UNIVERSITY OF MELBOURNE

DEPARTMENT OF ECONOMIC HISTORY

MASTERS THESIS

"Tariff and Non-Tariff Barriers to Trade in the Beef, Dairy & Wheat Industry in Japan, Taiwan & Thailand Between 1974 & 1994."

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PREFACE

This thesis results from a long interest and association with Australian export activities in the East Asian region. It has developed from an investigation into the relevance of tariffs to Australia's export performance in East Asia into a thesis which explores the performance of Australia's Statutory Marketing Authorities (SMA's) in the beef, dairy and wheat sectors in Japan, Taiwan and Thailand, and the influence of Non-Tariff barriers on this performance.

It is hoped that the data presented in the thesis will be a useful guide to the activities of SMA's in East Asia between 1974 and 1994 and illustrate the success, or lack of it, that Australian exporters have had in overcoming the considerable barriers to agricultural trade with the region. More detailed analysis and assessments have been made of the statistical relevance of NTB's, and the performance of SMA's over the past ten years. However, this thesis sets out to charter a more diverse route through the intricacies and complexities of Australia's export performance and admonish the notion that NTB's are the pivotal factor to export success in East Asia.

This thesis would not have been possible without the help of many people. I only hope that I manage to acknowledge them all here. I wish to acknowledge the co-operation of all those interviewed, particularly Judith Laffen of DFAT whose invaluable connections made many of the interviews possible.

I am indebted to Richard Snape who was responsible for providing the UN database on tariff rates and Non-tariff barriers.

To Derek Tribe and Tony Pickett who provided invaluable sources of data and many of the materials used in the study, I would like to express my deepest thanks.
I wish to thank Stephen Nicholas and Greg Whitwell who have come in at the final hour to provide valuable insight and essential guidance.

Finally, I must thank Allan Thompson, my supervisor, who has been a patient observer to all that has gone with the topic.
LIST OF ABBREVIATIONS

ABARE - Australian Bureau of Agriculture and Resource Economics
ABL - Agriculture Basic Law (Japan)
ADB - Australian Dairy Board
ADC - Australian Dairy Corporation
ADI - Asia Dairy Industries (ADC Subsidiary)
AMF - Anhydrous Milk Fat
AMLC - Australian Meat and Livestock Corporation
ASW - Australian Standard White Wheat
AWB - Australian Wheat Board
CALM - Computer Aided Livestock Marketing System
DFAT - Department of Foreign Affairs and Trade (Australia)
DPIE - Department of Primary Industries and Energy (Australia)
EC - European Community
GATT - General Agreement on Tariffs and Trade
HQB - High Quality Beef
IAAP - Integrated Agriculture Adjustment Plan (Taiwan)
JMC - Japanese Meat Corporation
LIPC - Livestock Industry Promotions Council (Japan)
NTB - Non Tariff Barrier
NTM - Non Tariff Measure
SMA - Statutory Marketing Authority
SMP - Skim Milk Powder
UN - United Nations
WMP - Whole Milk Powder
CHAPTER ONE

INTRODUCTION

"Food exports to the Asia-Pacific region tend to be bulk shipments that are susceptible to cyclical price movements ... Australian food companies need to invest in human capital, plant and 'exporting infrastructure' to turn our agricultural commodities into branded food exports - exports that will meet the needs of growing consumer markets in the region and deliver 'long term returns' on investment."

(Tom Park, Managing Director Kraft Foods Limited Australia, Business Council of Australia Seminar, Understanding our Future in Asia and the Pacific, May 1992.)

For over a decade Australians have been told by leading authorities in both the government and the private sector that our economic future lies in the Asia-Pacific region. Exports to the region now account for about 50% of Australia's total exportable output. Processed primary exports including agricultural commodities have been a key component of this figure contributing an average $4 billion to Australia's annual terms of trade. Moreover, agriculture has continued to lie at the heart of Australia's export role in the region and hold significant potential in a market that continues to grow at around 6% - 10% annually. This thesis analyses three key agricultural sectors to clarify the key components of Australia's success and failure in infiltrating East Asian markets. Rather than assuming that our traditional role in the market represents a superior risk/reward proposition, it is hoped that through an investigation of Australia's historical role in the region a more successful framework can be initiated to encourage further development of our export markets.
The thesis seeks to answer three questions:
i) What role have tariffs played in Australia's agricultural export performance over the past twenty years?
ii) How significant have Non Tariff Barriers (NTB's) been to this export performance?
iii) How successful have Australia's Statutory Marketing Authorities (SMA's) been in implementing export strategies appropriate to infiltrating East Asian markets?

Three general comments which flow out of my research are in order. First, many exhort the need for a global reduction of tariffs and attribute Australia's limited trade success to the continued existence of tariff barriers, particularly among agricultural commodities. But the issue is not that simple. I show that Australia's export performance in Asia has been influenced by a multitude of factors. The research undertaken in preparing this thesis highlights the difficulty in assuming that reduced tariff rates will necessitate greater export opportunities. The data and experiences referred to below emphasise that there were other major factors which explain the success of exported product in overseas markets. These are highlighted by the outcomes of research into tariff rates and export volumes.

Second, while tariffs have had little impact on export volumes, NTB's have played an influential role in the success of the agricultural industry in East Asia. Moreover, their influence has at different stages been of central importance to the means by which Australian exporters infiltrate East Asian markets. In fact, the information collected in the interviews suggests that a greater understanding of NTB's would encourage greater success in the market. It is therefore appropriate to ask why strategies were not implemented to deal with these issues.

Third, there has been an underlying assumption in many quarters that Australian success has been limited by external barriers. This assumption ignores the issue of what Australian institutions did to encourage exports in overseas markets. The
majority of research on NTB's has focussed on the barriers themselves, as opposed to investigating whether solutions were sought by the appropriate authorities and whether these solutions adequately sought alternative means of infiltrating markets. The research shows this to be a significant shortcoming given the limited success SMA's had in exporting agricultural product to East Asian markets. This issue is addressed in detail in the thesis and, importantly, provides an alternative scenario to much of the analysis that has occurred in the past.

To further explore Australia's agricultural export performance in East Asia a more detailed analysis of the primary issues is needed. The issue of tariffs has remained at the forefront of international trade since the early period of post-war development. The initiation of GATT in 1947 firmly put tariff rates on the international trade agenda. Since this time significant effort and resources have been devoted to reducing tariff rates and encouraging a more open system of international trade. Several rounds of multi-lateral trade negotiations focussed on the tariff issue, and over time this resulted in considerable reductions in tariff rates. For an exporting country like Australia, these reductions were perceived to hold great promise for future economic gain. However, large export gains were not forthcoming, and I provide evidence which shows that there has been little association between tariff reductions and trade success. Why have the reductions in tariff rates not been replicated by greater success among export sectors, particularly agricultural commodities where tariffs had been such a burden to international competition?

