, China, Korea and Japan, including members of the Australian diplomatic corps and specialist consultants. Information gathered from these sources informed and modified conclusions drawn from analysis of trade flows, policy actions and trade agreements.

Assessment

The positive and negative dynamic implications of all of these factors on the priority agricultural products were considered. The results of the assessment of the impact are provided as a percentage, either positive or negative. A positive percentage indicates that the factors identified are assessed to create more opportunities than risks for Australia’s export interests. For example, a rating of +1 per cent indicates that – all else being equal – the factors assessed as part of this study create additional export opportunities equivalent to one percent of previous total export value. A negative rating can be understood in a similar fashion, resulting in fewer opportunities. A rating of zero indicates that the net effects of the trade wars have been assessed to balance out, leading to no discernible effect on Australia’s export interests.

Prospective trade agreements

President Trump has openly linked the imposition of the punitive tariffs outlined above to his desire to bring trading partners to the negotiating table to either revise existing FTAs (Korea, Canada and Mexico), or negotiate new bilateral pacts (Japan, the Philippines, the European Union and the United Kingdom). In addition, the US and China are negotiating what is referred to by some as a ‘managed trade agreement’, which envisages the removal of punitive and retaliatory tariffs; intellectual property and economic policy reform in China; and a Chinese commitment to purchase more American agricultural and energy commodities. The likely conclusion to these talks is a pact that will be unlikely to meet the standards of a genuine free trade agreement, which would have to meet certain WTO standards and require the approval of US Congress. However, even an agreement of limited scope carries implications for global agricultural trade.

Note: throughout this report, references to ‘Korea’ should be understood as indicating the Republic of Korea, a.k.a. South Korea.
The new trade environment
Section 301 tariffs on Chinese goods

Section 301 of the US Trade Act of 1974 empowers the administration to apply tariff measures to trading partners if the Office of the United States Trade Representative (USTR) establishes that partners have either violated a trade agreement, or imposed a policy that creates an unjustifiable barrier or restriction on US commerce. In 2018, the USTR initiated a Section 301 investigation into Chinese policy actions on “technology transfer, intellectual property, and innovation.” The investigation found that China applies discriminatory policies that restrict US commerce, including joint venture requirements; constraints on licensing terms; facilitating unfair acquisition of US companies to secure technology transfer; and promoting unauthorized access to sensitive commercial information.

Following these findings, USTR recommended the imposition of 25 per cent ad valorem tariffs on Chinese imports worth US$200 billion, which were deemed to have benefited from the policies identified. In September 2018, an additional 10 per cent tariff on another US$200 billion worth of imports from China was also announced. The additional tariffs applied to this list of imports were scheduled to increase to 25 per cent at the end of 2018; however, this increase was postponed while the US and China attempt to reach a negotiated agreement. At the time of writing, the scheduled increase remains indefinitely postponed.

The Chinese products targeted by the US tariffs for 10 per cent additional tariffs include agricultural products. Certain categories of grains and other crops, horticultural goods, sugar, cotton and wool are covered. In return, China has targeted a wide range of US agricultural products with retaliatory tariffs. See Annex I, Table I.2 for details of the products targeted by both the US and China.

Government support to farmers

The US Farm Bill

The passage of the Agriculture Improvement Act of 2018 in late December 2018, commonly called the Farm Bill, saw the four trade promotion programs from the 2014 bill consolidated into a single program, the Agricultural Trade Promotion and Facilitation program. The program provides US$2.55 million per year over the 2019-2023 period to fund the Market Access Program (MAP), theForeign Market Development (FMD) Program, the Emerging Markets Program (EMP) and Trade Assistance for Specialty Crops (TASC).

The 2018 Farm Bill also establishes a Priority Trust Fund to be used at USDA’s discretion to help meet requests that exceed the appropriated program funds.

Over the next ten year period, the bill provides US$500 million in permanent funding to help find new foreign markets for U.S. agricultural products.

USDA’s Trade Aid Package

In April 2018, President Trump directed Secretary of Agriculture Sonny Perdue to devise a plan to mitigate any financial damage to US agricultural producers that could result from ongoing trade battles. In July 2018, Secretary Perdue unveiled a three-part US$12 billion plan to ease the retaliatory tariffs on US farmers through a mix of payments, purchases and trade promotion efforts.

The trio of trade aid programs is authorised to spend up to US$12 billion to reduce the impacts of trade disputes on US agricultural producers. The programs are authorised under the Commodity Credit Corporation (CCC) Charter Act, a Depression-era funding program that does not require Congressional approval. POLITICO, a news outlet, reported that the package is larger than any emergency relief for farmers in recent memory and is an unprecedented rationale for tapping into the CCC account.

The United States Department of Agriculture (USDA) paid farmers about US$5.2 billion in 2018 and is projected to pay another US$3.5 billion in 2019, totalling US$8.7 billion, according to the department’s 2018 farm income forecast. It is unclear exactly how much money producers will ultimately receive.

Trade aid

- In the first part of the aid plan, the government provides direct payments of up to US$10 billion under the Market Facilitation Program (MFP). Payments totalled US$7.06 billion just before the February 14 application deadline for the second and final tranche of payments. Up to US$9.6 billion was available.

- The second part, the Food Purchase and Distribution Program, uses authority under USDA’s Agricultural Marketing Service to purchase up to US$1.2 billion in an initial 29 trade-impacted commodities from US producers for redistribution to federal nutrition assistance programs.

USDA has made US$500.6 million in total purchases and is on track to meet its goal of buying US$1.2 billion worth of affected commodities, such as produce, nuts, orange juice, lentils and pork, before the fiscal year ends on September 30.

- The plan’s third element, the Agricultural Trade Promotion Program (ATP), provided one time funds of US$200 million to 57 organisations to boost agricultural trade promotion efforts. The money can be used for such activities as consumer advertising, public relations, point-of-sale demonstrations, participation in trade fairs and exhibits, market research, and technical assistance.

US farmers and the majority of farm-state lawmakers appear lukewarm to the package. Many would prefer the Trump administration focus on expanding access to foreign markets, rather than creating disputes with trading partners which raise barriers to US exports.

Secretary Perdue has stated there will not be further trade-related financial assistance beyond the initial packages. President Trump’s 2020 budget calls for a 15 per cent decrease in funding to the USDA and proposes the agency make “targeted reforms to duplicative programs and overly generous subsidy programs.”
A ‘trade deal’ with China

US – China trade dispute

President Trump’s hostility to Chinese economic policy dates back to before he took office in 2016. In 2011, Trump tweeted that “China is neither an ally nor a friend — they want to beat us and own our country.” The tweet was among several statements he made criticizing China’s trade practices before running for president.

Candidate Trump campaigned on cracking down on what he called Chinese trade abuses and made clear that he planned on significantly reorienting trade relations with China. Reducing the US trade deficit with China has consistently been one of President Trump’s top priorities.

Since taking office, President Trump has been proactive in addressing a long-standing list of US grievances with China’s model for economic development. The US charges that China has stolen trade secrets, violated patents, forced companies that are investing in China to share their technology with Chinese partners and hacked industrial targets.

The Trump administration last year demanded major structural changes to China’s economic model to allow US companies to compete on a more level playing field. These demands include: an end to policies and regulations that the US claim effectively force US companies to transfer their technology to Chinese partners; full protection for US intellectual property rights; dismantling a web of subsidy programs that disadvantage foreign competitors.

In 2018, Trump applied five sets of tariffs under an array of US trade laws, including claims that tariffs were needed to protect national security. Some of the tariffs hit China exclusively, and some hit China along with other countries. Combined, the tariffs cover US$360.7 billion, or 12.6 per cent, of the total of goods that the US imported in 2017.1

At a post-G20 summit meeting in December 2018, President Trump and President Xi announced a deal to halt the escalation of tariffs. China agreed to increase its purchase of US farm produce, energy and some industrial goods to reduce the trade imbalance. In exchange the US agreed to delay an escalation in tariffs. China agreed to purchase a “substantial amount of US agricultural, energy, manufactured goods, and other products and services from the US.”2 but noted that several outstanding issues remain.

Later that month, the US and China held talks in Washington with Chinese Vice Premier Liu He leading China’s trade delegation. During the negotiations, China offered to buy five million tons of US soybeans.

In February, the US and China held trade talks in Beijing where President Xi met with the top negotiators from the US, in what was widely interpreted as a goodwill gesture. At the end of negotiations, the US and China continued to have differences, but agreed to keep talking.

The following week in Washington, President Trump met with Liu He in front of the media expressing optimism about a trade deal. At the time China proposed to buy an additional US$30 billion a year of US agricultural products including soybeans, corn and wheat. Secretary Perdue said it was “premature” to comment on what or how much China might buy as part of a trade deal.

Later that week, Trump announced via Twitter that he will delay the tariff increase on US$200 billion of imports from China that had been scheduled to go into effect on March 1, 2019.

US Secretary of the Treasury, Steven Mnuchin, stated in mid-April that the US and China have largely agreed on an enforcement mechanism for a bilateral trade deal and that no single ‘sticking point’ was holding up talks. He refused to comment on whether a final agreement with China would lead the US to lift tariffs on $250 billion worth of Chinese goods.

At the time of writing, it appears likely that the US and China will come to some kind of agreement in the coming months. Sources advise that this accord will likely include some industry policy reforms on the Chinese side, and a commitment to purchase additional US agricultural and energy exports. On April 10th, 2019, Inside US Trade reported that the two parties had almost reached agreement on an enforcement mechanism, one of the most contentious aspects of the negotiations.3
1.2 New and prospective trade agreements

Bilateral trade deals with Japan, possibly the EU and the UK, as well as the Philippines and Brazil have been approved or are being considered by the US. Talks with Japan and the EU, as well as the renegotiation of the North American Free Trade Agreement (NAFTA) with Canada and Mexico were launched under pressure of Section 232 tariffs. All parties have primarily sought to avoid adverse tariff impacts on their auto industries rather than expand trade per se. Possible deals with Brazil, the UK and the Philippines have been motivated more by the potential opportunity to expand trade.

The USTR expects to host eight negotiating rounds in 2020. It has not indicated which agreements it will focus on. Finalising negotiations with China is the current priority of the Trump administration.

US – Mexico – Canada Trade Agreement (USMCA)

The USMCA was negotiated between 2016 and 2018 at the initiative of the Trump administration to update NAFTA, in the wake of the threat of imposition of US tariffs. It was signed by President Donald Trump, Mexican President Enrique Peña Nieto, and Canadian Prime Minister Justin Trudeau on November 30, 2018 as a side event of the 2018 G20 Summit in Buenos Aires. Each country’s legislature must still ratify the agreement.

USMCA makes significant improvements for US agricultural producers. The agreement also includes commitments to improve conditions for trade in wheat between the US and Canada. Canada has agreed to revise its grain grading policies to accord national treatment to US wheat as it relates to the assignment of quality grades (treat US wheat in way that is “no less favourable than that it accords to like wheat of national origin”). No country of origin is to be specified on wheat certificates from either party – i.e., they are to be treated as of national origin. This will allow for grading of wheat on a non-discriminatory basis to permit exports to be priced according to grade. Canadian inspection certificates for wheat currently do not allow for a grade.18

There are provisions to enhance trade in biotech products which were not included in NAFTA. They apply to crops produced with conventional biotechnology methods, including recombinant DNA and gene editing. All parties must make publicly available the details on the approval process for crops produced with biotechnology, encourage producers to submit concurrent applications for approval, and ensure that decisions on those applications are made in a timely manner. A Working Group for Cooperation on Agricultural Biotechnology is also created to help with information exchange and transparency.19

US – Japan Trade Agreement

The US and Japan agreed in September 2018 to negotiate a trade agreement. The US initiated talks with Japan last year in response to concerns from its domestic agriculture sector over competitive advantages accorded to Canada and Australia as a result of the Japan–Australia Economic Partnership Agreement (JAEPA) and the CPTPP. Japan was initially reluctant to negotiate, preferring instead to focus on entry into force of the CPTPP, but agreed to begin negotiations largely to ameliorate the impact of US tariffs (current and threatened) on its automobile industry.

