

Dairy In The US Free Trade Agreement

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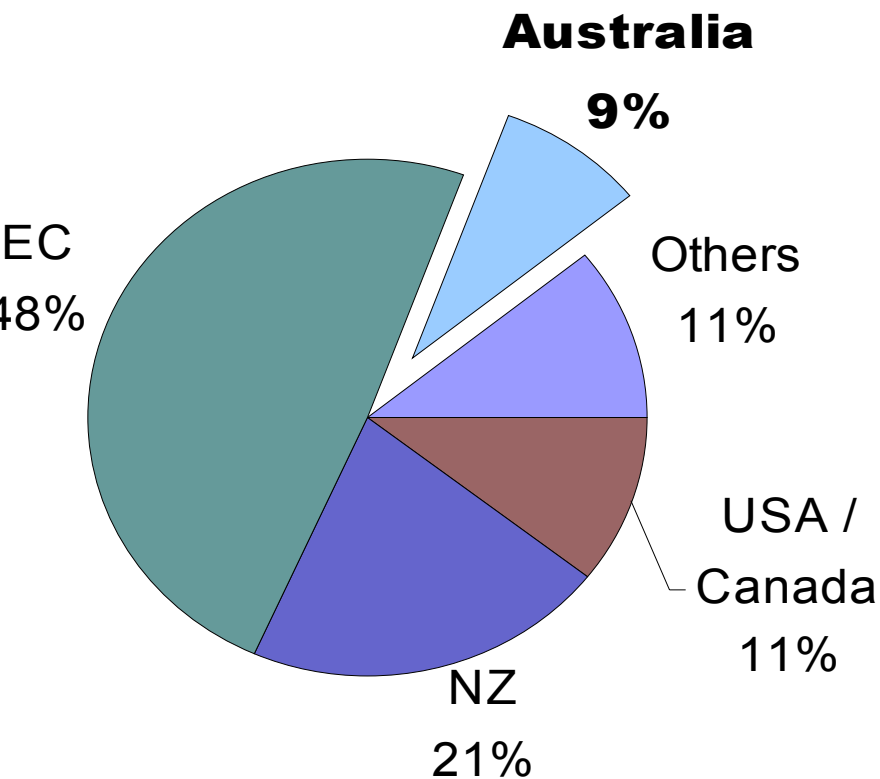
Dairy Australia

The Australian Dairy Industry:

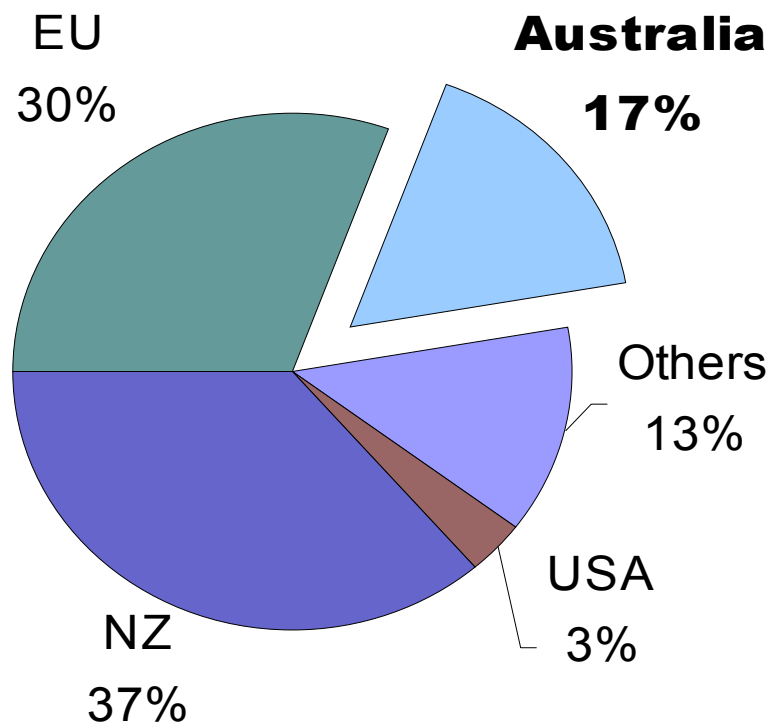
- Progressively deregulated since 1983
- Unsubsidized, world competitive producer
- Technologically sophisticated
- International in outlook (over 50 % exports)
- World prices drive domestic farm gate returns

Australian Dairy Industry has come a long way

1992



2002



Dairy has a great future.

- Australia's largest processed foods exporter.
- Major regional employer across Australia.
- Strong potential for growth of farm and manufactured output.
- Growth outlook limits:
 - Water
 - International trade policies.

