

The Trans Pacific Partnership and Australian Grains

December 2015

- By being in the TPP, Australian grain exports will gain greater, and more liberal, access to Japan.
- If Australia is not in the TPP, Canada and the United States will achieve preferential access to Japan.
- Australia has negotiated a country-specific wheat quota access provision to Japan which is above our medium-term average proportion of Japanese wheat imports.
- In some instances, TPP elimination schedules will expedite the tariff elimination achieved under Australia's existing agreements.
- In some instances, Australian origin grains have/will have preferential access to key markets until TPP enters into force/ahead of the TPP provisions, so that marketers should take advantage of this and establish enhanced market presence ahead of competitors.
- The market access benefits of TPP to the Australian grain industry will not be immediate, but rather a culmination of benefits over time. The benefits of harmonisation of systems and operations will likely be significant, but again will accrue over time, and will accrue as the collection of a large number of small cost savings.
- This document provides an overview of the general and specific provisions as they relate to the trade of Australian grains in the TPP.

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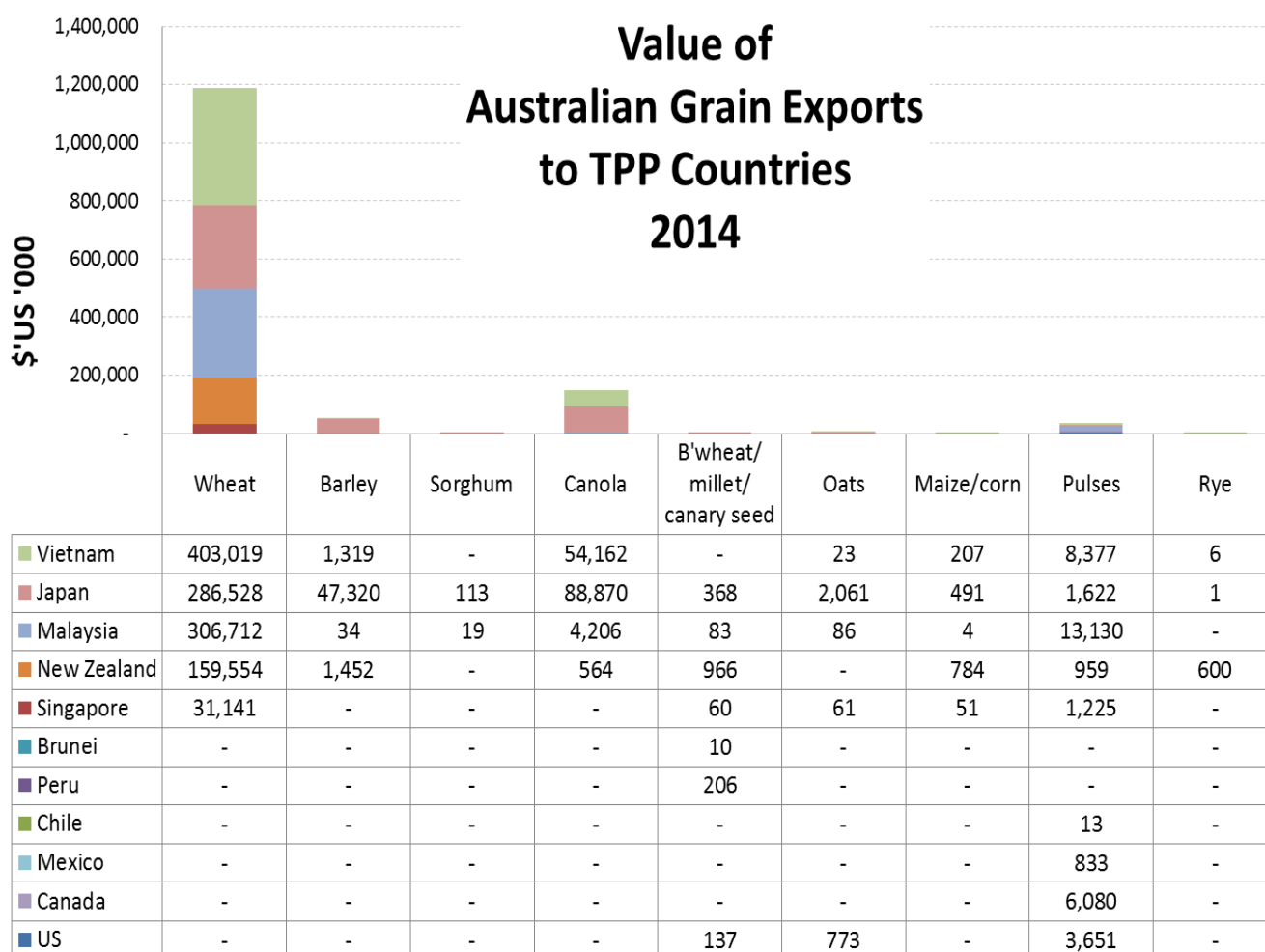
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1. Overview