The Trump administration notified Congress in 2018 of its intent to start negotiations following the completion of relevant domestic procedures. Formal talks are yet to begin.

It is not yet clear what the trade agreement will include. The US has stated it will push Japan to reduce tariffs on agricultural products that are “equal or better than the CPTPP deal.” US Agriculture Secretary Perdue has stated the US would expect to have an equal or better deal than EU-Japan FTA.

Dairy

Two key commitments expand access to the Canadian market for US producers in the USMCA: the elimination of the Canadian Class 7 milk price and increased market access for selected dairy products.

First, Canada’s Class 7 milk price will be expanded for U.S. exports of milk, cheese, cream, skim milk powder, condensed milk, yogurt, and several other dairy categories. TRQs are specifically established for 14 categories of U.S.-dairy products over 61 tariff lines. The TRQ amounts are established for year 1 and doubled in year 2 and would then increase by 50 per cent, 33 per cent, 25 per cent and 25 per cent in years 3 to 6. After year 6, the quantities of each category increase at a compound growth rate of 1 per cent for the subsequent 13 years. After year 19, the quotas are fixed at 19 level. US dairy products exported under the TRQ enter Canada duty free. US exports above the TRQ quantities are subject to the Canadian MFN rates, except for whey which is eliminated by year 19.

Several restrictions apply to certain US dairy products, for example, certain percentages of the TRQs are reserved for bulk shipments of milk, cream butter and cheese.

Second, Canada agreed to eliminate its Milk Class Pricing System upon entry into force.20 It will calculate component prices for skim milk powder, milk protein concentrates, and infant formula based on a US reference price, and establish a mechanism to monitor export of skim milk powder, milk protein concentrates, and infant formula. Those products will be subject to surcharges if exports exceed an agreed threshold. Information on laws and regulations on milk class pricing, including components (butterfat, protein, and other solids), processing margins, and yield factors must also be published to improve transparency.

This outcome was a key demand of US industry. US producers had long contended that the milk pricing system kept skim milk products cheaper for domestic producers, allowing Canada to expand global exports of SMP and cause US producers to lose exports of high protein ultra-filtered (UF) milk to Canadian cheese and yogurt processors.

Canada will also gain increased access to the US market. The US will establish Canadian specific TRQs with duty-free access for eight categories of dairy products (including cream, butter, cheese, SMP, whole milk powder, dried yogurt, and concentrated milk). The TRQ amounts are similar to the access amounts Canada grants to the US and expand at the same rates through year 6. Thereafter, the TRQ-volumes increase 1 per cent each year through year 19.

Once in force, the US and Canada are to revisit the agreement after five years and then every two years to determine if any modifications or termination of the agreement is required.

Advance notification requirements apply for both parties for any changes in tariffs or quotas. Parties must meet five years after the USMCA’s implementation and every two years thereafter to consider any changes to be made to dairy pricing.

US access to Mexico for cheese is also improved. In a side-letter, Mexico confirmed that US market access for 33 cheeses will be protected under USMCA.21 This was in part motivated by protections accorded to cheese products by the EU–Mexico FTA.

Sugar

USMCA provides increased market access to the US for Canada’s sugar beet producers through an expanded tariff-rate quota (TRQ). The expanded TRQ commitment was based on an agreement between the US and Canada as part of TPP negotiations.

The agreement also includes commitments to improve conditions for trade in wheat between the US and Canada, including provisions to enhance trade in biotech products which were not included in NAFTA. A Working Group for Cooperation on Agricultural Biotechnology is also created to help with information exchange and transparency.22

Following are agricultural products and measures identified for inclusion in the USMCA.

USMCA TRQs for US dairy exports to Canada

<table>
<thead>
<tr>
<th>Dairy Category</th>
<th>Year 1</th>
<th>Year 6</th>
<th>Year 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>8,333</td>
<td>50,000</td>
<td>56,015</td>
</tr>
<tr>
<td>Cream</td>
<td>1,750</td>
<td>10,000</td>
<td>11,950</td>
</tr>
<tr>
<td>Skim Milk Powder (SMP)</td>
<td>1,750</td>
<td>7,500</td>
<td>8,578</td>
</tr>
<tr>
<td>Butter, Cream Powder</td>
<td>750</td>
<td>5,000</td>
<td>5,121</td>
</tr>
<tr>
<td>Cheese, Industrial Use</td>
<td>1,042</td>
<td>6,250</td>
<td>7,113</td>
</tr>
<tr>
<td>Cheese, All Types</td>
<td>1,042</td>
<td>6,250</td>
<td>7,113</td>
</tr>
<tr>
<td>Milk Powders</td>
<td>115</td>
<td>690</td>
<td>785</td>
</tr>
<tr>
<td>Concentrated Milk</td>
<td>230</td>
<td>1,380</td>
<td>1,671</td>
</tr>
<tr>
<td>Yogurt, Buttermilk</td>
<td>689</td>
<td>4,135</td>
<td>4,706</td>
</tr>
<tr>
<td>Powdered Buttermilk</td>
<td>87</td>
<td>520</td>
<td>592</td>
</tr>
<tr>
<td>Whey Powder</td>
<td>689</td>
<td>4,135</td>
<td>4,706</td>
</tr>
<tr>
<td>Products of Natural Milk</td>
<td>460</td>
<td>2,760</td>
<td>3,141</td>
</tr>
<tr>
<td>Ice Cream, Mixes</td>
<td>115</td>
<td>690</td>
<td>785</td>
</tr>
<tr>
<td>Other Dairy</td>
<td>115</td>
<td>690</td>
<td>785</td>
</tr>
<tr>
<td>Total</td>
<td>16,667</td>
<td>100,000</td>
<td>109,103</td>
</tr>
</tbody>
</table>

Source: US Congressional Research Service

The expanded TRQ commitment was based on an agreement between the US and Canada considered as part of TPP negotiations.

Grains and other crops

USMCA includes commitments to improve conditions for trade in wheat between the US and Canada. Canada has agreed to revise its grain grading policies to accord national treatment to US wheat as it relates to the assignment of quality grades (treat US wheat in way that is “no less favourable than that it accords to like wheat of national origin”). No country of origin is to be specified on wheat certificates from either party – i.e., they are to be treated as of national origin. This will allow for grading of wheat on a non-discriminatory basis to permit exports to be priced according to grade. Canadian inspection certificates for wheat currently do not allow for a grade.

There are provisions to enhance trade in biotech products which were not included in NAFTA. They apply to crops produced with conventional biotechnology methods, including recombinant DNA and gene editing. All parties must make publicly available the details on the approval process for crops produced with biotechnology, encourage producers to submit concurrent applications for approval, and ensure that decisions on those applications are made in a timely manner. A Working Group for Cooperation on Agricultural Biotechnology is also created to help with information exchange and transparency.
Japan has indicated it will not make bigger concessions than under existing bilateral and multilateral FTAs, and will primarily focus on goods.

The US wants the deal to extend beyond goods and also cover services. The Trump administration has stated it may seek to pursue negotiations with Japan in stages (i.e., focus on agriculture and automobiles first with another agreement later on). Whether this could be done would need to be considered by the US Congress.

Japan has indicated it will not make bigger concessions than under existing bilateral and multilateral FTAs, and will primarily focus on goods. Japan has not released publicly details of what it will seek in the agreement.

USTR released its negotiating objectives for the FTA in December 2018. They clearly state that it is seeking “to secure comprehensive market access for US agricultural goods in Japan by reducing or eliminating tariffs as well as ‘eliminating practices that unfairly decrease US market access opportunities or distort agricultural markets to the detriment of the United States, including non-tariff barriers, trade distorting activities of SOEs, and restrictive rules in the administration of tariff rate quotas.”

USTR also released its 2019 National Trade Estimate Report on Foreign Trade Barriers (USTR NTE) in April, identifying Japan’s barriers across a range of agricultural products which can be expected to feature in prospective negotiations. The US objective appears to be to use the concessions agreed to in TPP negotiations as a starting point, and push for even better access. Japanese sources have advised that TPP concessions represent a ceiling on what they can agree to.

Beef and sheepmeat are products for which the US will likely seek tariff concessions. US industry has pushed for negotiations to target Japan’s beef global safeguard (from which Australia was exempted as a result of JAEPA). Other products for which the US will likely seek tariff concessions are horticulture (fruits and vegetables including citrus, apples and a range of foods produced domestically in Japan as barriers to US trade, including tariffs of 32 per cent on oranges imported during the period from December to May, 17 per cent on apples, and up to 17 per cent on table grapes imported during the period from March to October).”

Application of biotechnology restrictions are noted in the USTR negotiating objectives, with US industry seeking provisions on agriculture biotechnology as they exist in USMCA. The US apple industry is urging USTR to prioritize sanitary and phytosanitary issues applicable to exports to Japan.

The US negotiating objectives for agricultural goods note the US will seek to “establish specific commitments for trade in products developed through agricultural biotechnologies, including on transparency and management of low-level presence issues, and a mechanism for exchange of information and enhanced cooperation on agricultural biotechnologies.”

Grains and other crops

Barriers to market access for wheat, specifically Japan’s Wheat Import System, is cited in USTR NTE report, principally the requirement for wheat to be imported through the Grain Trade and Operations Division of MAFF’s Crop Production Bureau.

Dairy, sugar, nuts, fish and seafood

The USTR NTE cites high tariffs on citrus and a range of foods produced domestically in Japan as barriers to US trade, including tariffs of 32 per cent on oranges imported during the period from December to May, 17 per cent on apples, and up to 17 per cent on table grapes imported during the period from March to October.

Japan’s tariffs on fruits and vegetables are likely to be targeted for reductions by the US. The USTR NTE cites Japan’s high tariffs on citrus and a range of foods produced domestically in Japan as barriers to US trade, including tariffs of 32 per cent on oranges imported during the period from December to May, 17 per cent on apples, and up to 17 per cent on table grapes imported during the period from March to October.

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The US negotiating objectives for agricultural goods note the US will seek to “establish specific commitments for trade in products developed through agricultural biotechnologies, including on transparency and management of low-level presence issues, and a mechanism for exchange of information and enhanced cooperation on agricultural biotechnologies.”

Meat

Beef and sheepmeat are products for which the US will likely seek tariff concessions from Japan. In its submission to Congress on the FTA, the US Chamber of Commerce submission cites elimination of tariffs on beef and pork, and Japan’s beef global safeguard as targets for the negotiations. The safeguard for frozen beef was triggered in the first quarter of Japanese fiscal year 2017 (April – June) after an increase in imports to just slightly above the threshold, causing the tariff on all frozen beef from the United States to increase to 50 per cent until March 31, 2018. Australia was exempted from application of Japan’s beef safeguard as a result of JAEPA.

Japan’s limits on exports of US beef due to BSE concerns are also highlighted in the USTR NTE as an area where the US considers market access could be improved.

Horticulture

Japan’s tariffs on fruits and vegetables are likely to be targeted for reductions by the US. The US negotiating objectives for agricultural goods note the US will seek to “establish specific commitments for trade in products developed through agricultural biotechnologies, including on transparency and management of low-level presence issues, and a mechanism for exchange of information and enhanced cooperation on agricultural biotechnologies.”
United Kingdom Trade Agreement

The UK and US intend to negotiate a bilateral trade agreement once the UK leaves the EU. The UK and US have to date engaged in preparatory and exploratory work only due to the uncertainty surrounding the UK's exit from the European Union. The UK is yet to work out its arrangements for leaving. From the US side, talks can officially begin by the end of May.