Trade Reform is Essential

- Small international dairy market (40 billion litres). Only 7 % of world milk enters international trade.
- Prices heavily distorted by export subsidies.
- Access to North America, Europe, Japan highly restricted (small quotas, massive tariffs).
- Market Access key to long term stability and growth
- WTO is the main game but

US FTA a major opportunity

A Free Trade Agreement

with the USA

Offered an opportunity which

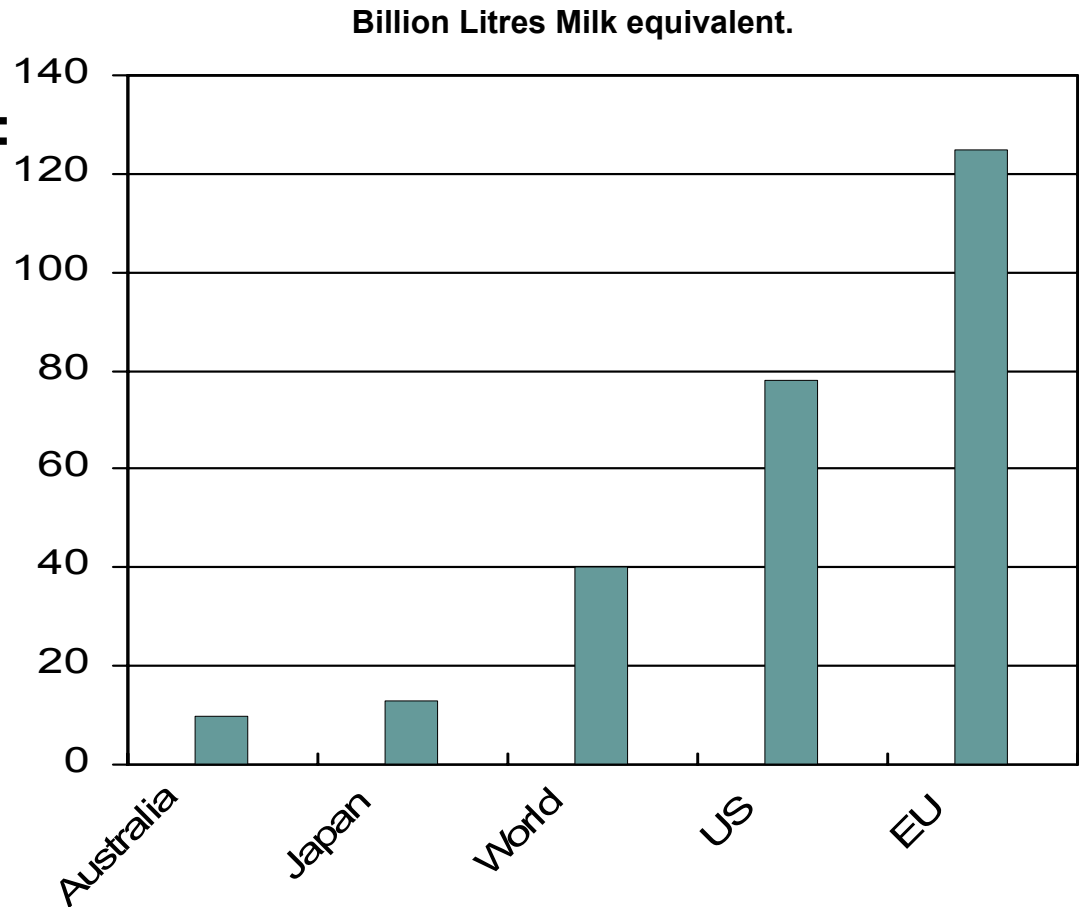
Could not be ignored by the

Australian Dairy Industry.

Three fold Market Increase

Market Sizes (billion litres):