Part of the explanation is that the growth of NTB's has been central to the poor performance of agricultural exporters. One view, as outlined by Anderson and Hayami (1986) in their text on protection in East Asia, was that NTB's grew from the international pressure to decrease tariff rates. Countries began to impose alternative barriers on strategic industries as a means of developing or maintaining local interests. They came to play an important role in the agricultural sector where concern for food
security, and strong political lobby groups ensured that domestic farmers were protected from foreign imports. The protective mechanisms used included quotas, health and sanitary regulations, finance requirements, local product standards, and other government and non-government barriers. For Australian exporters, the common attitude was that,

"... any fluctuation in tariff rates was meaningless without subsequent arrangements for the withdrawal of NTB's." (Vowser I.N. 15.)

Without reforms to international controls on the imposition of NTB's, it was thought that opportunities for Australian agricultural exporters to Asia would remain limited.

However, the importance of NTB's extends only to one's ability to overcome them. To this end Australia has been guilty of procrastination. While favourable bi-lateral trade arrangements between East Asian countries and North America, Australia's primary competition for many agricultural products, has limited access, the opportunity for alternative means of infiltrating markets have become apparent. The inability of Australia's SMA's to adopt new or alternative methods of tackling the NTB issue has been central to the limited success of the agricultural industry in East Asia.

This thesis presents the results of a study designed to assess how the NTB issue was addressed, and whether appropriate solutions were adopted by Australia's key agricultural SMA's. It is well known, as this study confirms, that government involvement in agriculture is both widespread and important in terms of providing farmers with income security and protection. However, relatively little published research has facilitated a quantitative analysis of tariff reductions and trade data, or made an informal assessment of Australia's SMA's and their trade performance. My study fills this gap. SMA's have long been responsible for the international marketing and selling of most of Australia's agricultural exports. Given the considerable
responsibility and power Australian growers invest in these organisations, it seemed appropriate that their trade activities and strategies be assessed in the interests of maximising agriculture's future opportunities in the East Asian region.
CHAPTER TWO
DATA AND METHODOLOGY

2.1 INTRODUCTION

This chapter outlines the sources of data and the methodology employed in answering the key questions of the thesis. The study is based on tariff statistics covering three industries in three countries in East Asia between 1974 and 1994 and on twenty eight interviews conducted between March 1993 and April 1994 with senior managers in the Australian Meat and Livestock Corporation (AMLC), the Australian Diary Corporation (ADC) and the Australian Wheat Board (AWB), academics and government officials concerned with Australia's export trade with Asia. The choice of industries and countries, the collection of statistical data and the selection of candidates for the interviews and the structure of the interviews are discussed below.
2.2 TARIFF AND NON-TARIFF BARRIERS TO AUSTRALIAN TRADE IN ASIA: A NEW APPROACH

2.2.1 HOW AND WHY

A number of specific studies in the past five years have focused on the relevance and impact of tariffs and non-tariff barriers on Australian agricultural exports. (see Anderson & Hayami (1986), Anderson & Tyers (1991), Dickson (1990), George & Rankin (1993).) These studies have emphasised a technical approach linking statistical data to government restrictions and regulation. They have concluded that there are considerable benefits to be gained from the liberalisation of markets, particularly the abolition of tariffs and institutional government trade restrictions. This view is the dominant paradigm, providing an orthodoxy which pervaded discussion of Australia's export performance in the market. What has been lacking is a qualitative analysis of the more covert barriers to agricultural trade with the East Asian region and an evaluation of how successful Australia's Statutory Marketing Authorities have been in tackling trade barriers. The thesis breaks new ground in assessing the marketing performance of the bodies which organise Australia's trade with Asia.

The first step in analysing and assessing the export performance of Australia's agricultural industry in the East Asian region is an investigation of tariff rate fluctuations and their impact on export outcomes. By correlating tariff rates and export quantities I show that change in tariff regimes have little or no impact on market penetration by Australia's primary exports. Liberalisation of Asian markets since 1970 had no significant impact on Australian export quantities. Secondly, given the growing importance of NTB's, a study of their impact and importance is conducted through interviews. The approach is based on twenty eight interviews with individuals either previously or currently associated with the Australian Meat and Livestock Corporation (AMLC), the Australian Dairy Corporation (ADC), or the Australian
Wheat Board (AWB) or individuals with an export knowledge of Australia's agricultural trade with Asia. The interviews are used to provide the core data to assess the nature of trade barriers and the methods employed by Australia's Statutory Marketing Authorities (SMA's) in infiltrating overseas markets. To obtain a full and extensive understanding of why Australia's agricultural sector has not performed better in the growing Asian market, one should consult those who have had experience in the region and can illustrate the difficult nature of trading in the Asian market.

2.2.2 THE SECTORS AND THE REGION

The scope and volume of data on trade with East Asia restricted the thesis to three specific sectors and three countries. The industries chosen were confined to the beef sector, the dairy industry and the wheat industry. The choice was based on the importance of each of the industries to Australian trade in East Asia and the considerable volume each sector contributes to Australia's annual agricultural output.

Asia absorbs just over 90% of Australia's beef exports, dominating the industries export sector. Japan, South Korea and Taiwan are the primary export markets.¹ The dairy industry is also reliant on the Asian market with just under 65% of exports directed towards the region.² The dairy industry is a major growth industry in East Asia with consumption growing threefold over the past eight years. (Shiravalow I.N. 26.) This makes the dairy sector particularly relevant to the study. Finally, the wheat industry was chosen as an established export industry in Asian markets. While its trade potential might be limited by domestic and international trade factors, including local production volumes and international competition, its traditional export culture makes it valuable as a standard from which export performance can be judged.

² see ADC Dairy Compendium 1993.
Importantly, each of the industries under investigation is controlled by statutory marketing authorities. SMA's generally provide,

"... marketing services (such as generic promotion, market research, industry information and communication, and pilot programs) and administer market regulation (such as export licensing, quality assurance, and market support)." (SMA Review (1990) pp. 6.)

While the organisations are not driven by the same profit incentive as private organisations, their primary responsibility is to maximise benefits to levy payers through an efficient use and allocation of funds. Levies are the primary source of revenue. It is assumed that they serve the common interests of all industry members and not a subset of those interests. This is a concern given that the common interest can be limited by quality specification, packaging and brands. The opportunity to differentiate makes the levy system complex and some argue that this has provided the major restriction to innovation and progress in the industries investigated. However, as the recent 1990 Review of Statutory Marketing Authorities Report outlined,

"... under circumstances where differentiation is encouraged, SMA's need to focus its efforts on activities which are in the common interests of all levy paying sectors rather than in the interests of only one sector without threatening the long term trade ventures or innovations." (SMA Review (1990) pp. 8.)

Of the industries chosen, the appropriate SMA's vary greatly in size. The AMLC is responsible for almost $4 billion in export receipts. (see Fig. 2.1) It is solely funded from levy allocations of $77 million annually and employs just over 200 staff. The AWB is funded both by its trading activities and a levy system. Its export receipts are approaching $3 billion although the nature of the harvest each year makes this figure sporadic. The AWB has a large workforce of almost 400 due to the nature of their trading activities and the complexity of their responsibilities. The ADC is a much smaller operation. Its responsibilities have been wound back in recent years allowing
manufacturers to trade overseas. Its export receipts amounted to $1.7 billion in 1988/89. Its structure is financed by levy income that supports 110 staff.