To date a Joint UK-US Working Group on Trade and Investment has been laying the groundwork for a future agreement once the UK has left the EU. This process has involved exchange of information on trade policy-related issues between USTR and the UK Department for International Trade (DIT) on various topics, including agricultural goods.

There is a high degree of uncertainty around what the US and UK can negotiate given that the post-Brexit relationship between the UK and EU is yet to be determined.

Meat and grains

The US agriculture industry supports building on the language in the USMCA. The demands of most groups require that the UK separate its regulatory regime from that of the EU, and align this more closely with science-based (SPS) measures, particularly for meat, grains and agriculture biotechnology.

The American Farm Bureau Federation (AFB) has called for the agreement to 'restore science as the basis for food safety regulations by removing unjustified sanitary and phyto-sanitary restrictions on US beef, poultry and pork' and to remove prohibitions on agriculture biotechnology. It has called for the agreement to address authorization of biotech products and procedures for responding to the detection of a low-level presence of biotech material in a shipment of agricultural commodities or food products to remove the non-commingling expectation for meat and lift the prohibition on ractopamine. It also wants the agreement to include provisions on 'equivalency in regulatory systems' and disciplines on import checks.

A stated objective of the US is to 'promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulations and standards, including through regulatory cooperation where appropriate.' It will also seek to establish an active SPS Chapter Committee that will discuss bilateral and third party SPS specific trade concerns, regulatory cooperation, and implementation of good regulatory practices.

Brazil Trade Agreement

A bilateral trade agreement between the US and Brazil has been flagged at a high political level, but is yet to be formally agreed by both countries. President Trump and President Bolsonaro met in March 2019 following discussions between Brazilian Economy Minister Guido, USTR Lighthizer and US Commerce Secretary Ross including on agriculture issues.

EU – European Union Agreement

The Commission’s goal going forward is likely to put together a package of outcomes that the Trump administration will see as enough of a ‘win’ such that it will not impose auto tariffs on the EU and lift the Section 232 tariffs on US steel and aluminium. It is unlikely a package on regulatory outcomes, without agriculture, would be sufficient for the US. This may be particularly so given the US Presidential campaign in 2019-20.

Following are agricultural products and measures identified for inclusion in the US-EU trade agreement

Dairy

According to USTR’s negotiating objectives, the US is targeting EU non-tariff barriers impacting on US dairy exports. This includes seeking more streamlined certification requirements into the EU, and eased border administration measures, including 'restrictive rules in the administration of TRQs.'

A related aim is to ‘promote greater regulatory compatibility to reduce barriers associated with unnecessary differences in regulations and standards, including through regulatory cooperation where appropriate.’ USTR’s NTE report identifies various (non-tariff) technical barriers of the EU and its member states imposing market access for US dairy products, including country of origin labelling (COOL), nutrition and health labelling, and certification (also encompassing animal welfare).

US auto tariffs are also key, Trump has repeatedly threatened to impose Section 232 auto tariffs on the EU. The EU mandate makes negotiations conditional on auto tariffs not being imposed.

While USTR negotiating objectives are targeted at reducing and removing agricultural tariffs, they mainly focus on addressing technical barriers to trade arising from EU regulatory requirements and policies on biotechnology which apply the precautionary principle rather than a science- and risk-based approach. Measures affecting agricultural products across dairy, beef and grains industries have been identified by US or US industry as target areas in an FTA. See Section 1.2 for further information.

The US and EU have clashed over regulation of health and safety measures for decades following the EU’s decision to ban, contrary to WTO rules, the import of beef treated with hormones from the US. Pursuant to resolution of this dispute, and partly to placate the US on auto tariffs, the EU is considering allocating an expanded part of its global quota for beef specifically to the US. It is reported the EU could grant to the US between 15,000 – 20,000 metric tons of its 40,000 metric ton tariff-rate quota on hormone-free beef which currently shared among five global exporters, including Australia.

The likelihood of progress on FTA talks this year is remote. The political environment is adding to the uncertainty with EU Parliamentary elections taking place in late May. In addition there will be new Commissioners in place by October.

The US agriculture industry supports building on the language in the USMCA. The demands of most groups require that the UK separate its regulatory regime from that of the EU, and align this more closely with science-based (SPS) measures, particularly for meat, grains and agriculture biotechnology.

The American Farm Bureau Federation (AFB) has called for the agreement to ‘restore science as the basis for food safety regulations by removing unjustified sanitary and phyto-sanitary restrictions on US beef, poultry and pork’ and to remove prohibitions on agriculture biotechnology. It has called for the agreement to address authorization of biotech products and procedures for responding to the detection of a low-level presence of biotech material in a shipment of agricultural commodities or food products to remove the non-commingling expectation for meat and lift the prohibition on ractopamine. It also wants the agreement to include provisions on ‘equivalency in regulatory systems’ and disciplines on import checks.

A stated objective of the US is to ‘promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulations and standards, including through regulatory cooperation where appropriate.’ It will also seek to establish an active SPS Chapter Committee that will discuss bilateral and third party SPS specific trade concerns, regulatory cooperation, and implementation of good regulatory practices.

US – Brazil Trade Agreement

A bilateral trade agreement between the US and Brazil has been flagged at a high political level, but is yet to be formally agreed by both countries. President Trump and President Bolsonaro met in March 2019 following discussions between Brazilian Economy Minister Guido, USTR Lighthizer and US Commerce Secretary Ross including on agriculture issues.

Following are agricultural products and measures identified for inclusion in the US-Brazil trade agreement:

Grains and other crops

US grains and other industries (corn, soybean, canola, sugar beet and cotton) have pushed for EU biotechnology and SPS policies to be targeted in the FTA negotiations. In particular the US wants EU acceptable minimum residue levels (MRLs) and import tolerances for long-used products, which are not based on international standards, addressed.

USTR’s negotiating objectives generally reflect the desire of the US to establish specific commitments for trade in products developed through agricultural biotechnologies, including on transparency, cooperation, and managing low level presence issues, and a mechanism for exchange of information and enhanced cooperation on agricultural biotechnologies.

On SPS, the objective is to secure rules in the FTA which align EU measures impacting on trade more closely, with international science based standards and obligations – covering ‘good regulatory practice, import checks, equivalences, regionalization, certification, and risk analysis.’ The US is also seeking to establish a mechanism in the FTA to address barriers that block the export of US food and agricultural products.

The US released its negotiating objectives for the agreement to include provisions on ‘equivalency in regulatory systems and disciplines on import checks.’

A stated objective of the US is to ‘promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulations and standards, including through regulatory cooperation where appropriate.’ It will also seek to establish an active SPS Chapter Committee that will discuss bilateral and third party SPS specific trade concerns, regulatory cooperation, and implementation of good regulatory practices.

US – United Kingdom Trade Agreement

The UK and US intend to negotiate a bilateral trade agreement once the UK leaves the EU. The UK and US have to date engaged in preparatory and exploratory work only due to the uncertainty surrounding the UK’s exit from the European Union. The UK is yet to work out its arrangements for leaving. From the US side, talks can officially begin by the end of May.

To date a Joint UK-US Working Group on Trade and Investment has been laying the groundwork for a future agreement once the UK has left the EU. This process has involved exchange of information on trade policy-related issues between USTR and the UK Department for International Trade (DIT) on various topics, including agricultural goods.

There is a high degree of uncertainty around what the US and UK can negotiate given that the post-Brexit relationship between the UK and EU is yet to be determined. A key factor for outcomes on agriculture will be how the EU and UK allocate the various TRQs between them following Brexit. This will be important for the UK in determining what market access it can offer the US in a bilateral agreement. A further issue is how the UK would regulate standards for trade – whether it would adopt EU rules and regulations or seek to develop its own.

The US released its negotiating objectives for the agreement in late February, which generally mirror those for other agreements. US industry has highlighted areas it would like to see addressed. Notable are meat, grains and products developed through agricultural biotechnologies. See Section 1.2 for further information.

There is a high degree of uncertainty around what the US and UK can negotiated given that the post-Brexit relationship between the UK and EU is yet to be determined.
A bilateral understanding was reached whereby both leaders committed to reducing trade barriers, facilitating investment and supporting innovation across a range of industries particularly energy, infrastructure, agriculture and technology.

Substantive outcomes were achieved on wheat. Brazil agreed to implement a TRQ allowing for the annual importation of 750,000 tons of wheat at zero rate for non-Mercosur countries. The US is the principal supplier of wheat to Brazil outside of the Mercosur market countries (Brazil, Paraguay, Uruguay and Argentina). The expanded TRQ was a WTO commitment Brazil made in 1995 but had not yet implemented. In return, the US agreed to consider the reopening of the US market to fresh Brazilian beef (closed since June 1997).

While a ‘roadmap toward a FTA’ has been welcomed by political leaders, it will be difficult to achieve in practice. Brazil’s economy is highly protected and relatively closed, it will need to undertake some significant reforms in order to offer sufficient concessions to the US. Commentators point out that Brazil lacks a coherent trade strategy, and there are diverging views between the Economy Minister Guedes (who is generally considered to be pro-trade) and the Foreign Minister Ernesto Araujo, who is anti-globalist. The agribusiness lobby in Brazil is also very important.

Major traders and competitors are increasingly looking to trade arrangements with Brazil and Latin American countries to expand exports and secure supply of agricultural products as an alternative to the US market. There are several other FTAs in prospect in the region which could both expand Brazil’s agricultural market access in key markets (e.g. with Korea, China, Singapore) or expand access for competitors in Latin American markets (Canada, Chile).

Following are agricultural products and measures identified for inclusion in the US-Brazil trade agreement.

### Grains and other crops

As part of the ‘bilateral understanding’ with the US reached in March 2019, Brazil agreed to implement a TRQ allowing for the annual importation of 750 thousand tons of wheat at zero rate for non-Mercosur countries. The US is the principal supplier of wheat to Brazil outside of the Mercosur market countries (Brazil, Paraguay, Uruguay and Argentina). The expanded TRQ was a WTO commitment Brazil made in 1995 but had not yet implemented.

### Meat

Brazil and the US also agreed to apply ‘science-based conditions’ for the importation of United States pork. Brazil will send inspectors to the US to facilitate this process.

The US agreed to consider the reopening of the US market to fresh Brazilian beef (closed since June 2017), committing to conduct inspections on Brazil’s meatpacking system and schedule a technical visit by the United States Department of Agriculture Food Safety and Inspection Service to audit Brazil’s raw beef inspection system, as soon as it is satisfied with Brazil’s food safety documentation.

### Sugar

No progress was made on market access for sugar, though it is likely to feature in future discussions. Brazil has reportedly linked access for Brazilian sugar to the US market to US access to Brazil’s ethanol market. The US is the largest exporter of ethanol to Brazil. Exports are subject to a TRQ which is due to expire in August. The US reportedly was not willing to discuss access to its sugar market at this time.

### US–Philippines Trade Agreement

The US has proposed negotiating a bilateral trade agreement with the Philippines with a view to improving market access for exports of dairy grains (wheat, rice and corn), soybeans and soybean meal. USTR is yet to secure formal approval from Congress to begin negotiations due to concerns from US Democrats over Philippines treatment of human rights.

Philippine tariffs on agriculture products are high. The Philippines also imposes a TRQ on key US agriculture exports including sugar, corn, pork, and poultry. Non-tariff and SPS measures are also a likely target, specifically, discriminatory requirements on the sale of frozen meat (mainly imported), vis-a-vis freshly slaughtered meat (over from animals raised domestically). See Section 1.2 for further information.

Initial talks may start in the form of a ‘scoping exercise’ to determine the extent of coverage. Following are agricultural products and measures identified for inclusion in the US-Philippines trade agreement.