The Trans Pacific Partnership (TPP) is a trade agreement between the 12 Pacific Rim nations of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam. Agricultural exports to TPP countries were worth about \$AUD 15 billion during 2014-15 which is about 35 percent of Australia's total agricultural exports.

The TPP includes five of Australia's important grain export markets in Japan, Vietnam, Malaysia, New Zealand and Singapore. Total Australian grain trade to TPP nations was valued at \$AUD 1.9 billion during 2014-15, accounting for 17 percent of Australian grain exports during that period. Wheat makes up the bulk of grain exports to TPP countries (Figure 1).

Figure 1



Data Source: Trade Map, 2015

Australia already has 'free' or 'enhanced' trade agreements with a number of the TPP negotiating countries, including:

- Australia-NZ-ASEAN FTA (which includes the TPP negotiating countries of Brunei, Malaysia, New Zealand, Singapore and Vietnam) (effective since 1 January 2010);
- Australia-Chile FTA (effective since 6 March 2009);
- Australia-US FTA (effective since 1 January 2005);
- Japan-Australia Economic Partnership Agreement (JAEPA) (effective since 15 January 2015); and
- other earlier agreements.

The TPP builds on and expands the existing trade agreements that Australia has in place in terms of market access (tariffs and quotas) and introduces a range of harmonisation, transparency and operational elements designed to streamline the movement of goods and services across the region.

Change in access to the Japanese market is the most significant market access gain for Australian grains under the TPP. The improvements come as a combination of reduced mark-ups and additional quota access on milling grade wheats and malt barley. Currently, mark-ups on Japanese imports of wheat and barley equate to almost \$AUD200/tonne and \$AUD100/tonne respectively.

Australia achieved 20 percent of the growing additional wheat quota offered by Japan in the Agreement, which is above the medium-term average proportion of their wheat imports that Australia has supplied. These improvements are accompanied by equivalence to all TPP nations on feed barley and wheat, on the unrestricted access Australia achieved for these under JAEPA.

Technical access is of course not assured by the negotiation of free trade agreements. Trade agreements have to date been unable to meaningfully accommodate the introduction of non-tariff barriers to trade. With respect to technical access issues, the TPP includes the WTO Technical Barriers to Trade Agreement which commits members to apply technical regulations in ways that are non-discriminatory, do not create unnecessary barriers to trade, and are based on international standards. The TPP seeks commitment from all parties to increase cooperation and transparency on technical barriers and establishes a Technical Barriers to Trade Committee, which has representatives from all TPP countries. Conditions relating to technical requirements for a range of products (including organic products, wine and spirits, medical devices and cosmetics) have been incorporated with the agreement, but grains have not been captured in these.