**Fig 2.1 Institutional and Financial Structure of the AMLC, AWB and ADC**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>AMLC $m$</td>
<td>77.0 $m$</td>
<td>223</td>
</tr>
<tr>
<td>AWB $m$</td>
<td>$c$</td>
<td>387</td>
</tr>
<tr>
<td>ADC $m$</td>
<td>38.3 $m$</td>
<td>110</td>
</tr>
</tbody>
</table>

*a Source: Agriculture and Resources Quarterly, Dec 1989.
b Source: annual reports of the SMA's. 
c The AWB's income is derived largely from its trading activities. In 1988-89 its gross value of output was $2.9b from which the AWB drew the majority of its income. The estimate for the Wheat Industry Levy Fund for 1989-90 is $41.5m.

All SMA's follow a similar organisational structure with a corporate board accountable to the Minister through its annual report and to its suppliers through the maximisation of farm gate returns. The authority is responsible for directing and monitoring the SMA according to approved corporate plans.

The countries chosen were confined to Japan, Taiwan and Thailand. The focus on these economies was determined by their stage of industrialisation and their cultural diversity. Japan represents a highly developed nation that has played a major role in importing Australian agricultural product. Alternatively, while Taiwan is rapidly attaining developed status it has played only a minor role in Australian agricultural trade, with beef being the major exception. Finally, Thailand was chosen as a potential market currently experiencing rapid growth, and providing considerable opportunities for Australia's agricultural sector. The level of development was particularly important
given its relevance to agricultural protection, and the pattern of trade in the East Asian region. Essentially, countries were chosen to provide a broad picture of what Australia's SMA's are likely to confront in trading with the Asian region.

2.2.3 THE STATISTICS

The statistical investigation correlated tariff rate changes and export fluctuations for beef, dairy and wheat products to Japan, Taiwan and Thailand between 1974 and 1994. The objective was to assess the relative importance of tariffs to Australia's primary export performance over the twenty year period.

This was refined to include the accumulation of all tariff changes for seven products drawn from the livestock, dairy and grain sectors of the market in Japan, Taiwan and Thailand. There were three primary categories of data. First, tariff rates on beef were taken from the livestock sector and included both part and full carcase cuts. Second, tariff rates on five dairy products were assessed. These included Anhydrous Milk Fat (AMF), Butter, Cheese (processed and unprocessed), Skim Milk Powder (SMP), and Whole Milk Powder (WMP). Third, tariff rates on wheat were taken from the grain market.

The data was drawn from SMA records, DFAT and the Department of Agriculture in Japan, Taiwan and Thailand. Current tariff rates were provided by DFAT, while historic data had to be taken from other sources. Livestock tariff rates were provided by the Australian Meat and Livestock Corporation (AMLC), while tariff rates for dairy products and wheat came from the Department of Agriculture in Japan, Taiwan and Thailand. Export figures were taken from SMA records, and cross referenced against Australian Trade figures to ensure consistency.

1 For further information on the growth of industrialisation and its effect on agricultural protection, refer to section 3.4 in Chapter Three.
The collection of tariff data proved difficult due to limited records on tariffs. Current rates (ie 1993/94 figures) were drawn from Department of Foreign Affairs and Trade (DFAT) records. Beef tariffs prior to 1993 were compiled using AMLC records, while dairy figures and wheat rates were compiled from Japan's Department of Agriculture and Fisheries, Taiwan's Central Agricultural Ministry and Thailand's Department of Agriculture. Facsimile requests were made to the departments for the relevant data, and through numerous correspondence a data set was acquired.

Australian export figures were drawn from the SMA’s annual statistical reports. They were than compiled into a data base of annual results and tabled for convenience.

A comparison of tariff rates and export quantities was then made to assess whether rate changes had any effect on export fluctuations. Given the very limited change in tariff rates, this was easily done by simply comparing tariff changes to subsequent fluctuations in export rates and through an assessment of past trends and patterns. All data was computerised using Microsoft Excel.

2.2.4 THE INTERVIEWS

The interviews in the thesis were conducted over a twelve month period between March 1993 and April 1994. Twenty eight interviews were conducted with personnel linked with the AMLC, the ADC, the AWB or with individuals that had a special interest in agricultural trade and SMA’s.

The interviews were arranged according to the availability of interviewees and to fit with the broad timeline of the thesis. Attempts were made to draw equal numbers from the dairy sector, the beef industry and the wheat industry. Of the seventeen interviews with SMA employees 30% were taken from the meat industry, 40% from
the dairy sector and 30% from the wheat board. Importantly, responses often crossed industry boundaries due to the broad nature of the experiences of those interviewed.

The sample was chosen in consultation with Derek Tribe of the Crawford Foundation, who has a long history in the agricultural sector and Judith Laffen of DFAT, who was working on a paper on NTB's in East Asia. Written requests were made to a number of key individuals involved in SMA trade activities. After initial discussions with some twenty respondents, and after further consultation with Judith Laffen over the relevance and appropriateness of the sample, thirteen interviews were arranged with former and current members of the SMA's involved in the study. The remaining fifteen interviews arose from information supplied through the initial interviews or from recommendations of those advising on the direction of the thesis. The twenty eight interview sample was an outcome of thirty five requests with seven refusing to be interviewed.

Those interviewed are listed in Table 2.2. When selecting those to be interviewed, considerable effort was made to include people in positions of importance and authority as well as those operating at the ground level. Of those employed by the SMA's, eight held executive positions while seven had been employed as operational staff. Similarly, it was important to include those who supported the organisations performance as well as those who were critical of its activities. All thirteen initial interviewees had a direct association with SMA's. Attempts were made to make these initial interviews varied and representative of the opinions of those involved in SMA operations. Candidature was based on the responsibilities and seniority of the individual, the impact they had on the organisation, their period of tenure and their current employment status. All initial interviewees were associated with the SMA's for over ten years, representing a substantial period in which to understand the operations and activities of the institution in question. Of the sample only three continue to work with SMA's, which was particularly important given the historic nature of the study.
The background of the remaining fifteen interviewees was as follows: four were from associated industry organisations, three were former members of SMA's, three had an academic or research background, and five were from government department's or authorities. These interviews provided supporting and contrasting views on SMA activities and performance. Where possible individuals were chosen to provide alternative arguments or views from those historically associated with SMA activities. Individuals currently associated with SMA activities and reform were also chosen to assess recent developments and gauge the institutional view of past ideas and projects.

Of the twenty eight interviews just on 40% had a historic connection with the industry. These were individuals previously connected with SMA activities that were now retired or working in an alternative field. The remaining 60% continued to have some connection with agricultural trade. Thus there was a balance between those still involved in SMA activities, those who had a historical interest and association with SMA activities, and those who provided a more objective external picture of SMA activities and Australian agricultural trade trends.