### 1.3 Impasse at the WTO

#### Appelate Body in crisis

For the past four years the US has blocked the initiation of the process to fill the Appellate Body (AB) roster. Under the WTO Dispute Settlement Understanding (the agreement which governs WTO disputes) judges are appointed by consensus of all WTO members (known as the Dispute Settlement Body or DSB). The US position is determined by longstanding concerns with what it sees as an overly judicially activist Appellate Body. It contends the AB operates on issues not raised in the appeal and creates jurisprudence with no input from members, particularly in the context of trade remedy investigations.

Action first began with the Obama Administration in 2016 when the US blocked the reappointment of a Korean judge on the basis that it disagreed with the findings of four cases on which the judge sat. Two of those involved successful challenges by China against countervailing duties imposed by the Obama Administration.

Under Trump, the US has continued to refuse the reappointment of WTO judges, effectively blocking filling of the seven person roster.

The AB currently has just three sitting members – the minimum needed to hear an appeal. The terms of 2 panelists will expire in December 2019, leaving the AB unable to function.

The US action has caused delays in the processing of disputes (meaning that findings are not being issued within the 90 days as mandated in the Dispute Settlement Understanding). It has been widely criticised by other WTO members and trade commentators for undermining the WTO dispute settlement system, which to date has functioned as an effective arbiter of WTO rules. It comes as WTO members are increasingly imposing trade remedy actions and are appealing decisions in cases which involve complex claims.

It has however not stopped the US, or other members, from using the WTO to challenge trade policy practices of others, including recent tariff action of the US. Some members have sought to solve the impeding problem by agreeing between themselves at the beginning of the dispute settlement process that should the AB be unable to function, the outcome adjudicated by the WTO Panel will be final, circumventing the need for an appellate review process.

The ability of members to resolve the issue before the end of the year is in doubt. Only the role of the WTO dispute settlement system.

The US imposition of Section 232 tariffs (and retaliatory tariffs) have not helped this process, instead fostering use of potentially illegitimate trade restrictions often without recourse to WTO disputes processes.

Notably, a WTO Panel ruled in mid-April that the WTO’s national security exception on steel, the basis upon which the US has sought to justify its 232 tariffs, (Article 21 of the General Agreement on Tariffs and Trade) is not self-judging and can be reviewed for compliance by a disputes panel, creating the potential for US actions to be adjudicated and potentially held in violation of WTO rules.

### WTO ‘modernisation’

The US actions in dispute settlement, while potentially damaging to the existing system, are also driving wider reform of the WTO. There is a general perception that for the WTO system to work effectively, the US needs to be part of it – its effectiveness as a multilateral trade body would be greatly diminished if the US were to walk away.

Members including, Japan, the EU, Canada and Australia are seeking to work with the US to find solutions that are acceptable to the US, albeit in a fraught trade environment. Several members have put forward proposals on reforms to the functioning of the AB, seeking to address criticisms of the US, including Brazil, the EU, China and ten other members.

While President Trump has been highly critical of the WTO, the US has yet to formally declare its intent to withdraw from the body. The Trump Administration has instead pushed for new rules to update the system to address what it contends is the WTO’s inability to negotiate new rules to keep pace with the changing global economy.

It has proposed changing the rules on how developing countries are treated in the WTO as well as implementing stricter rules on transparency, industrial subsidies and state owned enterprises.

The proposed changes to developing country status (which is currently self-designated) would create a distinct criteria for ‘developed’ members that would reduce the number that claim ‘developing’ status and thus eligible for ‘special and differential treatment’ (which permits lasser liberalisation commitments).

This would help to address the generally lower level of market opening to which developing countries have in the past been obligateed to commit to, vis-a-vis developed economy members, by virtue of their self-designated status.

The US proposal has been strongly opposed by both China and India. Brazil recently agreed to support the US proposal, and forgave its status as a developing country in the WTO in future negotiations in exchange for US support of Brazil’s CRD (Organisation for Economic Cooperation and Development) accession.

Japan and the EU are working with the US on proposals for new rules on industrial subsidies and state-owned enterprises with a view to expanding support more broadly across the membership.

New rules addressing state-owned enterprises (SOEs) covering transparency, subsidies and trade distorting support are supported by US business. [1]
The capacity of the WTO to deliver meaningful trade liberalisation in the current trade environment is very limited. The last time members were able to successfully negotiate new commitments on agriculture was in 2015 when a package on export competition and export subsidies was agreed. Other issues, such as domestic support and special safeguards, have been stalled for decades.

It is hoped further progress on reducing domestic support can be reached at the next ministerial conference in June 2020. This is highly unlikely given the current tensions between the US and China, and the reluctance of the US to engage in any negotiations which would further expose its agriculture sector to foreign markets.

Any bilateral trade deal reached between the US and China is unlikely to be significantly helpful in addressing the underlying issues plaguing the WTO, including reform of AB functioning, the commitment of developing countries to trade liberalisation and the treatment of structural market issues like subsidies and SOEs.
Implications for Australia’s agriculture exports
Implications for Australia’s agriculture exports

Overview

Asia takes the lion’s share of Australia’s agricultural exports. Seven of the ten top export destinations by value are Asian nations. China leads the way, and in 2017 purchased 20 per cent of exports of Australian priority products identified for this study, valued at more than US$5 billion. See the chart below.

The following section provides an assessment of the implications of current trade policy actions on Australia’s agricultural export interests. In each subsection, the consequences of US tariffs and retaliatory moves by China and other trading partners (‘Policy actions’) as well as ongoing negotiations towards various bilateral accords (‘Trade agreements’) have been assessed.

2.1 Red meat

Fresh/chilled (HS0201) and frozen (HS2021) beef

Australia’s top three export destinations for fresh/chilled and frozen beef are all impacted by current trade conflicts – Japan, the US and Korea.

Japan

In 2017, Japan was Australia’s top export destination for fresh/chilled beef, and second-top market for frozen beef. Japan’s involvement in President Trump’s trade wars to date has been limited, subject only to Section 232 tariffs on steel and aluminium exports. Japan has not yet announced retaliatory tariffs on US agricultural products. The two countries are pursuing initial consultations towards a potential trade agreement (see Chapter 1).

Australia currently has a tariff advantage over the US in beef access to Japan. Under the terms of CPTPP, fresh/chilled beef from Australia is subject to a tariff of 26.6 per cent, for frozen beef the rate is 26.6 to 28.6 per cent, depending on the cut. This compares to a most-favoured nation (MFN) rate of 39.5 per cent which applies to the US. US exporters also face other barriers including a global safeguard. However, the US is globally competitive in beef. Even with this advantage the US has recently supplanted Australia as the number-one supplier of fresh/chilled beef to Japan (although Australia still tops the list of frozen beef sources).

Any improvement in US access negotiated as part of a US–Japan trade agreement would erode Australia’s competitive position in the Japanese market. If US exporters were to be granted equivalent market access to Australia (under JAEPA or CPTPP), it is likely that US exports would increase at the expense of Australia and other suppliers.

European Union

Beef trade between the EU and US has not been singled out for tariff policy action, but has been the subject of bilateral discussions on the outcome of the longstanding EU-US WTO dispute beef hormones (see page 18), alongside US threats to impose tariffs on automobiles.

While talks on a trade agreement including agriculture are currently at an impasse, the EU consideration of a specific quota allocation for US hormone-free beef is progressing and will negatively impact Australia’s beef exports. At stake is 35,000 metric tons of the 45,000-metric-ton tariff-rate quota which Australia shares with the US and 4 other global exporters.

United States

The US is Australia’s second-most important destination for fresh-chilled beef exports, and top destination for frozen beef. The Australia United States Free Trade Agreement (AUSFTA) provides preferential access to Australian beef exporters compared to exporters from countries that do not have an FTA with the US. However, Australia’s two primary competitors in the US fresh/chilled market are Canada and Mexico, which each export around US$1 billion dollars’ worth of fresh/chilled beef to the US per year.

It is likely that these two suppliers will maintain their dominant position in supplying fresh/chilled beef to the US market, as they enjoy close proximity, established logistics links and preferential market access under NAFTA, now USMCA (see Section 2). Mexico and Canada have unlimited duty free access to the US market for most fresh/chilled beef products, while Australia has discounted and zero tariff rates, bound by a maximum quota of 428,214 tonnes in 2019 (rising by around 1 per cent each year until the quota is abolished in 2023).


2 A red traffic light denotes that the net effects of either trade policy actions taken by President Trump and counterparts (Policy actions) or trade negotiations currently underway (Trade agreements) are likely to carry negative implications for Australian exporters. A yellow light denotes neutral outcomes, and a green light suggests that implications are likely to be positive.
In the US market for frozen beef, Australia's main export competitor is New Zealand, which in 2017 surpassed Australia as the top source of this product category. This is despite Australia's FTA advantage, New Zealand frozen beef faces the US MFN tariff rate of 17.8 per cent.1

To date, Australia's beef exports to the US have not been singled out by President Trump for additional tariffs. Australia has also been exempted from the Section 232 tariffs on steel and aluminium exports. This is widely believed to be at least partly due to the fact that Australia is one of the few trading partners with which the US maintains a trade surplus.

It is unlikely that the US will move to disadvantage Australian beef exports, especially given President Trump's stated desire to maintain diversity in supply sources. Sustainable supply from Australia (and Brazil, Argentina and potentially Uruguay) reduces reliance on USMCA partners Canada and Mexico.

Possible improvements in market access for beef to the US market for Brazil would have negative impacts on Australia's competitive position. While talk of a trade agreement between the US and Brazil is currently only prospective, both countries have indicated political interest in expanding the economic and trade relationship. Brazil and the US recently reached a 'bilateral understanding' which foreshadows possible greater access to the US market for Brazilian beef. (See page 17).

Korea

Policy actions
Trade agreements
Neutral Neutral

Korea's imports of fresh/chilled beef have increased substantially in recent years, more than doubling between 2013 and 2017. Over the same period, frozen beef imports have also risen, but less sharply. Between them, Australia, the US and Korea supply more than 94 per cent of total Korean beef imports.

In 2017, the US took top spot from Australia in both the fresh/chilled and frozen categories. Consultations conducted for this project indicate that since 2017, total exports of these products from Australia and the US have been very close in value. This represents a significant turnaround for US beef exporters, who were barred from the Korean market as recently as 2008, following a BSE (Bovine spongiform encephalopathy) outbreak in 2003.3

Both Australia and the US have bilateral FTAs with Korea (KFTA, Korea-Australia Free Trade Agreement, and KORUS, the United States-Korea Free Trade Agreement). Both agreements deliver preferential access for fresh/chilled beef based on the same schedule of increasing market access; however, KORUS entered into force two years earlier than KFTA, meaning US market access is further along. In 2019, the KORUS tariff rate is 18.6 per cent compared to the KFTA rate of 24 per cent. In addition, Australian beef is subject to stricter safeguard measures than exports from the US.

Stakeholders advised that Australian beef exporters regularly trigger the KFTA safeguard (which in 2019 was 170,673 tonnes of total fresh/frozen imports, meaning that exports arriving in the last few months of the year are subject tariff rate of 40 per cent, rather than the KFTA tariff of 24 per cent in 2019). The equivalent US safeguard – which in 2019 was set at 320,000 tonnes - has never been triggered.1

In 2018, the US and Korea renegotiated aspects of their free trade agreement but agricultural access was not changed in any material way. Korea's chief concern in its trade relationship with Korea is automobiles, Korea's government is concerned by the pending US Section 232 investigation into the national security aspects of car imports to the US market.

Consultations with Seoul-based stakeholders suggest that Korea is eager to curry favour with President Trump by reducing its trade surplus with the US. To date, there has been no suggestion that Korea will commit to China-style additional agricultural purchases; however, the possibility cannot be discounted.

Sheep and goat meat (HS0204)

Australia's two most important export destinations for sheep and goat meat are the US and China. The 'bilateral trade wars' may have implications for Australian exporters of these products.