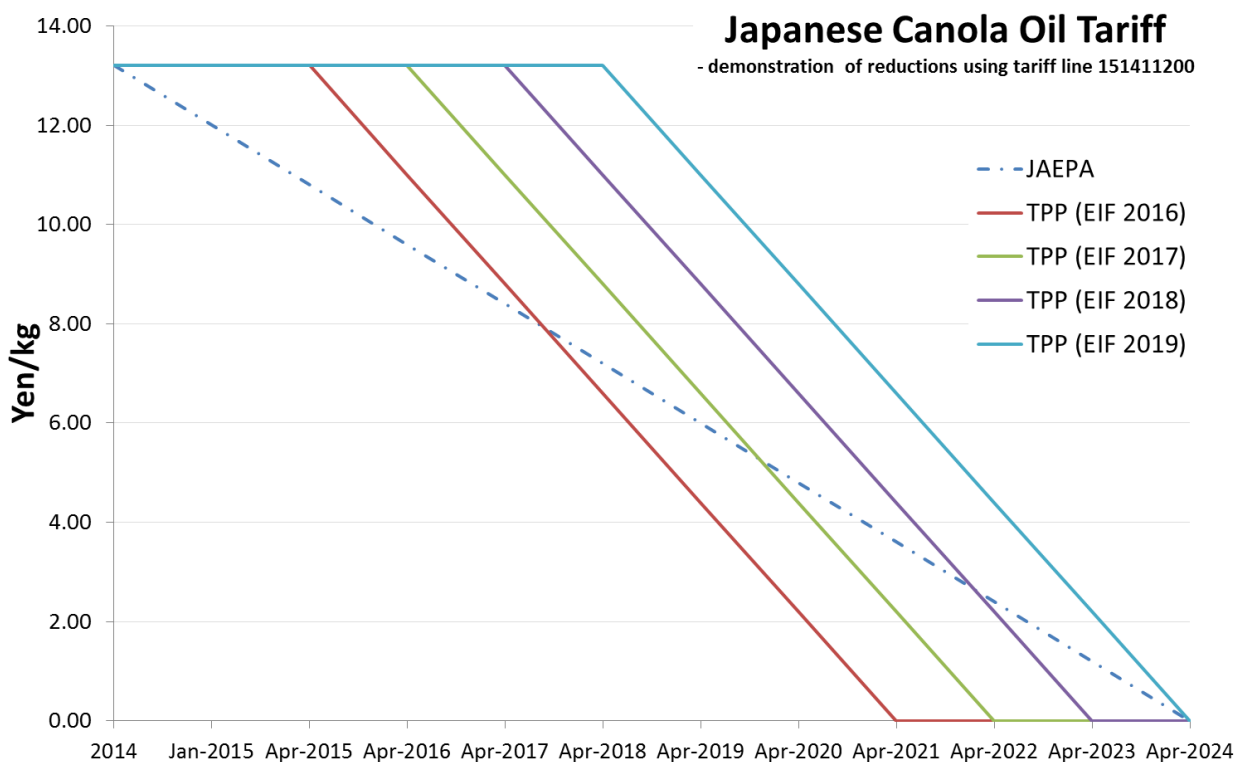
The Technical Barriers to Trade provisions in TPP do not in and of themselves present a solution to technical barriers to trade, but do highlight the importance technical barriers are playing in world trade, and the agreement does include a specific committee which facilitates resolution of technical trade issues (including a third party witness provision). Ensuring Australian government representation to these committees are well resourced will be key to their being meaningful technical access harmonisation in the TPP, and the value of these provisions overall will be demonstrated only when the Agreement comes into force.

The agreement does improve access for Australian grains and grain products across the region and also removes some of the protections that competitor grain producing nations have had (such as Canada and US will remove import tariffs on grain from some TPP countries that still have barriers to access to those countries), however it also means that other countries will achieve market access equivalence either immediately or over time. For example, under the Australia-NZ-ASEAN FTA, tariffs on Australian wheat imported to Vietnam will be abolished by 2016, compared to Vietnam’s MFN wheat tariff of five percent. TPP nations will all have a zero percent tariff on wheat from the time TPP enters into force. A summary of the market access provisions by grain and by country is provided in Sections 4 of this document.