The sample has two important properties. First, the twenty eight interviewees have had a diverse range of roles and responsibilities. This has ensured that responses have been informed and drawn from all sectors of the organisation. Given the nature of SMA trade and the relevance of re-structuring proposals to SMA's activities over the twenty year focus period, this was of considerable importance. Second, the sample represents a breadth of experience, both historic and current, which was vital given the twenty year time frame of the study. Respondents had a broad range of experience both within SMA's and in organisations associated with SMA activities.
## TABLE 2.2 INTERVIEWED PERSONNEL

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Organisation / Institution</th>
<th>Current or Historic</th>
<th>Years with Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. John Amadio</td>
<td>Export Officer</td>
<td>AWB</td>
<td>Historic</td>
<td>Nine</td>
</tr>
<tr>
<td>2. Derek Tribe</td>
<td>Director</td>
<td>Crawford Foundation</td>
<td>Historic</td>
<td>-</td>
</tr>
<tr>
<td>3. Norman Tulloh</td>
<td>Professor Emeritus</td>
<td>Melbourne University (Agri)</td>
<td>Historic</td>
<td>-</td>
</tr>
<tr>
<td>4. Tony Pickett</td>
<td>Former Director</td>
<td>Agritec</td>
<td>Historic</td>
<td>-</td>
</tr>
<tr>
<td>5. Ian Haig</td>
<td>Chairman</td>
<td>Grain Elevators Board</td>
<td>Historic</td>
<td>Twenty Two</td>
</tr>
<tr>
<td>6. Michelle Allen</td>
<td>Export Officer</td>
<td>Kraft Foods Aust.</td>
<td>Current</td>
<td>-</td>
</tr>
<tr>
<td>7. Judith Laffin</td>
<td>Research Officer</td>
<td>DFAT</td>
<td>Current</td>
<td>-</td>
</tr>
<tr>
<td>8. Geoff Scougall</td>
<td>Japan Desk</td>
<td>DFAT</td>
<td>Current</td>
<td>-</td>
</tr>
<tr>
<td>9. Julie Ingram</td>
<td>Research Director</td>
<td>Myers Strategic Group</td>
<td>Current</td>
<td>-</td>
</tr>
<tr>
<td>10. Tim Kelf</td>
<td>Research Officer</td>
<td>AMLC</td>
<td>Current</td>
<td>Nine</td>
</tr>
<tr>
<td>11. Andrew King</td>
<td>Research Director</td>
<td>AMLC</td>
<td>Current</td>
<td>Thirteen</td>
</tr>
<tr>
<td>12. Peter Weekes</td>
<td>Research Economist</td>
<td>Cattle Council of Australia</td>
<td>Current</td>
<td>Seventeen</td>
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<td>13. Craig Penfold</td>
<td>Research Officer</td>
<td>DPIE</td>
<td>Current</td>
<td>-</td>
</tr>
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<td>14. Des Walsh</td>
<td>Director Asian Region</td>
<td>Austrade</td>
<td>Current</td>
<td>-</td>
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<td>15. Mal Vowser</td>
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<td>ADC</td>
<td>Historic</td>
<td>Twenty One</td>
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<td>16. Richard Baker</td>
<td>Academic Foreign Service Officer</td>
<td>East West Centre</td>
<td>Historic</td>
<td>-</td>
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<tr>
<td>17. John Denton</td>
<td>Former officer</td>
<td>AMLC &amp; DFAT</td>
<td>Historic</td>
<td>Thirteen</td>
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<tr>
<td>18. Bob Wootten</td>
<td>Director</td>
<td>Australian Grain Exporters Assoc.</td>
<td>Current</td>
<td>Eleven</td>
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<tr>
<td>19. John Ramsey</td>
<td>Former Parlia. Secretary</td>
<td>DPIE</td>
<td>Historic</td>
<td>-</td>
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<tr>
<td>20. Murielle Cossen</td>
<td>Research Assoc. Secretary</td>
<td>AWB</td>
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<td>21. Richard Foster</td>
<td>Export Marketing Officer</td>
<td>Devondale Foods</td>
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<td>22. Thomas Langley</td>
<td>Associate</td>
<td>International Marketing Service</td>
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<td>23. Justin Winton</td>
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<td>24. Don Gilles</td>
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<td>25. Richard Glasson</td>
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<td>26. Ross Shiravalo</td>
<td>Export Manager</td>
<td>Bonlac Foods</td>
<td>Current</td>
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<td>27. Wayne Maclain</td>
<td>Export Manager</td>
<td>Murray Goulburn</td>
<td>Current</td>
<td>Eleven</td>
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<tr>
<td>28. Robert Bruce</td>
<td>Former Director</td>
<td>Asia Dairy Ind.</td>
<td>Historic</td>
<td>Nine</td>
</tr>
</tbody>
</table>

- All Interviewees with a figure in the 'years with institution' column have at some time served with one of the SMA’s included in the study
The interviews themselves followed a basic structure that focused on information covering SMA activities, marketing programs, trade structures, and import barriers, but also allowed scope for interviewees to expand areas they defined as vital and important. Of primacy was the method by which the interviews were conducted and the questions directed at the interviewees. The basic format was as follows:

i) What has been your involvement with agricultural commodity trade and SMA's over the past twenty years?

ii) How would you assess the industry's performance as an exporter to Japan, Taiwan and Thailand over the same time period?

iii) What has been your experience with market access for agricultural products in these countries over this time period?

iv) Are you able to discern between tariff rates and other market restrictions and if so which have been more influential to Australia's agricultural export fortunes?

v) Could you provide an outline as to some of the major obstacles to trade in these East Asian markets. What have been the key elements to infiltrating the commodity market in Japan, Taiwan and Thailand?

vi) Do you believe an alternative marketing strategy was required when dealing with the East Asian region?

vii) Much has been made of the quantified nature of NTB's including quotas, technical standards, and health and safety regulations. Do you believe that these issues have these been influential in Australian SMA trade with Japan, Taiwan and Thailand?

viii) Do you believe the SMA's have taken a positive and successful approach to exporting into this region?

ix) Are their specific marketing and quality characteristics that should be addressed in trade activities with Japan, Taiwan and Thailand?

The length of the interviews and the detailed response to questions provided extensive qualitative evidence on SMA's performance and NTB's. The scope of the interviews
and the limited information on personnel previously linked to the SMA's in question helped define the sample size. The sample represents a broad scope of respondents providing a wide range of expertise which allows the performance of Australia's SMA's in Asia to be explored.

Methodologies employed by historians are marked by inherent limitations. Methodologies based on interviewed data are prone to criticism and constraint. This methodology has three limitations. First, much of the information supplied by respondents is based on retrospective judgment that assumes the trade performance of SMA's could have been better. Without actually being able to provide a contrasting trade scenario, these reflections may be prone to error. However, many of the situations and experiences raised were relevant to trade activities at the time and respondent's were strongly aware of the restrictive factors that had hindered trade in the past. The criticism was primarily directed at the stagnation of SMA policy rather than providing a broad-side view of how trade programs should have been run, thus questioning the dynamic nature of activities rather than the activities themselves.