Policy actions
Trade agreements
Neutral Neutral

United States

Policy actions
Trade agreements
Neutral Negative

Australia's sheep and goat meat exports to the US almost doubled between 2013 and 2017, when they were valued at over US$700 million. In that market, Australia is the number one supplier, and in 2017 captured 73 per cent of the total US market. New Zealand supplies most of the remainder. Total US imports of sheep/lamb meat increased by 48 per cent between 2013 and 2018.

The competitive outlook for Australian exporters of these products to the US is positive, with Australia enjoying a tariff advantage over main competitor New Zealand under AUSFTA. The terms of AUSFTA provide Australia with quota-free duty-free access to the US market, while imports from countries without an FTA (including New Zealand) are subject to tariffs of between 0.7c and 2.8c per kg.

As observed with beef exports to the US, it is not likely that the US will move to disadvantage Australian sheep and goat meat exporters as part of current trade conflicts. However, potential market access gains for the UK under a UK-US trade agreement should be considered. Improved terms of access for UK lamb equivalent or better than access under AUSFTA could be expected to erode Australia's competitive market position.

China

Policy actions
Trade agreements
Neutral Neutral

China's imports of sheep and goat meat have fallen in recent years, and in 2017 were valued at US$878 million. Australia is the second-most important supply source, exporting US$323 million worth of the products in 2017, compared to US$410 million from New Zealand.

Both Australia and New Zealand have bilateral free trade agreements with China. New Zealand's market access improvements under the NZ-China FTA are further advanced than Australia's. In 2018, New Zealand has unlimited duty-free access for lamb exports to China, whereas Australian exports are subject to a 6.7 per cent tariff (which will reduce to zero by 2023).1

China imports very little sheep and goat meat from the US – in 2017 just US$8,000 in value terms. China has targeted one category of lamb meat with a 10 per cent retaliatory tariff in response to US Section 301 trade actions; however, given the limited levels of exports in these products from the US to-date, this tariff is unlikely to have material effects on Australia's export interests. Similarly, it does not seem likely that China will commit to additional purchases of sheep and goat meat as part of current negotiations between President Trump and President Xi. Therefore, the current trade wars would not appear to represent particular opportunities or threats to Australia's sheep and goat meat exports.

Wheat

Policy actions
Trade agreements
Neutral Neutral

India's wheat exports are predominantly to South and Southeast Asia. Indonesia is the largest market. Of the top five destinations (Indonesia, Vietnam, India, Philippines and China), India and China are directly impacted by current US trade policy actions.

India

Policy actions
Trade agreements
Neutral Neutral

India has recently become Australia's third-most important destination for wheat exports. As recently as 2014, India's total wheat imports were negligible, valued at just a few million dollars per year. However, in 2017, imports increased to over US$1.2 billion. India – at US$547 million - was the number-one supply source in 2017, closely followed by Australia, which supplied US$464 million worth of wheat.

India does not have a FTA with Australia, the US or any other major wheat exporter; though is currently negotiating a regional FTA with ASEAN (Association of Southeast Asian Nations) countries, Australia, New Zealand, China, Korea and Japan, known as the Regional Economic Cooperation Partnership (RCEP). India's MFN tariff rate for wheat is 20 per cent. In 2018, a planned increase in the tariff to 40 per cent was cancelled, and the tariff remained at 20 per cent. Australian wheat is reportedly blended with cheaper, lower-protein wheat from Ukraine. For this reason, any increase in supply from Ukraine is likely to be accompanied by an increase in Australian purchases.

In 2018, India instituted a retaliatory tariff of an additional 5 per cent on imports of some categories of US wheat. However, the US has not reported any exports of wheat to India over the past five years, so this retaliatory tariff is unlikely to have a material effect on market opportunities for Australian exporters.

2.2 Grains and other crops

Wheat

India's wheat exports are predominantly to South and Southeast Asia. Indonesia is the largest market. Of the top five destinations (Indonesia, Vietnam, India, Philippines and China), India and China are directly impacted by current US trade policy actions.

India

Policy actions
Trade agreements
Neutral Neutral

India has recently become Australia's third-most important destination for wheat exports. As recently as 2014, India's total wheat imports were negligible, valued at just a few million dollars per year. However, in 2017, imports increased to over US$1.2 billion. India – at US$547 million - was the number-one supply source in 2017, closely followed by Australia, which supplied US$464 million worth of wheat.

India does not have a FTA with Australia, the US or any other major wheat exporter; though is currently negotiating a regional FTA with ASEAN (Association of Southeast Asian Nations) countries, Australia, New Zealand, China, Korea and Japan, known as the Regional Economic Cooperation Partnership (RCEP). India's MFN tariff rate for wheat is 20 per cent. In 2018, a planned increase in the tariff to 40 per cent was cancelled, and the tariff remained at 20 per cent. Australian wheat is reportedly blended with cheaper, lower-protein wheat from Ukraine. For this reason, any increase in supply from Ukraine is likely to be accompanied by an increase in Australian purchases.

In 2018, India instituted a retaliatory tariff of an additional 5 per cent on imports of some categories of US wheat. However, the US has not reported any exports of wheat to India over the past five years, so this retaliatory tariff is unlikely to have a material effect on market opportunities for Australian exporters.
While Brazil has not been directly subject to US tariffs, it has indirectly benefited from growing interest by the US and other major trading partners (including China and Korea) as a potential growth market for expanded bilateral agricultural trade. The US and Brazil recently reached a ‘bilateral agreement’ on trade, under which Brazil agreed to expand its global TRQ for wheat available to non-Mercosur countries (see page 17).

The US is expected to be the main beneficiary of this agreement as the principal wheat supplier to Brazil outside of the Mercosur trade bloc. While this does not directly impact on Australia’s wheat exports, it does create advantages for the US wheat industry. Any future trade agreement between the US and Brazil could create broader competitive advantages for both as global agricultural suppliers to major markets shared by Australia.

China’s total imports of wheat have trended downwards in recent years, falling by 45 per cent between 2013 and 2017. However, during that period, wheat sourced from exports has doubled, and Australia is now the number one source. While the US is the second most important supplier, US wheat exports to China fell by 69 per cent over the same period. Between them, Australia and the US supplied 79 per cent of China’s total wheat imports in 2017.

Australian wheat does not receive preferential access under the terms of the China-Australia Free Trade Agreement (ChAFTA). Exports are subject to the MFN tariff rate of 65 per cent.

China has applied an additional 25 per cent retaliatory tariff on US exports in 2017.

Unlike the EU, China has targeted US soybean exports with tariffs of 25 per cent, and has gone further by effectively blocking Chinese purchases. For the period January to October 2018, US soybean exports to China were more than 60 per cent lower than during the same period in 2017.\(^1\) The following month (November 2018), exports dropped to zero.\(^1\)

In March 2019, China also restricted imports of canola from Canada, a move that some believed represented retaliation for the Canadian government’s arrest of Huawei Chief Financial Officer Meng Wanzhou.\(^1\) Canada is traditionally the number one supplier of canola to China, and in 2017 provided 96 per cent of total Chinese imports.

There have been unofficial indications that in recent months, Australian exports of canola to China have increased. It is likely that reduced imports of US soybeans and Canadian canola have been contributing factors to this increase.

Australia’s canola exporters are likely to continue to seek to expand trade with the EU. The EU has not, to date, applied retaliatory tariffs to US exports of oilseeds. It is unlikely that the EU would target US canola, as the amounts imported into the EU are negligible. In 2017 US soy exports to the EU were worth US$2 billion in 2017, putting the US in second place behind Brazil as suppliers to the EU, with a 9 per cent share. In 2018 EU purchases of US soybeans accelerated after an agreement between President Trump and President Juncker was announced, under which the EU agreed to make larger purchases of US soybeans. The US currently has a 37 per cent market share, due to US soybean-based biodiesel having new access to EU renewables subsidies. This purchasing move was generally regarded as being in exchange for the US not to introduce tariffs on EU automobiles and steel products.

Australia’s total exports of pulses jumped from around US$1.5 billion in 2016 to over US$2 billion in 2017, mostly driven by increased sales to India, which accounted for half of total exports by value that year.

India has been subject to US Section 232 tariffs on steel and aluminium and has responded to these tariffs by announcing retaliatory tariffs on a selection of US agricultural goods, including a 5 per cent tariff on some categories of leguminous vegetables. More broadly, India has opposed US efforts to constrain the ability of self-declared developing countries to limit their liberalisation commitments in the WTO (see Section 2).\(^1\)

Distinct from these developments, India has unilaterally moved to constrain imports of pulses from Australia - which in 2017 became the number one supply source. In late 2018, India announced additional toxicity testing for Australian and Canadian lentils,\(^1\) and a quota on field peas was announced.\(^1\) India’s MFN tariffs on pulses are relatively high, at 60 per cent for chickpeas and 33 per cent for lentils. Australia and India have announced an intention to pursue a bilateral free trade agreement, and India is currently party to the RCEP negotiations also involving Australia. Progress on both fronts has been slow. Improvement in market access for Australian pulses in India is a long-term proposition.
2.3 Dairy

The trade policy actions outlined in Section 2 of this report create significant risks and opportunities for Australia's export dairy interests.

Concentrated milk and cream products (HS0402)

China

Policy actions | Trade agreements
--- | ---
Positive | Neutral

As Australia's biggest market for concentrated milk and cream products (which include powdered whole and skim milk), China has a major influence on the fortunes of Australia's dairy exporters. China is the number one target of trade policy actions applied by the Trump administration. Apart from China, none of Australia's top-5 destinations for concentrated milk and cream products (Indonesia, Singapore, Malaysia, and other Asia) have been directly impacted by President Trump's tariffs.

In 2017, Australia's exports of concentrated milk and cream products to China were worth US$191 million, making Australia the second biggest supplier to China. The third biggest exporter to China was the US, supplying US$83 million worth of the same products. However, both the US and Australia were dwarfed by New Zealand, which supplied US$1.7 billion worth of concentrated milk and cream products that year.

Australia has applied retaliatory tariffs of 25 per cent on US concentrated milk and cream products (falling under HS0402). As a result of ChAFTA, Australia already receives a tariff advantage over the US (prior to the imposition of the retaliatory tariffs) in 2018, Chinese importers of Australian concentrated milk and cream products paid a tariff rate of 6.7 per cent, compared to China's MFN rate - applied to US goods - of 10 per cent. With the additional 25 per cent applied to US products, the advantage for Australia increases. However, New Zealand holds an even greater tariff advantage, paying just 0.8 per cent in 2018 and zero from 2019 onwards as a result of tariff commitments in the NZ-China bilateral FTA. An update to this FTA was initiated in 2017.

All else being equal, the additional tariffs on US concentrated milk and cream products should create market opportunities for Australian suppliers. However, other suppliers will also seek to take advantage of these opportunities. Due to ChAFTA, Australia has a tariff advantage over most (including EU suppliers France and Germany which in 2017 were the fourth and fifth most important suppliers of concentrated milk and cream products to China); however, as noted, New Zealand's market access is significantly better again. It is likely that Australian suppliers will face fierce competition from New Zealand exporters to rebuild their exports to China towards 2014 peak levels, a process facilitated by a tariff rate that falls to zero this year (2018). Early indications are that New Zealand's dairy exports to China were up sharply in 2018. Total NZ dairy exports for the year to December 2018 increased by 30 per cent.1

US suppliers of concentrated milk and cream products have been disadvantaged in the Chinese market by the imposition of retaliatory tariffs (25 per cent on some products). Australian suppliers may win some of the market previously held by the US (sealed at US$83 million in 2017); however, Australia will need to compete with NZ exporters to gain market share, who already dominate the Chinese market.

