



31 July 2020

Submission to:
The Joint Standing Committee on Trade and Investment Growth
Via on-line lodgement

Inquiry into Diversifying Australia's Trade and Investment Profile

Following on from our September 2019 Submission to the Committee on its enquiry into *Supporting Australia's Exports and Attracting Investment*, the Infant Nutrition Council (INC) would like to take this opportunity to provide input into this latest Enquiry.

The Infant Nutrition Council Ltd (INC) is the industry association for the infant formula products and toddler milk drink industry in Australia and New Zealand. The more than 40 council members include some of the most respected food companies in Australia and internationally, (see Appendix 1 for a full membership list of the INC).

We understand that the focus of the Committee's Enquiry is to understand whether there is a need for Australia to diversify its trade markets and foreign investment profile. To this end, we would make the following comments against specific aspects of the Enquiry's Terms of Reference:

Is Australia over-reliant on any one export market and what are the economic and national interest implications?

The Australian infant formula products and toddler milk drink industry is a strong and growing sector, due in large part to the growing Asian middle-class consumer and their increased demand for, and trust in premium dairy products sourced from Australia. Over the past decade, Australia has seen significant demand from overseas markets, especially from Chinese consumers. This has been driven by a number of factors including:

- A recognition of the high quality and safety of Australian sourced infant formula products and toddler milk drinks;
- the growth in cross-broader e-commerce trade in China;
- the reduction in tariffs resulting from the China Australia Free Trade Agreement; and
- a growing Australian Chinese community, which has largely been responsible for the development of the "daigou" phenomenon.

China has shown consistent growth as an importing country, now accounting for over 90% of Australia's worldwide infant formula and toddler milk drink exports.

Over-reliance on one market can bring with it business and other risks and our industry is certainly conscious of this fact. That said, the demand from the China market has underpinned the establishment and rapid growth of the infant formula products and toddler milk drink export sector, as it has with many other industries. The INC has seen with its members a gradual diversification of export markets (see appendix 1) as middle class

consumers in these markets grow demand for premium imported product. This diversification has been assisted by the implementation of new FTAs, improvement in market access arrangements by governments, and the growth of e-commerce sales channels.

Given the size of the market and strength of the Australian “clean, green, safe” brand, China will realistically continue to be Australia’s key trading partner in the region. However, the ability for industries such as ours to be agile and able to establish brand recognition and sales channels in other high growth markets will be critical to long-term stability and viability.

Is Australia over-reliant on foreign investment and what are the economic and national interest implications?

Australia has a long history of foreign investment, particularly in the agricultural and manufacturing sectors. European, North American and more recently Asian investment has underpinned the growth of many of Australia’s industries. Whilst acknowledging that there has been some public concern regarding foreign ownership of agricultural assets, the INC is confident that the Foreign Investment Review Board (FIRB) is well paced to oversee this investment and to assess investment projects on a case-by-case basis against their impact on the national interest test.

It should be noted that foreign investment in Australian also brings with it benefits, including market access and export growth. In the infant formula products and toddler milk drink sector, we have seen a number of examples of Chinese investment into manufacturing facilities and brands. This is the result of a conscious effort on the part of that market to “internationalise” its infant formula supply chain.

This investment, if managed well, provides significant benefits. For example, it will be important to point out in future discussions with the Chinese Government that continued market access will be critical in underpinning Chinese investment in the Australian infant formula products and toddler milk drink industry. That is to say, China now has a significant investment stake in the Australian industry, and will therefore prosper from continued market access that will in turn benefit the entire industry.

The impact of global crises such as trade and political disputes on trade relationships.

Complex import regulations and market access rules provide a challenge for Australian exporters, particularly in the food and agribusiness sectors and into markets like China.

Over the past 18 months there has been a major re-organisation of China’s regulatory agencies and a number of changes to the product registration process. These changes have the potential to severely curtail Australia’s export growth in China and put Australian infant formula products and toddler milk drink businesses at a disadvantage compared to the Chinese domestic industry.

Whilst industry and government work closely with trade market authorities to navigate these complexities, and whilst there are provisions within The China-Australia Free Trade Agreement (ChAFTA) for addressing non-tariff barriers (NTBs) when they arise, addressing market access issues (whether they be considered NTBs or not) requires good will on both sides.

Any increase in protectionist sentiments globally, escalation of “trade wars”, or geo-political disputes have a direct impact on Australia’s trade-exposed industries.

The impact of bilateral trade agreements and whether they contribute to a concentration of trade markets and an over-reliance on foreign investment.

The Australian Government's implementation of Free Trade Agreements with key export partners has been important in reducing tariffs. In some markets infant formula attracts tariffs of upwards of 30%. Acknowledging the complexity of negotiations, the INC supports the continued pursuit of these bi-lateral agreements, particularly with high growth regional partners such as Indonesia and India. However, we would make the point that the pursuit of broader multilateral agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will have the added benefits of diversification of exports, including to smaller and emerging markets not otherwise covered by bi-lateral agreements.