Second, limited samples are often criticised as being prone to bias. Given the broad aims of the exercise and the detail of the interviews conducted this limitation is minimised. The detailed method of candidature for interviews, and the historic as well as current background of respondent’s provides a means to nullify or limit this weakness.

Third and finally, interviews are noted for the inaccuracy and difficulty that comes with recollection. To this criticism I would only add that, as Derek Tribe so aptly responded,

"... man cannot live by cost benefit analyses alone and, for my part, I can see no reason why we should not regard appropriate value judgements and subjective insights as useful and important given the
CHAPTER THREE

TARIFFS, NON-TARIFF BARRIERS AND AUSTRALIA'S AGRICULTURAL EXPORT PERFORMANCE IN EAST ASIA

3.1 INTRODUCTION

This chapter examines the development of agricultural protection in Japan, Taiwan and Thailand. It explores the trend in tariff rates and the move towards non-tariff barriers in recent years. Tariff reductions for beef, dairy and wheat products in Japan, Taiwan and Thailand are examined in conjunction with Australia's export rates. I argue that the relationship between tariff reductions and agricultural exports was tenuous and largely irrelevant to Australia's trade performance. In contrast, the proposition that NTB's influenced trade with the Asian region is hardly controversial; the controversy remains as to the importance of the barriers imposed and how they have come to dominate inter-country relations.

The chapter is structured as follows. The first section explores the notion of development in the target countries and how agricultural policy has come to play an important role in these communities. Given the developmental process in East Asia, and the nature of the agricultural system, agricultural protection has become institutionalised and entrenched. The second section examines tariff reductions and export rates to assess whether there is a link between the two. The third section provides an outline of NTB's, a brief definition and what has come to be included under this broad categorisation. It is argued that NTB's extend across the trade spectrum, thus demanding a fairly broad explanation.
3.2 TARIFFS AND EXPORTS OF AGRICULTURAL PRODUCTS TO ASIA

3.2.1 TARIFFS IN EAST ASIA

"Given agriculture's dependence on trade, fair access to world markets is essential. Australian agriculture would earn an additional A$1 billion per year in export income in the absence of agricultural subsidies in Europe, the United States and Japan. It is therefore in the interests of farmers to support the wholesale reduction of tariffs through the General Agreement on Tariffs and Trade (GATT)." (New Horizons, NFF Publication, 1993)

Farmers and exporters claim that tariffs significantly restrict Australian agricultural exports. While tariffs restrict Australian agricultural exports to East Asia and reduce farm-gate returns I show that tariff results in Asia did not significantly impact on Australian export rates.

Given the broad interest in tariff rates this chapter set out to explore the actual effect that tariff reductions had on access of agricultural goods to three East Asian countries. The collection and analysis of tariff rate fluctuations was difficult. While a great deal of the economic literature makes reference to the importance of tariffs, there has been no recording of historical trends in tariff data. This made the collection of data on tariff levels particularly difficult. Rates for beef products were obtained through AMLC records, while dairy product and wheat tariff rates had to be accessed through the Departments of Agriculture in Japan, Taiwan and Thailand.

The tariff rates are used in conjunction with Australian agricultural export figures for the seven products to obtain correlations. Export figures were drawn from SMA’s (Statutory Marketing Authority) records. The broad time span and the variability in record mechanisms made this process time consuming. The large set of figures were
scrutinised against trade figures, as well as overseas import results to ensure accuracy. This makes the data set valuable to industry analysis.

After the collection of annual tariff rates and export figures for the seven products from the beef, dairy and wheat sectors, the data displayed few changes. The stability of the tariff regime and the limited fluctuation in rates made outcomes difficult to analyse. The preconception that tariff rates would be regularly altered and reviewed was wrong. This was to make the investigation into the role of other barriers particularly relevant.
3.3 TARIFF RATES AND EXPORT DATA

3.3.1 TARIFF RATES AND AUSTRALIAN EXPORT FLUCTUATIONS IN THE BEEF MARKET

Tariff rates on beef products entering Japan have remained almost constant over the past twenty years. In 1979 the tariff rate for part Bovine (Beef) cuts and carcases was set at 25%, while for Internal Organs and Offal the rate was 15%. Prior to 1979 tariff rates were 35% and 25% respectively. Quotas were set on all imported beef prior to 1991 limiting opportunities for importers to an allocated share irrespective of price.

After 1988 the situation changed. The liberalisation program initially lifted quotas on imported beef between 1988 and 1991. After 1991 the market was left to trade with the tariff rate set at 70% in 1991, reducing to 60% in 1992 and since 1993 has settled at 50% at which time rates were to remain in line with the outcomes of the Uruguay Round of trade negotiations. Importantly, while the abolition of direct government control over import quotas should have made tariff rates the central restriction to importers their gradual reduction seems to have had little impact on import rates.
During the period between 1974 and 1986 beef exports to Japan maintained relative continuity. Levels were constant at around 80,000 - 100,000 tonnes, except for 1975 when rates were influenced by the oil shock. Given that the government's quota system controlled beef imports, the change in tariff rates in 1979 had little impact on exports. Between 1988 and 1993 exports grew significantly rising to over 250,000 tonnes per annum.

If tariffs on Australian agricultural products in Asia are negligible then the post 1988 liberalisation of the market should have provided opportunities for Australian exports. But export growth rates have failed to keep pace with consumption rises and the presence of the US. (see Fig.3.2)
Australia's market share has fallen from levels of over 80% in 1973-1977, to under 50% in 1990. Although rates stabilised between 1991 and 1993, the outcome was still disappointing, given that Australia's previous position in the market was strong and consumption rates in Japan were growing rapidly. (Fig. 3.3)
Like Japan, beef imports to Taiwan have been largely controlled by government regulation. Between 1974 and 1980 rates were set at a base level of 66% for all part or full cuts of beef irrespective of quality. In 1984 considerable changes in Taiwan's agriculture import policies resulted in a change in rates. Duty levels were then imposed on imports of beef and set at $20 per kg for special quality beef, (ie. grain-fed product) and $30 per kg on all other imports (ie. grass-fed product).

Australia's beef export performance in Taiwan has been marked by periods of significant growth over the past twenty years, with levels from under 5,000 in 1977 to levels of over 30,000 tonnes in 1993. This growth has been maintained at around 3,000 tonnes per annum. Given the sustained growth of Australian beef exports to Taiwan and the relatively few changes to tariff rates between 1977 and 1993 it seems clear that consumption is responsible for the growth in imports rather than any reduction in tariffs.
**Fig. 3.4 Australian Beef Exports to Taiwan**

Source: AMLC Annual Reports

**Fig. 3.5 Taiwan's Beef Consumption Rates**

Source: AMLC Statistical Review

Like the experience in Japan, Australian exports to Taiwan have failed to fully exploit rapidly expanding consumption trends. (Fig. 3.5) While consumption rates have grown Australian exports have not matched these significant gains. Beef and veal
consumption in Taiwan rose from around 0.6 of a kilogram per head in 1974, to three kilograms in 1992. Australia has absorbed only a small portion of this increase. The bank authorisation requirement imposed on foreign importers has restricted Australian access to the market. This requirement was effectively used by the government to control imports by restricting the distribution of local currency to specific importers. The increase in consumption has been directed towards the growing preference for high quality grain fed product, of which the majority was sourced from the US.