United States & Canada

Policy actions | Trade agreements
--- | ---
Neutral | Neutral

The recently concluded (but yet to enter into force) USMCA, can be expected to expand bilateral dairy trade between the US and Canada. The USMCA includes new provisions which should further open the Canadian dairy market to US exporters and US market to Canadian dairy (see page 10). This is not expected to have a significant impact on Australian dairy exports: Canada and the US are not important export markets for Australia and dairy markets in both economies, are still relatively closed.

Cheese and curd (HS0406)

Japan

Policy actions | Trade agreements
--- | ---
Neutral | Neutral

Australia's exports of cheese and curd products are overwhelmingly to Asia. Japan, China, Korea, Malaysia and Singapore are the largest markets. Japan is Australia's number one export destination for these products, accounting for US$327 million or 46 per cent of total exports by value in 2017. US-Japan agricultural trade has not been directly impacted by President Trump's trade wars, but actions taken by the US and other trading partners against each other's exports create possible knock-on effects in the Japanese market.

Australia is the number one exporter of cheese and curd to the Japanese market, with 27 per cent of the Japanese market in 2017. New Zealand contributes 21 per cent and the US contributes 12 per cent. Both Australia and New Zealand enjoy tariff advantages over the US - Australia holds the same advantage as NZ exporters under the terms of JAERFA, and under the terms of the CPTPP to which all three countries belong.

This preferential access depends on the exact categorisation of dairy product, and ranges from a moderate reduction in applied tariff rate (e.g. an applied tariff rate of 26.8 per cent under the terms of the CPTPP on imports of cheese, compared to Japan's standard MFN rate of 28.8 per cent) to significant advantages (such as a duty-free quota for cheese for further processing, compared to MFN tariff rate of 28.8 per cent).

Japan is subject to the US Section 232 tariffs on steel and aluminium products. To date, Japan has not imposed retaliatory tariffs against US products although Japan has notified the WTO it intends to take such measures.1 Japan has not advised which US products would be affected by any retaliatory tariffs that eventuate.

Largely under threat of the imposition of further US tariffs on automotive products, Japan and the US have initiated talks towards some kind of trade agreement. Agriculture is likely to be included in the terms of any agreement. US farmers have highlighted the importance of the Japanese market given both problematic access to China and advantages competitors receive in Japan under the terms of the CPTPP.

A US-Japan agreement will likely cap access for US dairy products to the Japanese market at CPTPP outcomes (see Part 2, new and prospective trade agreements). Any improvements in access for US cheese and curd, including access equivalent to previously agreed TPP access, would – all else being equal – reduce market opportunities for Australian exporters. Total Japanese imports of these products have been stable around US$1.1 billion for the past five years - any increase in imports from the US would be likely to displace demand from other sources, such as Australia, rather than increase total demand.

Due to entry into force of the CPTPP, Australian exporters have now lost a tariff advantage over New Zealand-based suppliers granted under JAERFA. Although not strictly an outcome of the current trade wars, this levelling of the playing field may have a more material effect on Australia's export interests than bilateral trade policy actions taken by the US and Japan.

2.4 Sugar

Australia's exports of sugar products can be categorised into cane sugar (HS1701); other sugars (HS1702); molasses (HS1703); and sugar confectionary (HS1704). Each of these categories have exhibited similar market trends during the period 2013-17, with total sugar exports falling by 11 per cent over the period. Total exports of each category were valued at around US$30-70 million in 2017. Australia's major sugar markets include Singapore, and New Zealand, the US, China and Korea, the latter three involved in the current trade policy actions being considered.

United States

Policy actions | Trade agreements
--- | ---
Neutral | Neutral

Due to entry into force of the CPTPP, Australian exporters have now lost a tariff advantage over New Zealand-based suppliers granted under JAERFA. Although not strictly an outcome of the current trade wars, this levelling of the playing field may have a more material effect on Australia's export interests than bilateral trade policy actions taken by the US and Japan.

1 As noted in the Overview section, a red traffic light denotes that the net effects of either trade policy actions taken by President Trump and counterparts ('Policy actions') or trade negotiations currently underway ('Trade agreements') are likely to have negative implications for Australian exporters. A yellow light denotes neutral outcomes, and a green light suggests that implications are likely to be positive.
The US sugar market remains relatively protected. Canada secured some improvements in access to the US market for beet sugar under the terms of USMCA. Brazil has indicated it is keen to improve access to the US sugar market in any prospective trade deal with the US.

**Trade agreements**

The current trade wars do not appear to present specific risks or opportunities for Australia’s molasses exports. Korea has not moved to change agricultural market access conditions, either in response to US tariff actions or as part of the renegotiation of the KORUS agreement. In addition, Australia’s main competitors in this market segment are Indonesia, Guatemala and Ethiopia, none of which are directly implicated in current trade conflicts.

**Neutral**

- **Trade agreements**
- **Policy actions**

**China**

Australia exports a variety of horticultural goods, with key markets located in Asia and the Middl East. Leading horticultural product categories are: nuts (HS0802); citrus fruits (HS0805); grapes (HS0806); potatoes (HS0701); carrots, turnips and similar (HS0706), and “other vegetables” (HS0709).

**Policy actions**

- **Positive**

**Trade agreements**

- **Positive**

**China, Korea and Japan**

Australia’s exports of grapes, ‘other vegetables’, potatoes and citrus all appear to have benefited from improved market access under Australia’s North Asian trade agreements (CHFTA, JAEPA and KAFTA).

For example, citrus exports to China increased by 402 per cent between 2013 and 2017, under phased reductions in tariffs. In 2019 Australian exports are subject to import duties of 5.3 per cent, just half the MFN rate. Australia’s preferential tariff rate for these goods is scheduled to reduce to zero in 2023. Similarly, tariffs on Australian grapes have been reduced from 13 per cent to zero since CHFTA entered into force, coinciding with export growth from less than US$1 million to US$11.4 million between 2014 and 2017.

This market access to China may have been bolstered by China’s retaliatory tariffs against US exports. In response to US tariffs on Chinese goods, China announced that US exports of nuts, grapes, citrus, potatoes, carrots etc., and “other vegetables” would all be subject to retaliatory tariffs of between 10 and 25 per cent. The US has traditionally been a major supplier of many of these goods, specifically nuts, citrus, grapes and carrots. The current retaliatory tariffs may amplify Australia’s CHFTA tariff concessions, at least temporarily.

**Korea**

Korea is Australia’s number one market for molasses exports, buying US$30 million worth in 2017.

Under the terms of the KFTA agreement, Australia enjoys duty-free access for most molasses products, compared to an MFN tariff rate of 3 per cent. This tariff advantage, which has been phased in progressively since 2014, appears to have contributed to Australia’s export growth over the same period. In 2013, Australia supplied just 12 per cent of total Korean imports of molasses products. By 2017, this had climbed to 61 per cent.

**Policy actions**

- **Neutral**

**Trade agreements**

- **Neutral**

**China**

Exports of ‘other vegetables’ to Japan also benefit from tariff reductions in JAEPA. Australian exporters receive duty-free access, compared to MFN tariffs of 4.3 per cent. However, Australia is not yet a major supplier of these products to Japan, according to accounting for just 4 per cent of supply in 2017, compared to New Zealand’s 12 per cent the same year. Prospects for increasing these exports to Japan may be constrained, as New Zealand now also benefits from duty-free access under the terms of CPTPP.

In the Korean market, Australia’s potato exports have grown since entry came into force through the KAFTA agreement – by 47 per cent from 2013-17. Australian potato exports imported between December and April each year are subject to duty-free access rather than the very high MFN rate of 304 per cent.

While as yet largely unaffected by US tariffs, Australia’s competitive advantage in Japan could be adversely affected by a trade agreement negotiated between the US and Japan. US producers have indicated they are seeking market access for imports of citrus and grapes, (among other products), in a trade deal with Japan, which are at least equivalent to or better than the terms of the CPTPP (see page ).

**Vietnam**

Over the longer-term there is a possibility tariffs on US cotton could lead to a rerouting of US cotton exports to Southeast Asia. This could see the relocation of Chinese cotton spinning operations to these markets, including Vietnam, and stimulate Chinese imports of duty-free yarn from Vietnam, Indonesia, and India.

After Bangladesh, Vietnam is Australia’s second largest cotton supplier, with around half of the US share.

**Policy actions**

- **Negative**

**Trade agreements**

- **Neutral**

**China**

The US is China’s top cotton supplier, constituting 44 per cent of China’s cotton imports in 2017. Australia is China’s second largest cotton supplier, with around half of the US share.

Before tariff action by the Trump administration, China levied a 1 per cent duty on cotton imports under the annual quota of 189,000 tonnes in accordance with WTO commitments. Volumes in excess of the level were subject to tariffs of five to 40 per cent, depending on the import price. With Chinese tariffs on US cotton now reaching 26 per cent within the 189,000 tonne quota, and up to 65 per cent for out-of-quota imports, US cotton exports to China have declined by nearly half in the first two months of the 2019/2020 marketing year. Vietnam was the US’ top export market for the 2018 crop year, followed by China and Mexico.

The Trump administration’s Market Facilitation Program (MFP) has cushioned some of the impact of the retaliatory tariffs. Cotton growers were made eligible for payments of six cents a pound on their 2018 production (estimated total payments of US$277 million). 46

While China remains an important market for US cotton, Australia may experience a short term opportunity to supply more cotton to China. While over the last five years Australian cotton exports to China have shrunk by nearly half, largely due to Chinese reserve policy for cotton, China is expected to increase imports in 2019.

CPTPP eliminates the 15 per cent tariff on cotton seeds for Australian producers.

Australia will need to compete with other global suppliers including Brazil. Brazil has reportedly already used the opportunity to strengthen its position by boosting production and investing in infrastructure. Brazilian shipments to China have more than tripled in the second half of 2018 from a year earlier, according to government data. China is also courting Brazil for a possible free trade agreement.

**Negative**

As noted in the Overview section, a red traffic light denotes that the net effects of either trade policy actions taken by President Trump and counterparts (‘Policy actions’) or trade negotiations currently underway (‘Trade agreements’) are likely to carry negative implications for Australian exporters. A yellow traffic light denotes neutral outcomes, and a green light suggests that implications are likely to be positive.

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As party to the CPTPP tariffs on cotton exports to Vietnam have or will be eliminated. Australia is placed to take advantage of this benefit, as well as the expected growth in investment from both foreign and domestic sources in Vietnam’s spinning sector and the creation of new regional supply chains into the Japanese consumer market. For example, clothing produced in Vietnam from Australian cotton benefits from the elimination of Japanese tariffs on cotton products over 10 to 15 years — encouraging greater demand for Australian cotton in the CPTPP region. However, as the Vietnam industry expands, this may be tempered by growing competition from the US.

2.7 Wool

Australia is the world’s largest producer of all wool by value and volume. The major markets for Australian wool (HS Code 5101) are China (US$2.1 billion), Italy (US$174 million) and India (US$168 million).

China

Policy actions

Trade agreements

Neutral

Neutral

Australia supplies about 78 per cent of the imported wool market in China. South Africa, New Zealand, Uruguay and Argentina make up the remainder of China’s top wool suppliers.

China provides virtually duty-free access on wool, under a large WTO tariff rate quota of 287,000 tonnes. Tariffs within this quota are set at 1 per cent. Under ChAFTA, in addition to the existing WTO quota, Australia received an exclusive duty-free quota of 33,075 tonnes of clean wool from 1 January 2018, growing by 5 per cent each year to 44,324 tonnes clean (approximately 63,500 tonnes greasy wool) by 2024 at duty-free rates.

The US has levied a tariff of 10 per cent on a variety of wool and wool products. China retaliated by levying a 10 per cent tariff on US wool and wool products. While grey trading is becoming less tolerated in China, it is possible the retaliatory duties may drive China’s high-value crustacean imports from the US into the grey market. US lobster may also increasingly be exported to Canada for re-export to China to avoid Chinese tariffs. US exporters will also likely seek out new markets — Singapore, Taiwan, Thailand, and Hong Kong for example imported more US lobster in July 2017 than July 2016.

