

AUSTRALIAN DAIRY INDUSTRY SUBMISSION TO

AUSTRALIAN GOVERNMENT STUDY OF A BILATERAL FREE TRADE AGREEMENT (FTA) BETWEEN AUSTRALIA AND MALAYSIA

This submission has been prepared by Dairy Australia in consultation with the major Australian dairy manufacturers currently exporting dairy products to Malaysia and the Australian Dairy Industry Council.

Current Trade

Malaysia was Australia's second most valuable export market in 2003, importing \$A171 million worth of Australian dairy products.

Australian exports to Malaysia

Source: ABS

Group	1999		2000		2001		2002		2003	
	Tonnes	A\$								
Butter	2,622	\$6,901,554	2,219	\$6,077,309	2,324	\$6,927,668	2,559	\$6,812,206	2,129	\$5,658,361
Butter Blend	1	\$7,385	1	\$4,985	0	\$2,007	0	\$3,820	33	\$70,665
Butter Oil	2,852	\$8,509,319	2,936	\$8,285,121	3,046	\$8,443,861	1,947	\$6,996,970	2,019	\$7,269,818
Buttermilk							3	\$7,672	8	\$20,877
Buttermilk Powder	2,023	\$3,579,374	1,094	\$2,642,699	550	\$2,200,879	180	\$402,906	1,058	\$1,700,344
Casein	71	\$342,907	8	\$63,824	4	\$37,132	35	\$255,266	2	\$12,190
Cheese	1,483	\$6,144,187	2,036	\$8,998,526	2,275	\$11,650,831	2,424	\$12,557,206	2,252	\$9,446,402
Condensed Milk	2,906	\$3,941,166	1,173	\$1,538,283	6,957	\$12,118,819	247	\$392,530	393	\$1,106,192
IceCream	13	\$43,130	92	\$223,781	78	\$250,974	135	\$403,448	129	\$429,405
Infant Powder	138	\$650,151	185	\$1,086,398	81	\$623,140	1	\$2,517	2,462	\$12,085,259
Lactose									157	\$101,004
Milk	1,657	\$1,394,735	2,022	\$1,379,632	2,304	\$1,540,445	3,696	\$2,784,372	3,933	\$2,833,398
Milk Products	87	\$73,723	102	\$106,250	83	\$110,450				
Mixtures	594	\$3,796,615	445	\$3,553,648	320	\$428,111	156	\$398,411	409	\$656,668
SMP	34,947	\$73,264,666	33,500	\$90,248,210	19,806	\$80,551,966	28,636	\$74,436,813	21,060	\$48,806,382
Whey Powder	6,995	\$6,582,783	5,743	\$6,023,352	3,191	\$4,141,690	2,853	\$3,348,531	4,756	\$4,034,354
WMP	15,901	\$51,346,548	15,937	\$51,648,687	19,640	\$82,519,437	19,851	\$73,338,113	21,133	\$76,546,872
Yogurt	36	\$137,336	53	\$177,775	73	\$233,840	72	\$201,669	74	\$176,250
Total	72,325	\$166,715,579	67,546	\$182,058,480	60,732	\$211,781,250	62,796	\$182,342,450	62,007	\$170,954,441

Local Industry

Malaysia has a small dairy farming industry producing less than 40,000 litres of milk per annum. This is sufficient to supply just 2% of Malaysia's dairy requirements. The remainder is imported. Over the past ten years the Malaysian Government has gradually withdrawn support for the dairy farming sector. Since 2002 it is no longer providing any direct support to dairy farming in the form of subsidies or research and development.

Controls on the import of liquid milk are the only supports still in place for dairy farming. These controls aim to maintain relatively high prices for drinking milk which is the only market for local

milk. Local farmers receive a farm gate price of RM1.5 (approximately 50 Australian cents) per litre.