While Thailand's market for beef remains small and relatively unprotected, tariff rates are high. Over the past twenty year period the rate has remained constant and set at 60% for Bovine Carcases and cuts, and 60% for Offal and Internal Organs.

The impact of tariff rates on Australian beef exports to Thailand is difficult to measure given that exports have been aggregated with a number of other Asian nations to which we export small amounts of beef. Thailand's total beef imports from Australia have rarely exceeded 200 tonnes in any one year, thus constituting a largely irrelevant market for the AMLC and one in which tariffs are likely to have little impact.

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4 although this figure is not revealed in the compiled data, the information was supplied by Tim Kelf of the AMLC. see Interview No.10.
3.3.2 TARIFF RATES AND AUSTRALIAN EXPORT FLUCTUATIONS IN THE DAIRY MARKET

Since 1974 the dairy industry in Japan has been characterised by variable import levels. Fluctuations in Japan's domestic supply has been the primary influence on import rates. Butter and butter oil tariff rates have remained constant over the past twenty years at 35%. But, as shown in Fig. 3.8, Australian butter oil export levels have fluctuated significantly with figures varying from zero exports in the early 1980s to peak rates of over 1200 tonnes in 1988/89 and 1992/93. Large variations of over 500 tonnes are not uncommon from one year to the next, with no clear pattern emerging.

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5 A small quota for packet butter of around 120 tonnes is excluded from this tariff requirement.
Fig. 3.8 Australian AMF (Anhydrous Milk Fats : including dairyby-product and processing agents) Exports to Japan

Source : ADC (Australian Dairy Corporation) Annual Reports

Fig. 3.9 Australian Butter Exports to Japan

Source : ADC Annual Reports

Like butter oil, butter exports to Japan have shown considerable variation. From the low levels experienced between 1976/77 and 1988/89 exports have recovered to the
levels of the early 70s. (see Fig. 3.9.) The constant 35% tariff rate makes correlations difficult.

Cheese exports to Japan have been more stable. Tariff rates have varied according to the level of processing. Rates were set at 35% for unprocessed varieties and 45% for more processed product between 1974 and 1978. After 1978 natural cheese intended for use in domestic processing could be entered duty free provided it was used in conjunction with locally produced product (in a ratio of two tonnes of imported cheese per tonne of local cheese). All other cheese imports were subject to a duty of 35%. Since 1989, Japan has allowed the entry of processed cheese at a rate of 40% outside government quotas.

Since the early 1980s cheese exports to Japan have grown sporadically, as seen in Fig. 3.10. There was no rise in exports following the tariff reduction in 1978. In fact, a large fall in import rates between 1979/80 and 1986/87 indicate a negative correlation between export rates and tariff changes. Given the limited impact of tariff rates, the recovery in rates in the early 1990s might be better traced to NTB changes, particularly the change in government quota regulations which became deregulated after 1989. Import rates during this period reached a peak figure of over 40000 tonnes for 1992/93.
SMP and WMP tariff rates were maintained at 35% and 45% respectively between 1974 and 1978. A reduction in rates to 25% and 35% took place in 1979 and have remained at these levels since. SMP figures have fluctuated from base levels of around 1000 tonnes in 1980/81 to over 30000 tonnes in 1991/92 and 1990/91. (see Fig. 3.11) These fluctuations can be explained by the variable nature of the local industry and the changing requirements of dairy manufacturers. SMP figures are distorted by its use in the livestock sector where it is used for stock feed. This accounts for some of the considerably different results experienced during the 1980s when the livestock industry enjoyed considerable expansion in feedlot production.
Fig. 3.11 Australian SMP Exports to Japan

Source: ADC Annual Reports

WMP exports have stabilised in recent years around the 4000-5000 tonne level. (see Fig 3.12) This was after peaking in 1978 at 5993 tonnes. Rates have since settled between 3000 and 5000 tonnes, with significant price fluctuations, attributed to the variability in world market prices.
Fig. 3.12 Australian WMP Exports to Japan

Source: ADC Annual Reports

Importantly, with minor exceptions, imports of SMP/WMP products for human consumption are prohibited outside government tenders run by the LIPC (Livestock Industries Promotion Council). The LIPC is authorised to import product when temporary domestic shortages in supplies push wholesale prices above a trigger level. SMP and WMP exports in Figures 3.11 and 3.12 have reflected the sporadic trends evident within the Japanese dairy sector rather than been determined by tariff rates imposed on the products. Tariffs have had little influence on the procurement of government tenders.

Since 1988 Japan has liberalised market access for some dairy products including ice cream and whipped creams. The growth in export rates for these products, increasing threefold between 1989 and 1993, indicates that the relevance and importance of government regulations and quotas is far more relevant to export access, than is tariff changes. Tariff rates on these products have increased since liberalisation and yet import rates continue to grow. This pattern is common throughout the dairy sector in Japan.
Dairy exports to Taiwan (see Fig.s 3.13 - 3.17) have not varied like those to Japan. The considerable growth that has occurred in the consumption of dairy products over the last ten years has been important to export stability, with growth rates as high as 200% for some products. (ADC World Dairy Report, 1992.)

**Fig. 3.13 Australian AMF Exports to Taiwan**

![Graph showing AMF exports to Taiwan from 1977 to 1993](image)

*Source: ADC Annual Reports*

The current tariff rate of 20% on butter oil was reduced from 35% in 1984. While there was a large immediate increase in exports in 1985, the subsequent fall in the export rate in 1985/86 brought export levels back to the pre-adjustment rates indicating that the tariff shock was not the only influence on market fluctuations. Imports from Australia grew from 68 tonnes in 1980 to over 400 tonnes in 1991-1993 (see Fig. 3.13) illustrating the importance of growing consumption rates.
The tariff on butter was 35% between 1974 and 1984 and 20% thereafter. Import rates during this time increased from around 300 tonnes in the 1970s to over 2000 tonnes in 1992/93. (see Fig 3.14) The trend has been gradual although a large rise occurred prior to the tariff change in 1983.