There are both risks and opportunities for the Australian industry — it could potentially capitalise on market opportunities in China, but could face increasing competition from US lobster in Asian markets. Opportunities in China would also be shared with other producers, including Canada, Russia and New Zealand.

Direct crustacean trade from Australia to China has been increasing since 2013. Over the last half decade, exports of crustaceans from Australia to China have increased from US$13 million to US$147 million. By contrast, exports to Vietnam and Hong Kong have both declined in the same period. It is possible exports that were going to China through Vietnam and Hong Kong are now being traded directly to China under ChAFTA.

Under ChAFTA, tariffs on all Australian seafood exports were eliminated on 1 January 2019.

2.8 Crustaceans

Vietnam, China, Hong Kong, Japan and Malaysia are the top destinations for exports of Australian crustaceans (HS Code 0306). Determining the exact amount of crustaceans sent from Australia to China can be difficult because of complex trade routes and intermediaries.

China

Policy actions

Trade agreements

Neutral

Neutral

Canada is by far the largest supplier of crustaceans to China. Other top suppliers to China are the US, New Zealand, Australia and Thailand. China’s imports of seafood (heavily weighted towards crustaceans) are surging as domestic aquaculture production slows and the country’s middle class expands.

Since 2012, the US crustacean industry has expanded exports to China. In 2017, China was the US second-largest export market, National Oceanic and Atmospheric Administration (NOAA) data shows, with US$128 million of US live or fresh lobster exported to the country (23 per cent of the overall US live lobster export value in 2017). Since July 2018 China has imposed a 25 per cent tariff on 224 seafood products from the US. The higher tariff rate and weakened renminbi have hit sharply. US exporters of live lobster, for instance, have seen their direct exports to China slump. Exports have also reportedly been affected by Chinese non-tariff barriers, including manual inspections. In July 2018, the US exported 244.8 metric tons of live lobster to China worth US$4.12 million, down 29 per cent in value compared to July 2017, according to data from the NOAA.
Projected impacts on Australia’s agricultural exports
Overview

As many of the implications in the previous section highlight, the current bilateral trade wars carry potential impacts for Australia’s agricultural exports. Even though Australia is not a direct target of President Trump’s ire, the interconnected nature of trade results in secondary effects, especially given that Australia’s most important agricultural market – China – is the number one target of US policy actions. This section projects the net impact of the various trade policy actions and counter-actions taken by the US and its trading partners. This projection is informed by details of all the trade agreements currently mooted or under discussion between the US, China, Japan, the EU, Brazil, the Philippines and others. The projected impact on each of Australia’s priority agricultural export products is presented as either a positive or negative percentage, representing downward or upward pressure on Australia’s export interests.

As noted in the Methodology section, it is important to recognise that a +1 per cent rating will not necessarily result in one per cent growth in Australia exports of a given product. Many other factors that are beyond the scope of this study – including weather, shipping rates, eating habits and pests – have an effect on the performance of Australia’s agricultural exports. The ratings assigned under this study represent an upward or downward (or neutral) pressure on export performance, but must be considered alongside these other factors.

3.1 Red meat

The implications of the trade wars for Australia’s fresh/chilled beef exports tend to the negative. This is due to risks identified in Australia’s two biggest chilled beef export markets – Japan and the US. US beef exporters are growing desperate to get better access to the Japanese market. US beef has very limited access to China and the EU, due to a bans on hormone growth promotants (HGPs), and has already succeeded in growing exports to Korea.

**Beef**

The only other major market with growth potential is Japan, where US exporters are at a significant tariff disadvantage to Australia. New Zealand and Canada, thanks to the preferential access granted by the Japan-Australia Economic Partnership Agreement (JAEPA) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). The US and Japan are moving closer to negotiating a bilateral FTA. It appears likely that the US will push hard for equivalent beef access that Japan has granted its CPTPP partners. This would result in Australia losing its competitive advantage over US suppliers.

In the US market – which is Australia’s second most important by value – there are also risks. The US and Brazil have initiated discussions towards a resumption of US imports of Brazilian beef, which were suspended in 2017. If such an action is taken, Australia’s exports will have to compete in the US market with a competitively priced chilled beef from Brazil.

Another area of risk lies in the relatively small volume of high-value meat that Australia sends to the EU tariff-free, under a global high-quality beef quota. The EU recently indicated it was willing to reserve a portion of the global quota for the exclusive use of US exporters. Such a move would impact on Australia’s high-value exports to the EU.

**Projected impact – frozen beef (HS0202)**

Projected impact: -6%

It is projected that impacts on Australia’s frozen beef exports will be negative. Australia’s top frozen beef markets are the US, Japan and China. In the US market, the imminent re-entry of Brazilian products present a risk, while in Japan, the pending US-Japan bilateral talks carry the possibility that Australian exporters will lose their current FTA advantage. In the Chinese market, while current policy settings include an additional 25 per cent tariff on US beef, this is unlikely to create opportunities for Australian exporters. US beef exports to China were previously negligible, due to the Chinese requirement for hormone-free product.

Australia’s exports to Korea also face headwinds. Between 2003 and 2008, US beef was banned from the Korean market, due to a BSE outbreak. Since 2008, US beef has steadily built its market share, and in recent years has surpassed Australia as Korea’s top source of beef imports. Korea has not implemented retaliatory tariffs on US beef exports, and so there have not been additional market opportunities for Australian suppliers. The US enjoys better beef access to the Korean market under the terms of a bilateral FTA, an advantage that does not appear to be at risk in the immediate future.

**Sheep and goat meat**

The impact of the trade wars and their aftermath on Australia’s exports of sheep and goat meat – primarily lamb – are not projected to be strong. These products have not been the focus of additional tariff actions applied with the US or its trading partners. The only risk identified by this study is the stated objective of the US and United Kingdom (UK) to pursue a bilateral trade agreement, following the UK’s exit from the European Union. As the UK is a leading sheepmeat exporter and the US is Australia’s most important market, any improvement in access for UK product to the US market resulting from a bilateral trade deal would have a negative effect on Australia’s export interests.

3.2 Grains and other crops

**Wheat**

Tariff actions are projected to have an overall slightly positive impact on Australia’s wheat exports, particularly with China, with the US temporarily facing retaliatory tariffs. Managed trade arrangements negotiated between the US and China however could expand the market for the US. Australia will also need to compete for greater access with exporters from third countries including Kazakhstan and Russia (which in 2017 supplied 15 and 5 per cent respectively of Chinese imports). Australia’s key export markets in South and Southeast Asia are unaffected.

**Projected impact – wheat (HS1001)**

Projected impact: 1%

**Barley**

Exports of barley to Australia’s most important export market, China, are not impacted by the US trade wars. Barley is not subject to US or China ‘trade war’ tariffs and US imports to the market are negligible. A more important contemporary issue for Australia’s barley exporters is the anti-dumping investigation China launched in 2018; however, this action falls outside the scope of this study.

**Projected impact – barley (HS1003)**

Projected impact: 0%

**Canola**

Canola exports are projected to be slightly positively impacted by the trade wars. China’s actions to block US exports of soybeans, and to restrict Canadian exports of canola, could see increased opportunities for Australian exports to China, as products are substituted in some cases. However, given the small size of the China market for Australia, and the uncertain duration of the ban on soybeans, the impact is not likely to be great. Similarly, any EU action to disadvantage imports of US soybeans may create market opportunities for some Australian canola exporters, although incumbent EU producers would be well positioned to take advantage of such a move.

**Projected impact – canola (HS1205)**

Projected impact: 0.1%

**Concentrated milk and cream**

The bilateral trade wars do not appear to present major risks for Australia’s exporters of concentrated milk and cream products. Most of the key Asian markets – including Singapore, Indonesia and Malaysia – are not implicated in the current conflicts. China, Australia’s number one market, has instituted an additional tariff on imports of US dairy products. This tariff – in conjunction with Australia’s preferential access secured under ChAFTA – increases opportunities for Australian products. However, in taking advantage of this opportunity, Australian exporters will face competition from New Zealand, which is the top exporter of dairy products to the Chinese market.

**Projected impact – concentrated milk and cream (HS0402)**

Projected impact: 1%
### Cheese and curd

**Projected impact – cheese and curd (HS0406)**
- **Projected impact:** 0.5%

The impact of the bilateral trade wars on Australia’s cheese and curd exports promises to be mixed. Australian exporters may benefit from Chinese tariffs on US products, but as observed above, will face competition from New Zealand-based exporters, who enjoy better access to the Chinese market than their Australian counterparts, under the terms of the NZ China bilateral agreement. At the same time, there is a risk that Japan – Australia’s most important market for these products – will offer improved access to US imports as part of an eventual bilateral agreement between the two major economies. Such a move would erode the competitive advantage currently enjoyed by Australian exporters. The net impact is calculated to be moderately negative.

### Sugar

#### Cane sugar

**Projected impact – cane sugar (HS1701)**
- **Projected impact:** 0.1%

The impact of the bilateral trade wars on sugar cane exports is expected to be neutral as Australia is not a major supplier to the markets affected as exports are predominantly to South and Southeast Asia. Furthermore, the US market remains relatively protected. China’s tariffs on US sugar could advantage the small amount of Australian cane sugar exported to China (1 per cent of sugar cane exports).

#### Other sugar

**Projected impact – other sugar (HS1702)**
- **Projected impact:** 0.5%

Australian exporters of these goods are expected to be positively impacted by China’s tariffs on US sugar. Australia’s exports of other sugar to both the US and China are relatively more important in overall exports of this category compared to exports of sugar cane (18 per cent and 14 per cent of the market respectively) however the market remains relatively small.

### Molasses and sugar confectionary

**Projected impact – molasses (HS1703) and confectionary sugar (HS1704)**
- **Projected impact:** -1%

Exports of molasses and confectionary sugar are unlikely be impacted by bilateral tariffs. China is not an important market for Australia – New Zealand (confectionary) and Korea (molasses) take over 50 per cent of each category of export.

### 3.5 Horticulture

#### Citrus

**Projected impact – citrus (HS0805)**
- **Projected impact:** 4.5%

For citrus exports the impact is largely positive, particularly for exports to China, the largest export market, where retaliatory tariffs on the US may amplify Australia’s ChAFTA tariff concessions, at least temporarily. Impacts in other markets, such as Japan, are negligible as Australia is not a significant exporter.

#### Grapes

**Projected impact – grapes (HS0806)**
- **Projected impact:** 3.5%

Exports of grapes to China are likely to benefit in the short term, as exports of US grapes are disadvantaged by retaliatory tariffs. There are opportunities for Australia to expand already growing exports with the benefit of ChAFTA concessions. Exports to Japan however, could be adversely impacted by negotiation of a US/Japan FTA which would erode Australia’s competitive position under JAEPA.

### 3.6 Cotton

**Projected impact – cotton (HS5201)**
- **Projected impact:** 1.5%

Australia’s cotton exporters look set to benefit from the trade wars, as China has applied a 25 per cent tariff to imports from the US. In 2017, the US was China’s top cotton supplier, followed by Australia. Australian exporters appear well positioned to take advantage of the temporary advantage offered by the additional tariffs.

### 3.7 Wool

**Projected impact – wool (HS5101)**
- **Projected impact:** 0%

The bilateral trade wars have not had a discernible impact on Australia’s wool export interests. While it is true that China has implemented an additional tariff on imports of some American wool products, the US is not a major wool exporter, so the move is not likely to impact on Australia’s most important wool export market. Meanwhile, the US has applied an additional tariff on Chinese yarn exports, which may have a negative effect on Chinese demand for Australian wool. However, there are indications that some Chinese yarn manufacturing is moving to Southeast Asia, and thereby avoiding these tariffs, so the effect on wool demand is likely to be small.