It is important to note that Australian exporters will be able to choose the agreement under which they supply goods. This is relevant where a tariff reduction under an earlier Australian agreement is more advanced in its tariff reduction schedule, than agreed to under the TPP.

An example of this would be in the export of canola oil to Japan. Under JAEPA Australian canola oil to Japan was granted tariff elimination over 11 instalments, meaning that by April 2016, Australian canola oil will enter Japan with a 27 percent lower tariff than canola oil from other nations without preferential access. Under the TPP, all TPP members will be granted tariff elimination over six instalments. On the basis that TPP enters in force (EIF) in 2016, Australian canola oil will have preferential access under JAEPA until and including 2017, however beyond that should export under the TPP Agreement would be preferential. The year at which TPP becomes preferable depends on the year that TPP enters into force (see Figure 2).

Figure 2



2. When will the TPP come into force?

TPP negotiations have been undertaken over the past five years and were completed during October 2015, with the full text becoming available on 5 November 2015. Australia and the 11 other TPP countries are working towards signing the TPP in 2016, after which each will undertake its own domestic treaty making procedures to bring the agreement into effect.

In Australia, that process includes, but is not limited to, the TPP Agreement and a National Interest Analysis being tabled in Parliament for 20 joint sitting days, a Joint Standing Committee on Treaties inquiry to the Agreement and parliamentary consideration of any legislative amendments necessary to implement the Agreement.

The TPP will enter into force 60 days after all original signatories have notified completion of their domestic legal procedures. If this has not occurred within two years of signature, the Agreement will enter into force 60 days after the expiry of that two -year period if at least six original signatories accounting for 85 percent of the combined GDP of the original signatories, have ratified the Agreement.

There is provision for the Agreement to enter into force for late entrant countries from the original 12, provided certain requirements are met. Non-negotiating countries (i.e. outside of the initial 12), may join subsequent to TPP entry into force provided the 12 original signatories agree to their accession, which would require further domestic legal approvals in some original TPP parties. Indonesia, for example, has expressed interest in joining the TPP.

There is considerable uncertainty regarding the possible timing of entry into force. In effect, the 85 percent of GDP requirement means that if the US and Japan do not ratify the Agreement, it will not enter into force. The nuances of domestic politics in these two nations are therefore the greatest influences on the timing of the TPP entry into force.

3. General Provisions

The following is a list of some of the general provisions within TPP that will improve trade flows. The extent to which they will be gauged until after the Agreement comes into force because the language around some of these provisions is not specific.

The general provisions include:

- Member countries agree to improved transparency on import licensing.
- Import administration levies and fees may not be charged on an *ad valorem* basis, but must be related to the cost of service provision.
- Export subsidies are expressly prohibited (with the exception of US export credits which have been classified as export competition measures).
- Measures to encourage more transparency on food security import and export arrangements.
- The formation of a Biotechnology Working Group with the aim of increasing transparency and transfer of information between countries.
- The rules outlining what qualifies as a TPP originating good are done on a product by product basis. Grains and legumes will be considered to be of TPP origin if they are wholly obtained or produced in one or more TPP country. Malt and vegetable oils will be considered to be of TPP origin provided the malting of the grain or processing of the oil occurs in one or more TPP country. In addition, a general *de minimis* provision allows for up to 10 percent of the value of these products to come from a non-TPP country.
- The formation of a specific Agriculture Committee to address agricultural trade issues. This is a promotion from a sub-committee which is routinely the case for agriculture in trade agreements.

Additional general provisions, likely to present an immediate cost saving to exporters are in relation to certification include:

- Claims for tariff preferences will be made through self-certification.
- A single set of rules of origin for all 12 countries so that only one Origin Certification is required to satisfy the import requirements of all TPP nations.