Cheese exports have enjoyed a meteoric rise from figures below 50 tonnes in the 1970s to reach a peak of 1222 tonnes in 1992/93. (see Fig 3.15) The rise has been stable and consistent, although a large rise occurred between 1985 and 1986 when levels rose by almost 400 tonnes. The importance of the tariff rate has been negligible given it has remained constant at 15% for both processed and unprocessed product. The ADC figures included Taiwan in an 'all Asian' categorisation between 1978 and 1982, making these figures abnormal to our market trend.
**Fig. 3.15 Australian Cheese Exports to Taiwan**

Source: ADC Annual Reports

SMP export levels to Taiwan have been sporadic with fluctuations of 300% not uncommon. The tariff rate was set at 55% up to 1984. A change in the tariff rate to 35% in 1984 was matched by a rise in exports of almost 1000 tonnes. However, given that rates fell significantly in 1987/88 and 1988/89 the adjustment appears to have had little long term impact on Australian export rates. (see Fig. 3.16)
WMP export levels have been more consistent. An expansion of the market occurred in the 1970s, but leveled out to consistent rates of around 12000 tonnes from 1980/81. Tariff rates have been the same as those for SMP. The tariff reduction in 1984 saw import rates increase by almost 1000 tonnes, but levels fell in 1987 and again in 1989 indicating that fluctuations were not directly associated with tariff changes. (see Fig. 3.17)
Dairy Consumption in Thailand is small, particularly for areas outside Bangkok. This is reflected in low import rates. The tariff rate on butter oil was set at 75% between 1974 and 1982 and thereafter, was 60% or 20 baht per kg whichever is the highest amount. While the tariff reduction in 1982 was followed by an immediate rise in import levels, a fall in imports in 1986/87 and 1988/89 indicate that other factors affected import levels to the market. Large increases in the late 1980s suggest the market was more influenced by the rapid growth in income rates. Rates throughout the 1970s were around 1000 tonnes annually. (see Fig. 3.18) These levels fell in the 1980s, but have grown since 1987/88 from just over 4000 tonnes to almost 8000 tonnes in 1992/93. This rise can be attributed to increasing income levels and growing demand for dairy produce.
Fig. 3.18 Australian AMF Exports to Thailand

Source: ADC Annual Reports

Butter has been a minor import item for Thailand with levels around 200 tonnes between 1971 and 1993 with the exception of 1978-80 and 1986-89 when local production was unable to match consumption requirements (see Fig. 3.19). This is in contrast to rates in Japan and Taiwan of around 1500 to 2000 tonnes. Tariff rates were set at 35% between 1974 and 1982, and then lowered to 25% thereafter. The fall in exports in 1982/83 indicate that tariff changes have little impact on export rates. The majority of butter imports are consumed by the international hotel and restaurant market in and around Bangkok where the relatively inelastic demand for butter makes tariff rates irrelevant to consumption trends. Price fluctuations are comfortably absorbed by the relatively affluent urban consumer and commercial sector. Butter has not yet become a part of the Thai diet.
Cheese imports to Thailand have fluctuated between 200 and 400 tonnes annually. Like butter oil, tariff rates on cheese were set at 75% until 1982 and at 60% or 20 baht per kg whichever is the higher amount thereafter. Few fluctuations in export rates indicate that tariffs have had little impact on export figures. Levels have expanded from 47 tonnes in 1974/75, to current rates of around 300 tonnes. (see Fig. 3.20) This increase has been consistent suggesting rising incomes and changing tastes have accounted for export variability. The market for cheese and cheese products remains an opportune sector for Australian exporters.
Fig. 3.20 Australian Cheese Exports to Thailand

Source: ADC Annual Reports

Note: It is important to acknowledge that the years between 1978 and 1982 in Fig. 3.20 were using figures for an 'all Asian' categorization not ideally relevant to the other figures in the chart.

SMP imports have accounted for a large portion of the dairy market in Thailand. Tariff rates for SMP were set at 35% between 1974 and 1982, and were subsequently lowered to 25% in 1982. A significant rise in imports between 1982 and 1983 indicates that the tariff reduction may have been influential to export rates. However, variability was a feature of SMP export figures and large fluctuations in 1988/89 and 1991/92 indicate that changing rates were influenced by a number of factors other than tariff fluctuations. Figures of almost 16000 tonnes have been recorded in recent years from levels as low as 1000 tonnes in the 1970s. (see Fig. 3.21) Rates have variously fluctuated between 4000 tonnes and 13000 tonnes.
WMP figures have fluctuated between 500 and 2000 tonnes. Like SMP, WMP had a tariff rate of 35% prior to 1982 and 25% thereafter. The large fluctuations in export rates have shown little relationship to the tariff change with sporadic import rates a feature of WMP results. (see Fig. 3.22)
3.3.3 TARIFF RATES AND AUSTRALIAN EXPORT FLUCTUATIONS IN THE EAST ASIAN WHEAT MARKET

Tariff rates on wheat in Japan have been changed twice in the past twenty years. A 40% rate applied to unprocessed product between 1974 and 1976 falling to 30% in 1976 and to 20% in 1979. For wheat flour rates fell from 45% to 35% in 1976, and from 35% to 25% in 1979. The fall in Australian imports following the first tariff reduction in 1976 and the rise following the second reduction in 1979 indicate the limited impact tariff rates have had on imports. The wheat market in Japan has remained relatively stagnant over the past twenty years.

Rates have variously fluctuated between 850,000 tonnes and 1,300,000 tonnes. (see Fig. 3.23) Throughout the late 1980's and 1990's, export levels have settled around 1,000,000 tonnes. While an extreme result was registered in 1973/74 where exports fell by over 1,000,000 tonnes due primarily to the outcome of the oil crisis, rates have generally registered only small changes.
Given the very limited growth in Japanese wheat consumption, which has grown from around 5,000,000 tonnes per annum, to 6,000,000 tonnes per annum over the last twenty years, (see Fig. 3.24) and the significant growth in domestic production, which has expanded from 200,000 tonnes in 1973 to levels as high as 1,021,000 tonnes in 1988, Australia's export results have been limited. The import of wheat is primarily controlled by the government through its Central Food Agency (CFA) which controls all large imports of foreign wheat. The priorities and policies of the CFA are therefore central to the fortunes of the importer as opposed to a market purely at the mercy of fluctuating price. The CFA’s protection of local producers has meant that opportunities have been limited for foreign importers.
Australia's share of export trade has been maintained at around 18% since 1974. Importantly, this trend occurred in an environment of intense global competition. The question that needs to be addressed is whether Australian producers had the opportunity to expand their market.

Australia has a poor record of wheat exports to Taiwan. Given that tariff rates have been changed only once, from 15% between 1974 and 1982 to 6.5% for raw product thereafter, it is difficult to argue that tariff rates have had an effect on export figures. The current rate for wheat flour is set at 30%, down from 35% before 1982.
Australian wheat exports to Taiwan rose to over 150,000 tonnes in 1971/72, and were consistently maintained around 80,000 tonnes until 1977/78. (see Fig. 3.25)

Thereafter, Australia was totally absent from the market between 1979/80 and 1990/91 due to negotiation problems and poor relations between the Australian government and Taiwan's government over the Whitlam government's recognition of China in 1974. A small recovery seems evident from the small but significant return to the market in 1991/92. However, the long period of absence from the market put Australian exporters at a disadvantage in maximising future opportunities in the market.