### 3.8 Crustaceans

**Projected impact – crustaceans (HS0306)**
- **Projected impact:** 0.5%

The outlook for Australia’s exports of crustaceans (HS0306) is moderately positive, largely due to additional opportunities in the Chinese market. China has imposed an additional tariff of 25 per cent on imports of crustaceans from the US, which in 2017 was the second biggest (behind Canada) supplier of these products to the Chinese market. This additional tariff creates opportunities for other exporters, including those in Australia. However, Australian exports to other Asian destinations may suffer, as US exporters seek alternative markets for goods that would usually be sent to China.

As is the case with citrus and grapes, exports of nuts to China are considered to benefit from tariffs on US competitors, though to a lesser degree due to the smaller volumes of trade involved. Exports to Japan could be affected by expanded US access under a bilateral FTA.

#### Potatoes and carrots

**Projected impact – carrots (HS0706) and potatoes (HS0701)**
- **Projected impact:** 0%

Australia’s exports of potatoes and carrots are generally unaffected by the bilateral trade wars. China is not a major market for either product – Southeast Asia and the Middle East are more important, neither of which is directly impacted by US or retaliatory tariffs.

#### Other vegetables

**Projected impact – other vegetables (HS0709)**
- **Projected impact:** 0.5%

The impact on other vegetables is projected to be slightly negative. While exports could be at an advantage in the Chinese market due to tariffs on US competitors, the Japanese market is relatively more important (accounts for over 24 per cent of exports compared to China’s 6 per cent in 2017). A prospective US/Japan FTA could have negative implications for Australia’s competitive position in the Japanese market.
Conclusions and recommendations

The following recommendations are the result of the analysis being undertaken through the project which was independently commissioned by AgriFutures Australia. The recommendations are not intended and is not advice from, or to, government but have been developed to inform industry input to trade policy debate and discussions.

US trade policy actions and the resulting bilateral trade wars present potentially positive, negative and neutral implications for Australia’s various agriculture exports. There are opportunities for Australia to improve its competitive position in markets where the US is at a temporary disadvantage due to the imposition of tariffs on its agricultural exports, and to take advantage of the access benefits achieved under Australia’s bilateral FTAs and now CPTPP.

However, punitive and retaliatory tariff actions are not the only policy actions arising from the trade wars. The dispute between the US and China is also providing a greater incentive for the US to negotiate trade agreements with other key markets, both to counter the CPTPP advantages of competitors like Australia, and to create new market opportunities. These deals threaten to neutralise the benefits for Australian agricultural exporters arising from the bilateral trade disputes, and potentially to erode Australia’s current competitive position in key markets, including Japan.

A new trade environment is emerging, which presents potential advantages for Latin American agricultural competitors, as tariff and FTA policy actions cause major developed economies to seek alternative export markets and sources of supply.

The proliferation of bilateral and unilateral trade actions comes at a time when the WTO is in crisis – while the global trade system continues to function, its capacity to adjudicate disputes and to advance multilaterally agreed solutions toward reform of agricultural markets is increasingly strained and uncertain.

In this environment, the Australian agriculture industry would benefit from action to:

• Neutralise the threat presented by advantages accorded to agricultural competitors (e.g.: Brazil), as a result of new US FTAs and policy actions
• Actively enforce existing rights under the WTO dispute settlement system.

This could be achieved by:

• Securing preferential access through new FTAs (e.g.: the RCEP agreement, and bilateral deals with the UK and EU)
• Developing a clearer understanding of competitors’ trade promotion efforts in key markets
• Improving terms of access in existing FTAs with key trading partners (e.g.: Japan, China, ASEAN, the US)
• Continuing to support the global rules based trading system, and actively participating in reform of the WTO system to ensure it endures.

There are opportunities for Australia to improve its competitive position in markets where the US is at a temporary disadvantage due to the imposition of tariffs on its agricultural exports.
# Annex I. Trade policy actions

## I. Retaliatory tariffs imposed by US trading partners in response to US Section 232 tariffs on steel and aluminium

### Annex I. Trade policy actions

<table>
<thead>
<tr>
<th>Country</th>
<th>US products affected by retaliatory tariffs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>10% tariff applied to sugar confectionary products (HS170490)</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>20-25% tariff applied to various cheese products (HS040610, HS040620, HS040690)</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>Horticulture&lt;br&gt;25% tariff on HS080211 through 080290 (nuts)&lt;br&gt;25% tariff on HS 080510 through 080590 (citrau)&lt;br&gt;25% tariff on HS 080610, 080620 (grapes, raisins)&lt;br&gt;25% tariff on HS 070610, 070690 (carrots, radishes)&lt;br&gt;25% tariff on HS 070690 through 070699 (asparagus, eggplant, celery, mushrooms, peppers and bell peppers, spinach, artichokes, olives, pumpkins, winter squashes, and melons, other vegetables)&lt;br&gt;25% tariff on HS 0701 10 Potatoes&lt;br&gt;Red meat&lt;br&gt;25% tariff on HS 020110 through 020230 (fresh/chilled, frozen beef)&lt;br&gt;10% tariff on HS020422 Fresh or cold boned lamb&lt;br&gt;Grains and other crops&lt;br&gt;25% tariff on HS 100119 Other durum wheat&lt;br&gt;25% tariff on HS 100199 Other wheat and mixed wheat&lt;br&gt;25% tariff on HS 071310 through 071390 (peas, chickpeas, bean varietals, lentils)&lt;br&gt;Dairy products&lt;br&gt;25% tariff on HS 040210 through 040299 (milk and cream)&lt;br&gt;25% tariff on HS 040610 through 040690 (cheese/curd)&lt;br&gt;Cotton&lt;br&gt;25% tariff on HS 520100 (Uncombed cotton)&lt;br&gt;Wool&lt;br&gt;10% tariff on HS10111 Uncombed fat containing shearing wool</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>Sugar&lt;br&gt;10% tariff on HS170114 Other cane sugar&lt;br&gt;10% tariff on HS170199 Granulated sugar&lt;br&gt;10% tariff on HS170220 Maple sugar, maple syrup&lt;br&gt;10% tariff on 170230 Other fructose and syrup&lt;br&gt;10% tariff on 170280 Other solid sugar; artificial honey, caramel&lt;br&gt;10% tariff on 170480 Other confectionery without cocoa&lt;br&gt;10% tariff on HS170230 Low fructose content of glucose and syrup&lt;br&gt;10% tariff on HS170250 Chemical pure fructose&lt;br&gt;5% tariff on 170181 Sugar added flavouring or colouring&lt;br&gt;5% tariff on 170211 Anhydrous lactose&lt;br&gt;5% tariff on 170219 Milk and other lactose syrup</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>Horticulture&lt;br&gt;25% tariff on kidney beans (HS071333)</td>
</tr>
<tr>
<td><strong>Turkey</strong></td>
<td>Horticulture&lt;br&gt;20% tariff on HS0802 Other nuts, fresh or dried, whether or not shellled or peeled</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td>Horticulture&lt;br&gt;5% tariff on HS071310 Peas, Dried and Shelled&lt;br&gt;5% tariff on HS071320 Chickpeas, Dried and Shelled&lt;br&gt;10% tariff on HS080211 Almonds fresh or dried in shell&lt;br&gt;20% tariff on HS080212 Shelled almonds fresh or dried&lt;br&gt;100% tariff on HS080231 Walnuts fresh or dried in shell&lt;br&gt;100% tariff on HS080232 Shelled Walnuts fresh or dried</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>Grains and other crops&lt;br&gt;5% tariff on HS100199 Wheat</td>
</tr>
</tbody>
</table>
### Annex I. Trade policy actions

#### US S301 tariffs on Chinese agricultural products

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains and other crops</td>
<td>010011 Durum wheat 10%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>100199 Wheat &amp; meslin 10%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>100310 through 100390 (barley) 10%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>120510 Rape or colza seeds 10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Chinese retaliatory tariffs on US agricultural products

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>020110 through 020230 (fresh/chilled, frozen beef) 25%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>020422 Fresh or cold boned lamb 10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Horticulture

<table>
<thead>
<tr>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>071310 through 071390 (peas, chickpeas, bean varieties, cowpeas, lentils, laguminous vegetables)</td>
<td>10%</td>
</tr>
<tr>
<td>070610 through 070999 (carrots, turnips, radishes, beets, celery, mushrooms, truffles, chilli peppers, capsicum etc.)</td>
<td>10%</td>
</tr>
<tr>
<td>080211 through 080290 (nuts) 10%</td>
<td>10%</td>
</tr>
<tr>
<td>080510 through 080529 (citrus) 10%</td>
<td>10%</td>
</tr>
<tr>
<td>080620 (grapes, raisins) 10%</td>
<td>10%</td>
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</tbody>
</table>

#### Sugar

<table>
<thead>
<tr>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>170190 Cane/beet sugar 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170220 Sugars and sugar syrups 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170490 Sugar confections 10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Dairy

<table>
<thead>
<tr>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>040210 through 040299 (milk and cream 25%)</td>
<td>25%</td>
</tr>
<tr>
<td>040610 through 040680 (cheese/curd)</td>
<td>25%</td>
</tr>
</tbody>
</table>

#### Cotton

<table>
<thead>
<tr>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>520100 through 520100 (cotton) 10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Chinese retaliatory tariffs on US agricultural products

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wool</td>
<td>510111 through 510130 (wool) 10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Sugar

<table>
<thead>
<tr>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>170114 Other cane sugar 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170199 Granulated sugar 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170220 Maple sugar, maple syrup 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170230 Low fructose content of glucose and syrup 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170250 Chemical pure fructose 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170199 Other refined sugar 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170260 Other fructose and syrup 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170290 Other solid sugar, artificial honey, caramel 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170490 Other confectionery without cocoa 10%</td>
<td>10%</td>
</tr>
<tr>
<td>170191 Sugar added flavouring or colouring agents 5%</td>
<td>5%</td>
</tr>
<tr>
<td>170211 Anhydrous lactose 5%</td>
<td>5%</td>
</tr>
<tr>
<td>170219 Milk and other lactose syrup 5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

#### Wool

<table>
<thead>
<tr>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>510111 Uncombed fat containing shearing wool</td>
<td>10%</td>
</tr>
</tbody>
</table>
per cent, 25 per cent, and 10 per cent, respectively, on imports from China under Section 232 of the Trade Expansion Act of 1962; on March 23 and June 1, it implemented 10 per cent tariffs on washing machines under Section 201 of the Trade Act of 1974; on February 7, it implemented 20 per cent tariffs on solar panels under Section 301 and China, 2019. Available at https://fas.org/sgp/crs/row/FT10708.pdf.

POLITICO. ’Trump to offer farmers $12B in trade aid’ see https://www.politico.com/story/2018/07/24/trump-trade-aid-for-farmers-737108

The budget also proposes to save money by “eliminating subsidies to higher income farmers, and reducing overly generous crop insurance premium subsidies to farmers and payments made to private sector insurance companies.” While budgets released by the White House have little chance of passing in Congress, they can be an important signal of the administration’s priorities. The budget will also shape the budgetary battle among agriculture policymakers (and potentially factor into the debate over farm bill implementation) in the months ahead.

The five wars of special tariffs imposed by the Trump administration in 2018 were the following: On February 7, it implemented 30 per cent tariffs on solar panels under Section 201 of the Trade Act of 1974 on February 7, it implemented 20 per cent tariffs on washing machines under Section 201 of the Act of 1974 on March 23 and June 1, it implemented 25 per cent tariffs on steel under Section 232 of the Trade Expansion Act of 1962 on March 23 and June 1, it implemented 10 per cent tariffs on aluminum under Section 232 of the Trade Expansion Act of 1962 on July 6, August 23, and September 24, it implemented tariffs of 25 per cent, 25 per cent, and 10 per cent, respectively, on imports from China under Section 301 of the Trade Act of 1974.

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