Australia	10
Japan	13
International	40
USA	78
EU	125



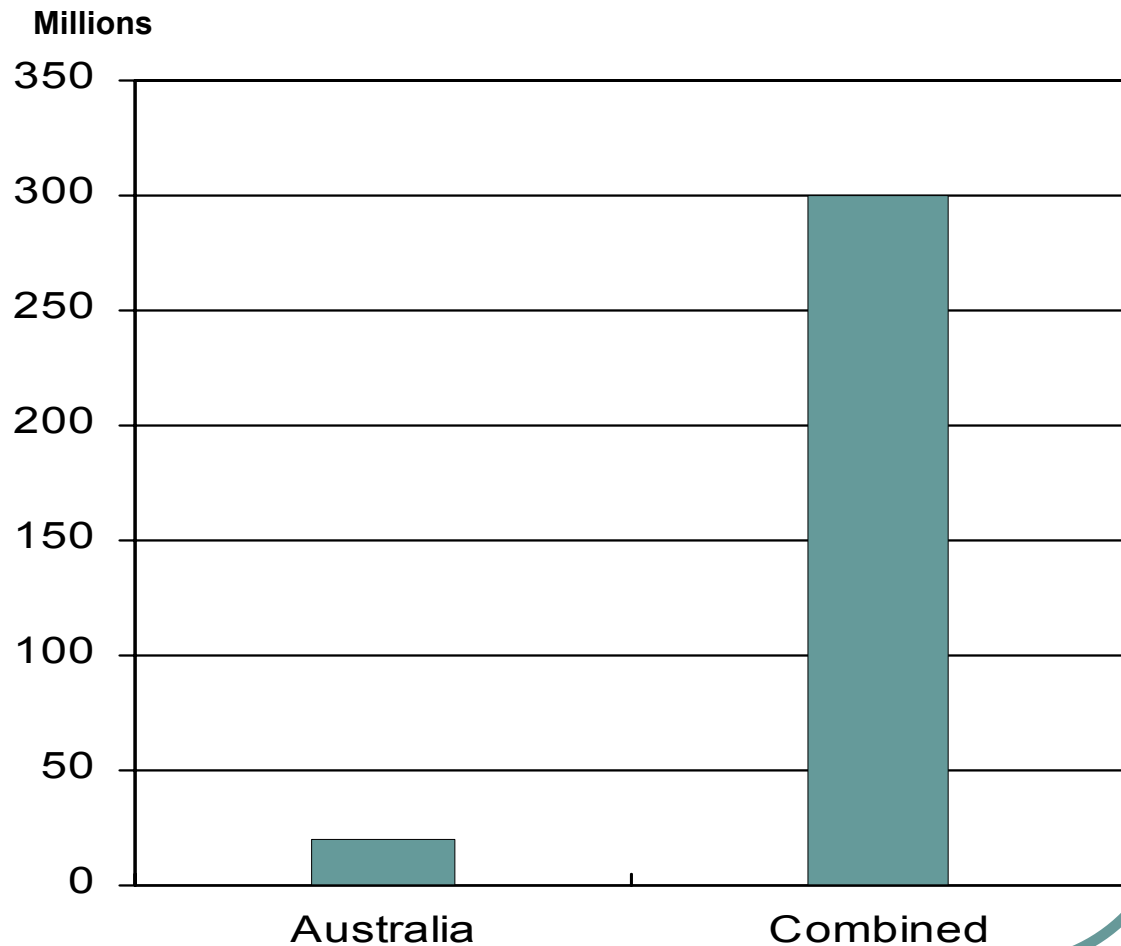
Increases food processing market 15 times

Population:

Australia 20 m.

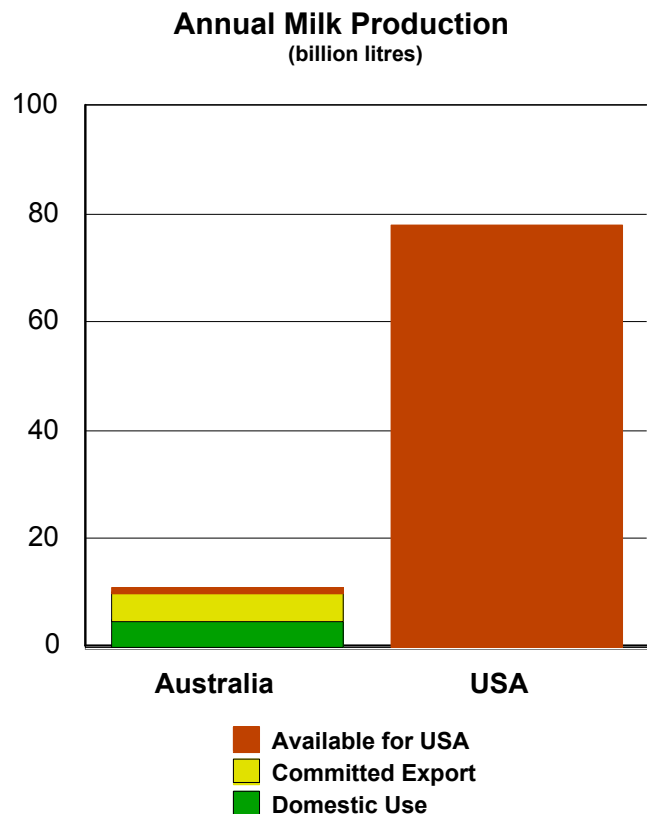
USA 280 m.

Combined 300 m.



The US dairy industry has nothing to fear.

Australia can only marginally impact the US Dairy Industry



The fluctuation in the annual milk flow in the US is more than the milk available from Australia for the US market

Expected Gains from Free Trade

- Steady growth in exports of sophisticated value added products.
- Greater market stability
- More investment certainty
- Reduced dependence on commodity trade

Hurdles to an Agreement

- US dairy industry very protectionist
- Undergoing major structural changes, but focused on regulatory arrangements rather than commercial market opportunities.
- Continued government stockpiling
- Complexity of "dairy"

The Final Outcome

- Deal is not "free trade"
- Significant expansion of Australian controlled quota access (weighted to potential premium products – WMP, Frozen cream, Cheeses, Other dairy - not storage commodities)
- Annual expansion in access (5% on average)
- Duty savings (10-25 %)

Gains Still Significant

New product trade (\$70M p.a. and rising)

Positive impact on average farm gate prices

Net farm premium \$3-3,500 per farm p.a.

Improved trading possibilities for firms

Protection of value added protein ingredient trade