4. Specific grain provisions

4.1 Wheat

The key market access provisions of note for Australian wheat are in relation to **Japan**. For Japan, the TPP includes a plurilateral commitment to reduce its 17 yen /kg mark-up with-in quota for Japan's existing WTO access quota, by 45 percent over nine years (out of quota bound rates would still apply).

In addition, it has made available additional (to WTO commitments) quota of 192,000 tonnes, growing to 253,000 tonnes over nine years, shared between the USA, Canada and Australia, broadly on the basis of historical trade (see Table 1). The quota will be traded under the SBS and cover tariff lines 100110.010, 100190.011, 100190.019 and 100890.021, with a slight difference in the mark-up reduction between Group 1 (DNS, HRW, WW, CWRS and ASW (Japan Blend)), and Group 2 (All other types) (see Table 1 below).

Table 1: Japan's country-specific wheat quota offers within TPP

Year	Quota Volume			Mark-up (yen/kg)	
	USA	Canada	Australia	Group 1	Group 2
1	114,000	40,000	38,000	16.2	16.1
2	120,000	42,167	40,000	15.3	15.1
3	126,000	44,333	42,000	14.5	14.2
4	132,000	46,500	44,000	13.6	13.2
5	138,000	84,667	46,000	12.8	12.3
6	144,000	50,833	48,000	11.9	11.3
7	150,000	53,000	50,000	11.1	10.4
8	150,000	53,000	50,000	10.2	9.4
9+	150,000	53,000	50,000	9.4	8.5

Under JAEPA, Australia obtained duty free access for feed wheat imported to Japan outside of the current WTO Tariff Rate Quota (TRQ) mechanism. Japan will extend this to TPP wide, which will have the secondary effect of creating additional space for imports of food wheat duty-free under the 5.7 million metric ton WTO quota.

To note:

- Wheat is eligible for import to Japan under the Australian quota if it is *harvested in Australia*.
- The quota will be administered by Japan's Ministry of Agriculture, Forestry and Fisheries.

Under the TPP, wheat access to the growing market of **Vietnam** will also liberalised, with tariff elimination. Vietnam will eliminate its tariff on wheat (currently five percent MFN) on entry into force, however for Australian origin wheat, the tariff will be eliminated in 2016 in any case, under the Australia-New Zealand ASEAN FTA.

Other wheat tariff changes within TPP are shown in Table 2.

Table 2: Market Access for Australian Wheat in the TPP

	Australia's current wheat tariff on entry	TPP provision
Mexico	67%	Tariffs eliminated TPP wide over 10 years
Peru	9% MFN	Elimination on EIF TPP wide
Chile	6% MFN plus specific duty under Chile's price band system	Countries granted access equivalent to what they have under existing FTAs, for Australia wheat tariffs and the price band will be eliminated on EIF
Vietnam	5% MFN, eliminated for Australia in 2016 under AUS-NZ-ASEANFTA	5% eliminated for all TPP on EIF
Malaysia	0% MFN	No change
Singapore	0% MFN	No change
Brunei	0% MFN	No change
Canada	\$1.90/tonne MFN within access commitment, 49% over	Eliminated on EIF for all TPP
US	0% (US Australia FTA)	0.35c/kg (Common) to 0.65c/kg (Durum) removed for all TPP on EIF. No change for Australia.
New Zealand	0% MFN	No change

* **MFN = most favoured nation.**

4.2 Barley

Under the TPP, the most significant concessions for barley are also into **Japan**. Japan will eliminate its tariff on barley for feed, which is currently 39 yen per kilogram (about 255 percent *ad valorem* equivalent) on imports outside of its WTO TRQ for all TPP imports, which brings other TPP countries into line with Australia's feed barley access achieved under JAEPA.

Japan will also create a new 25,000-metric-ton TPP-wide quota for barley that will grow to 65,000 tons over nine years. Japan will reduce its mark-up on barley imports by 45 percent over the period for imports under the quota, as shown in Table 3.