With regard to the impact of trade agreements on foreign investment flows, investor-state dispute settlement provisions contained in many FTA and multi-lateral agreements are important protection measures for Australian off-shore investments, particularly in those markets where the state may intervene regularly in business. In Australia, the inclusion of these provisions in FTAs does not preclude the Australian Government (through the FIRB) from continuing to regulate foreign investment on a case-by-case basis against the national interest test.

Industry and Government preparedness to address the above issues.

There is strong support from Australian Governments at both the Federal and State levels to support Australia's export industries to diversify their market engagements. This support includes:

- In-market resources, embassies, business offices and trade promotion activities, carried out in a broad range of established and emerging trade markets;
- Market access support and advocacy by regulatory and industry agencies; and
- Trade liberalization initiatives such as FTAs and economic cooperation agreements with key growth markets.

An area for further focus should be ensuring, where possible, regulatory standardization that improves the movement of goods and services across a wider group of trading partners.

In supporting trade diversification, it is important to ensure that local regulatory issues and standards do not act as trade impediments to new market access and that a whole-of-government approach is taken that considers broader economic implications.

For example, if the Australia and New Zealand Food Standards Code should fall behind international standards, it will hamper future innovation and export competitiveness, particularly in relation to cross border e-commerce (CBEC) goods that need to comply with origin market regulations.

In supporting trade diversification, there is an important role for Australian governments in supporting the adoption of CBEC as a sales channel by Australian exporters, as this is often a cost effective and streamlined way to enter new markets. Particular attention needs to be given to the CBEC regulatory environment in Australia and maintaining an open dialogue with regulators about future management of CBEC.

Thank you for the opportunity of providing a submission to the Committee's inquiry. I would be happy to provide additional details on any of the matters contained in this Submission, or to meet with Committee members at a convenient time.

Yours sincerely

Jan Carey

CEO

CURRENT INFANT NUTRITION COUNCIL MEMBERS

Ordinary Members

Bellamy's Organic
Danone Nutricia Early Life Nutrition
Fonterra Co-operative Group Ltd
H J Heinz Company Australia Ltd and H J Heinz Company (New Zealand) Ltd
Nestlé Australia Ltd and Nestle NZ Ltd
Sanulac Nutritionals Australia
Synlait Milk Ltd
The a2 Milk Company Ltd

Associate Members

Abbott Australasia Pty Ltd	New Zealand Dairy Collaborative Ltd
Australian Dairy Park	Nuchev Food Pty Ltd
Bakels Edible Oils (NZ) Ltd	Nu-Mega Ingredients
Bayer Ltd	Oceania Dairy
Blend and Pack Pty Ltd	Reckitt Benckiser
Bodco Dairy Ltd	Saputo Dairy Australia Pty Ltd
Bubs Australia Ltd	Snow Brand Aust Pty Ltd
Burra Foods	Spring Sheep Milk Co
Cargill Australia	Tatura Milk Industries
Dairy Goat Co-operative Ltd	The H&H Group
DSM Pty Ltd	The LittleOak Company NZ Ltd
Fresco Nutrition Ltd	Wattle Health Australia Ltd
GMP Dairy Ltd	Westland Co-operative Dairy Company Ltd
Great Ocean Ingredients Pty Ltd	Winston Nutritional New Zealand Ordinary
GrainCorp Ltd	
Jamestrong Packaging Pty Ltd	
Mataura Valley Milk Ltd	
NIG Nutritionals	

APPENDIX 2

Australia with Modes Export Statistics (Transport Modes: All Transport Modes) Via Ports: All Ports									
Products: 190110 (Food Preparations For Infant Use, Put Up For Retail Sale, Nesoi)									
Quantity: Year Ending through December 2019 (January 2019 to December 2019)									
Rank	Trade Partner	Unit	Primary Quantity			% Share			Percent Change, 2019/2018
			2017	2018	2019	2017	2018	2019	
	World	KG	28,390,626	44,607,336	49,508,335	100.00	100.00	100.00	10.99
1	China	KG	22,760,305	39,610,208	40,938,355	80.17	88.80	82.69	3.35
2	Hong Kong	KG	2,572,139	1,244,740	3,407,539	9.06	2.79	6.88	173.76
3	Taiwan	KG	780,473	1,637,063	2,281,695	2.75	3.67	4.61	39.38
4	Vietnam	KG	578,251	499,310	1,094,117	2.04	1.12	2.21	119.13
5	Bangladesh	KG		155,461	448,330		0.35	0.91	188.39
6	Korea, South	KG	267,577	642,896	403,682	0.94	1.44	0.82	-37.21
7	Singapore	KG	967,640	52,244	384,891	3.41	0.12	0.78	636.72
8	New Zealand	KG	216,134	200,065	187,180	0.76	0.45	0.38	-6.44
9	Malaysia	KG	173,771	278,356	171,923	0.61	0.62	0.35	-38.24
10	Cambodia	KG	30,466	74,936	98,747	0.11	0.17	0.20	31.77
11	Macau	KG	8,100	44,590	25,244	0.03	0.10	0.05	-43.39
12	New Caledonia	KG	479	6,605	22,500	0.00	0.01	0.05	240.65
13	Thailand	KG			9,802			0.02	
14	Fiji	KG	2,877	7,000	8,463	0.01	0.02	0.02	20.90