Although the price is significantly higher than the Australian farm gate price of around 30 cents per litre, with freight from Australia, improvements in milk quality in Malaysia and the relative exchange rates in recent years, locally produced Malaysian milk is able to sell for a price comparable to imported product without any significant Government intervention to maintain prices of imported product.

Malaysia also has a large milk recombining industry, a yogurt and ice cream manufacturing sector and a large food processing industry which largely focuses on the manufacture of infant formula and other products based on powdered milk. These industries which rely on imported dairy inputs supply both the domestic and export market.

1. Tariff Barriers

Most dairy products enter Malaysia free of duty. The exceptions are set out in the following table.

Items Attracting Malaysian Import Tariffs

Tariff Code	Description	Tariff	Comment
0402.91.000	Unsweetened milk concentrate (evaporated milk)	5%	Protects local recombiners.
0403.10.110 0403.10.120 0403.10.910 0403.10.920	Flavoured yogurt	25%	Protects local manufacturers – Nestle and NZMP Malaysia. Estimated market size 20-25,000 tonnes annually.
0403.90.110 0403.90.120 0403.90.910 0403.90.920	Flavoured butter milk and flavoured butter milk powder	25%	This is an anomaly in the tariff. Very little flavoured butter milk is consumed anywhere in the world. Australia has no interest in this item. The only trade is in small volumes of unflavoured buttermilk powder which already has a zero tariff.
0405 (excluding 0405.90.210)	Butter, dairy spreads and butter oil (other than for recombining)	2%	It is unclear why this tariff is in place. It should be removed immediately.
0406.10.100 0406.2 0406.4 0406.9	Cheese (other than cheese curd or processed cheese)	5%	The zero tariff on fresh curd and the higher tariff on processed cheese aims to encourage a local cheese processing industry. However, no such industry has emerged so there is no reason not to remove these tariffs.
0406.3	Processed cheese	10%	
1806.2 1806.3 1806.9	Chocolate and chocolate preparations	15%	Relatively high tariff reflects the extent to which chocolate and semifinished cocoa preparations are made in Malaysia. Australia is a major supplier of milk powder for this industry. Removal of these tariffs is, therefore, a

			low priority for the Australian dairy industry.
2105.00.000	Ice cream	5%	Supports a number of local ice cream manufacturers (including large multinationals such as Walls and Nestle and smaller local companies) and imports from ASEAN countries. Removal of this barrier would increase Australian competitiveness against higher value exports from US, EU and NZ rather than damage local producers.
3501.90.200	Casein glues	25%	As all other casein lines are free it is unclear why this line has a higher tariff. As Australia is able to supply the raw material at zero tariff there is little advantage in the removal of this tariff.
3502.2 3502.9	Milk protein concentrates	5%	Unclear why this tariff is in place. Should be removed immediately.

The key objective for the Australian dairy industry from a Free Trade Agreement with Malaysia is to have all of these tariffs reduced to zero as quickly as possible. In most cases they do not provide any significant protection to any local industry and could be removed immediately with no impact on local manufacturers. This is particularly so in the case of butter, cheese and milk protein concentrates.

In other cases, the local operations of multinational companies are the main beneficiaries of the tariff protection and would survive without this small amount of protection. For yogurt, in particular, Australia currently supplies premium product which is airfreighted. The premium end of the yogurt market is quite small and given the short shelf life nature of yogurt, air freighted premium yogurt is likely to be the only product sold into the yogurt sector in the foreseeable future. The costs associated with air freight already provide a substantial degree of protection to local producers and as such removal of the tariff is unlikely to adversely impact on them.

If Malaysia believes that additional support is required for its local yogurt sector, one mechanism could be to enforce the Codex Alimentarius standard requiring that yogurt have minimum quantities of live culture. This would prohibit the sale of relatively inexpensive UHT yogurt (which has no live culture remaining) from Europe and ensure that the market is only supplied by those countries which are able to supply fresh product. This would also bring Malaysia's yogurt standard in line with that currently applying in Australia and elsewhere in the region.