Table 3: Japanese Barley Quota offered under TPP and Mark-up reductions

Year	Quota volume (TPP wide) Tariff line 100300.019	Mark-up (yen/kg)
1	25,000	7.6
2	30,000	7.2
3	35,000	6.8
4	40,000	6.4
5	45,000	6
6	50,000	5.6
7	55,000	5.2
8	60,000	4.8
9	65,000	4.4

Other barley concessions are shown in Table 4.

Table 4: Market Access for Australian Barley under TPP

	Australia's current barley tariff on entry	TPP provision
Mexico	115%	Eliminated TPP wide over 5 years
Peru	9% MFN	Elimination TPP wide over 6 years.
Chile	6% MFN	Elimination on EIF
Vietnam	0% MFN	No change
Malaysia	0% MFN	No change
Singapore	0% MFN	No change
Brunei	0% MFN	No change
Canada	\$0.99/tonne MFN for malting within access commitment, 94.5% over	Eliminated on EIF for all TPP
US	0% (US Australia FTA)	No change for Australian barley. All duties eliminated on EIF for all TPP
New Zealand	0% MFN	No change

Japan will also establish new country specific quotas for imports of unroasted and one for roasted malt. Under the TPP, within-quota malt exports, as listed in the following table, will be duty free on EIF (Table 5).

Table 5: Roasted and unroasted malt quotas offered by Japan under TPP

Year	Quota volume – roasted malt Tariff line 110720.020			Quota volume - unroasted malt Tariff line 110710.029			
	USA	Canada	Australia	USA	Canada	Australia (TPP)	Australia (JAEPA)
1	700	4,000	3,000	20,000	89,000	72,000	39,560
2	735	4,000	3,000	22,400	89,000	72,000	47,300
3	770	4,000	3,000	24,800	89,000	72,000	55,040
4	805	4,000	3,000	27,200	89,000	72,000	62,780
5	840	4,000	3,000	29,600	89,000	72,000	70,520
6	875	4,000	3,000	32,000	89,000	72,000	78,260
7	910	4,000	3,000	32,000	89,000	72,000	86,000
8	945	4,000	3,000	32,000	89,000	72,000	86,000
9	980	4,000	3,000	32,000	89,000	72,000	86,000
10	1,015	4,000	3,000	32,000	89,000	72,000	86,000
11+	1,050	4,000	3,000	32,000	89,000	72,000	86,000

Australia has been allocated 72,000 tonnes of unroasted malt duty free access under TPP from EIF. However under JAEPA, the quota volume grows to 86,000 over seven years. Under TPP, Australia will be entitled to either the JAEPA or TPP volume whichever is greatest (they are not additive), and the time at which that occurs will depend on when TPP is entered into force. Current tariffs will remain in place for out of quota imports.

To note:

- Malt is eligible for import to Japan under the Australian quota if it is produced in Australia from *barley harvested in Australia*.
- Quotas will be administered by Japan through a ‘first come, first served’ import licensing procedure pursuant to which a certificate of tariff rate quota shall be issued by Japan.

4.3 Sorghum

TPP Provisions for Sorghum are shown in Table 6.

Table 6: Sorghum market access provisions under TPP

	Australia's current sorghum tariff on entry	TPP provision
Japan	0% under JAEPA	Elimination of 3% TPP wide on EIF
Mexico	0%	No change
Peru	9% plus specific duty under Peru's price band system	9% is eliminated on EIF for all TPP, but specific duty remains
Chile	6% MFN	Eliminated on EIF for all TPP
Vietnam	5% is eliminated in 2016 under AANZFTA	Eliminated on EIF for all TPP.
Malaysia	0% MFN	No change
Singapore	0% MFN	No change
Brunei	0% MFN	No change
Canada	0% MFN	No change
US	0% (US Australia FTA)	No change
New Zealand	0% MFN	No change

4.4 Pulses

TPP Provisions for pulses are shown in Table 7.