Under the terms of its Uruguay Round commitment dairy tariffs are bound at rates between 12% and 61%. An important objective for a bilateral agreement would be to achieve an agreement that those tariffs which currently have a zero tariff will be bound at that level for the purpose of imports from Australia.

2. Licensing Requirements/Quota Administration

Imports of liquid milk are controlled by licenses associated with a Uruguay Round WTO quota. Under the terms of its WTO commitment, Malaysia is required to offer at least one million litres of milk quotas with an in quota tariff rate not exceeding 50%.

Since 1996 Malaysia has consistently issued licenses for in excess of five million litres of milk applying a zero tariff. In the past 5 years, imports have stabilised at around 5.5 million litres worth around \$US20 million per year. This is primarily supplied by Australia and New Zealand.

Licenses were originally subject to a requirement that import was only allowed by local milk manufacturers. This was later relaxed and now they are only subject to a requirement that importers do not sell product in the retail market below prevailing prices. The Malaysian Government intervened in 2001 to suspend licenses for 2 months following evidence of discounting by foreign brands. Since then, licenses have been issued on demand.

The relatively free access to licenses largely reflects the emergence of a smaller more competitive local milk producing industry and the shift in focus by the Malaysian Government away from support for dairy farming.

Although the WTO quota also applies to cream imports, Malaysia does not exercise this right, allowing free imports of cream since the late 1990s.

A key objective for the Australian dairy industry, therefore, is the removal of the specific licensing/quota arrangements that are currently in place for liquid milk and cream.

3. Halal

Unless a specific claim of Halal is made on the packaging, the Malaysian Government does not require that dairy products have any particular Halal certification. Where Halal claims are made, the Malaysian Islamic authorities recognize certification from Australian based Islamic authorities.

There have, however, been occasions in the past where Moslem countries have called for Halal certification on all dairy products or only recognize certification by the Islamic authority of the importing country. Malaysia took this approach briefly in 1996 but withdrew following submissions from the Australian Government.

It would be helpful, therefore, if the Agreement could include a side letter or some other mechanism confirming that dairy products do not require Halal certification unless Halal claims are made and that under such circumstances the competence of Australian based Islamic authorities will be recognized.

4. Other Non-Tariff Barriers

Generally Malaysian food regulations for such things as safety standards, labelling and nutritional claims are in line with international standards. Where they have been identified as constituting a non tariff barrier, Malaysian authorities have generally been pragmatic in finding solutions.

5. Cooperation in International Forums

Australia works closely with Malaysia in international forums such as the International Dairy Federation, Codex International and the World Customs Organization where our interests in dairy trade usually coincide. One such area is our support for Malaysia in the development of a standard for “filled” milk. If such a standard is adopted, this would require manufacturers of recombined condensed milk to use appropriate labels if the butter component is replaced with vegetable oils.

6. Re-export to third countries

A large proportion of Australian dairy exports to Malaysia, especially of milk powders, are used in Malaysia to make products such as infant formula for re-export to third countries in the region. Confirmation of zero tariff rates and reduction of the remaining tariffs would assist in facilitating this important domestic economic activity.

Conclusion

Malaysia is a major market for the Australian dairy industry, both for product consumed locally and for product repacked or further processed for consumption in the region. Generally tariffs are relatively low and the Malaysian Government imposes minimal interference in the trade.

If a Free Trade Agreement with Malaysia is negotiated the most valuable objectives for the Australian dairy industry would be:

- Removal of remaining tariffs on dairy product lines
- Removal of licensing requirements for liquid milk
- Bilateral agreement to bind current zero tariff rates on dairy product
- Agreement that dairy exports from Australia will not be required to have Halal certification unless marketed as such and that Halal marketing claims will be accepted on the basis of certification by Australian based Islamic authorities.

As has been the case in the negotiation of other Free Trade Agreements in recent years, the Australian dairy industry looks forward to working closely with the Department of Foreign Affairs and Trade at all stages of the negotiation and we stand ready to provide input and advice as is required.

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