Table 7: Pulse market access provisions under TPP

	Australia's current pulse tariff on entry	TPP provision
Japan	A range of tariffs some which were reduced under JAEPA (e.g . Chickpeas 0%) and others that were not (e.g. Adzuki Beans 10% within quota, 345y/kg otherwise)	Rates of 6 – 10% will be eliminated on EIF for in-quota volumes, and over 11 years for out of quota volumes, TPP wide.
Mexico	Mostly 10% (except black and white beans which are at 125%)	Eliminated on EIF TPP wide (black & white beans over 15 years)
Peru	Range from 0 – 9%	Eliminated on EIF for all TPP, or over 6 stages.
Chile	6%	Eliminated on EIF for all TPP.
Vietnam	10%. Under AANZFTA, all Australian pulses enter duty free by 2018.	Eliminated over 3 stages.
Malaysia	0% MFN	No change
Singapore	0% MFN	No changes
Brunei	0%	No change
Canada	0-2%	Eliminated on EIF
US	0% AUS-US FTA	Up to 1.5c/kg Eliminated for all TPP on EIF
New Zealand	0%	No Change

4.5 Canola

TPP Provisions for canola and canola oil are shown in Table 8.

Table 8: Canola and canola oil market access provisions under TPP

	Australia's current Canola tariff on entry	TPP provision	Australia's current canola oil tariff on entry	TPP provision
Japan	0%	No change	10.9 – 13.2y/kg Being eliminated in 11 equal cuts. currently reduced by 27%	10.9 – 13.2y/kg Will be eliminated over 6 years for all TPP.
Mexico	0%	No change	0%	No Change
Peru	0%	No change	0% on crude, 9% on refined	9% eliminated on EIF for all TPP
Chile	6% MFN	Eliminated on EIF TPP Wide	6%	Eliminated on EIF for all TPP
Vietnam	10% MFN eliminated in 2016 under AANZFTA. Currently 5%	Eliminated on EIF TPP wide	Crude: 5% eliminated in 2016 under AANZFTA Refined: 10% under AANZFTA and eliminated by 2018.	All eliminated over 5 – 7 years for all TPP
Malaysia	0% MFN	No changes	0% MFN	No changes
Singapore	0% MFN	No change	0%	No changes
Brunei	0% MFN	No changes	0%	No changes
Canada	0% MFN	No changes	6-11%	Eliminated on EIF
US	0% (US Australia FTA)	No change	0% (under Aus- US FTA)	Up to 6.4% eliminated on EIF for all TPP
New Zealand	0% MFN	No changes	0%	No changes

5. Other grain suppliers in the TPP

The United States and Canada, competitors of Australia in international grain supply, are key members of the TPP. The TPP builds on the liberalised trade they enjoy as part of NAFTA and provides, over time for equivalence with Australia in many grain markets (e.g. Malaysia and Vietnam). Important in the context of North America, especially the United States is the reduction in corn tariffs offered across the TPP.

While not immediately of importance to Australia, it is worth noting the TPP includes commitments from both the US and Canada to reduce their own import tariffs on grains. For example, United States tariffs on wheat and wheat products, currently as high as 6.8 percent, will be eliminated within 10 years. While not destinations for Australian grain, it does reduce the protection on these industries and proceed a small way towards a more level playing field in production.

While Canada and the US are within the TPP and so overtime afforded equivalent access it is worth highlighting the grain supplying nations which are not in the TPP: the European Union; Argentina; Russia; and Ukraine.

Glossary

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
<i>ad valorem</i>	levy calculated as a percentage of the estimated value of the goods
ASEAN	Association of Southeast Asian Nations
ASW	Australian Standard White
CWRS	Canadian Western Red Spring
DNS	US Dark Northern Spring
<i>de minimis</i>	minimal amounts
EIF	Entry Into Force
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HRW	US Hard Red Winter
JAPEA	Japan-Australia Economic Partnership Agreement
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
TPP	Trans Pacific Partnership
TRQ	Tariff Rate Quota
WTO	World Trade Organisation
WW	US Western Wheat