Consumption rates grew between 1975 and 1992 from levels around 500,000 tonnes in the post oil crisis period, to almost 900,000 tonnes in 1992. (see Fig. 3.26) Given domestic production has failed to exceed 4,000 tonnes much of this increase has been absorbed by exporters other than Australia.
Tariff rates on wheat exports to Thailand were first reduced from 60% to 50% in 1976, and then to 40% in 1982. The increase in exports in 1976/77 indicates that the first tariff reduction may have improved export rates. However, the fall in exports after the second reduction in 1982 suggests that tariff fluctuations had little affect on export outcomes. Wheat export rates have fluctuated between 10,000 tonnes in 1975/76 and almost 90,000 tonnes in 1989. Export rates varied between 40,000 tonnes and 70,000 tonnes annually, with large figures recorded after 1989. (see Fig. 3.27)
Fig. 3.27 Australian Wheat Exports to Thailand

Source: AWB Statistics

Fig. 3.28 Thailand's Wheat Consumption Rates

Source: USDA Statistical Yearbook

The performance of Australian exporters in Thailand has been poor. Market share has fallen from levels as high as 50% in 1973, 1974 and 1978, to 20% in the late 1980s. Significant growth in Canadian and US exports has reduced Australia's position in the
market. North American exporters have absorbed the growing demand for wheat by catering to the specific requirements of Thailand's wheat buyers. Consumption rates have grown from under 100,000 tonnes in 1974 to over 500,000 tonnes in 1992. (see Fig 3.28) Australia's wheat sector has failed to benefit from this growth with relatively stable export rates.
3.4 NON-TARIFF BARRIERS AND THE EAST ASIAN REGION

"In cross cultural alliances, it is imperative that companies do not underestimate the differences that might exist ... structures must be put in place to deal with the cultural and more diverse complexities inherent in other regions." (CEDA (Council for the Economic Development of Australia) Strategic Issues Forum, (1993.) pp.28.)

Given that the imposition and fluctuation in tariffs has had little impact on Australian agricultural export rates, it is important to consider the factors that have restricted exports to East Asian markets. NTB's have become increasingly influential in international trade since the mid 1970s. During this time, agricultural trade expanded considerably. However, there was a stagnation in demand during the 1980s that followed considerable efficiency gains and renewed levels of self sufficiency. Governments reacted by closing markets and establishing protective mechanisms to ensure the future of their agricultural sectors. Due to the progress already made in international forums in the eradication and reduction of tariff barriers, governments were forced to apply new trade barriers to advance the interests of domestic agricultural producers. These barriers came to be known by the universal classification of NTB's (non-tariff barriers) or NTM's (non-tariff measures). The relevance of NTB's to the study of agricultural exports to the Asian region is vital given that there is a long history of protection. These issues are best addressed in an individual country context.

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⁶ Fourfold increase according to UNITED NATIONS international review 1980, and from US $50 billion in 1970 to US $225 billion in 1980 according to USDA data 1985.
3.4.1 THE JAPANESE AGRICULTURAL SECTOR

"Industrialisation has the ability to shift the economy from agriculturally oriented production, which is by nature less productive than manufacturing and is incapable of absorbing more labour, and raise the economy to an improved status ... the larger role of the non-agricultural sector can be considered one of the most essential factors in labor absorption and economic growth." (Kuo, Ranis & Fei. (1981). pp. 32.)

The nexus between development theory and Asian economic growth has been explored extensively. Its relevance and application has been variously addressed by Ranis and Fei (1981), Tsao Wang (1980), Balassa (1986), Sinclair (1989) and Feeny (1982). Essentially, economic development is by definition a process by which an economy increases the efficiency with which it provides desired goods and services, thereby increasing the standard of living and general well-being. According to development theorists, the increases must be dynamic, involving constant change in the structure and procedures of the economy. It is driven by a process of technological progression stimulated by rapid productivity and efficiency gains. However, it is important to acknowledge that the definition remains elusive and should not be confined to specific issues. Economic growth remains a highly contentious issue and needs to be treated as such.

The East Asian developmental experience has been characterised by a number of features. Of primacy has been the relative speed of industrialisation and its associated impact on agriculture. Japan, Taiwan and Thailand experienced rapid growth in the industrial sector which was matched by the movement of resources away from agriculture. Even in Thailand where agriculture continues to enjoy certain positive factor endowments, industry is the growth sector.

Japan was the first of the Asian economies to enjoy a rapid expansion and industrialisation process. Growth was initiated by the reform and restructuring of the
post war period. This was accentuated by land reform policies and major advances in agricultural output. As the agricultural sector began to achieve significant efficiency gains, growth extended into industry as surplus labour and capital became available. The significant feature of the process was the speed with which agriculture was overwhelmed by the emerging relevance of manufacturing. However, the culture and institutionalisation of the sector remained, as did a determination to see the future of agriculture maintained, a result of both the food shortages that followed the war and the traditional importance of land to rural Japanese. This has ensured the central role of the agricultural sector both in government policy and political initiatives, and has instituted the paradoxical trend of increasing agricultural support being matched by significant economic expansion.

"The traditional and most vital role performed by Japanese farmers is supplying food to the nation, a function which alone has justified the preservation of Japan's agricultural production base in order to maintain a minimum level of food production for survival." (Johnson & Fisher, 1988.) pp.1)

The entrenched culture of Japanese farmers and their political power has been fostered by many years of isolation. The country's reliance on domestic production provided farmers with significant political influence which resulted in strong protectionist policies initiated by rural interest groups. The impact of these powers has diminished since international trade has lessened the reliance on local farm production, but the culture of the farm sector continues to be influential in government circles, which has led to a paradoxical trend of increasing agricultural support as economic growth rates have increased.

Since 1961, agriculture has been supported by the aims and objectives of the Agriculture Basic Law (1961) which sets out to achieve certain levels of self sufficiency. Essentially, the ABL (Agriculture Basic Law) was designed to ensure the
future of the agriculture sector in Japan's increasingly industrialising society. The basic premise was the support of rural/urban income parity. The government introduced price support policies, primarily for rice, which in turn encouraged significant growth in production levels. However, these increases were fuelled by subsidised minimum prices which resulted in large production surpluses and industry inefficiency caused by the shift in production from other agricultural items to rice cultivation. The overall result, as Hillman and Rothenberg acknowledge, was "the transmission of inefficiency in one part of agriculture to the whole sector." (George & Rankin, (1993.) pp. 4.)

The significant growth in manufactured exports ensured unprecedented growth in the importation of food and raw materials to Japan, especially from the United States. However, the events of the 1970s led to a more apprehensive view of agricultural dependence. This stand was fuelled by doubts about the stability of world commodity markets and the reliability of the United States as a supplier. Japan was importing 13% of all world grain exports by the late 1970s, including 16% of corn and 18% of soybeans. Its stake in livestock trade and its reliance on stock feed further exacerbated the perceived problem of exposure. At the same time, the US dominated Japan's food imports controlling 40% of the market, including 56% of wheat, 80% of corn and 90% of soybeans. This dependency was exposed by the 1973 soybean embargo triggered by the disruption of the world anchovy market, a vital protein in animal feed. The US feared the inflationary outcome of this disruption, soybean being a useful replacement, and therefore restricted soybean exports. The embargo caused considerable panic in Japan where soybean was the basis of traditional foods and an important component of livestock feed. The increased price in the soybean market resulted largely from the Japanese reaction to the embargo rather than from world shortage, but the long term consequences ensured a considerable adjustment in Japanese agriculture policy.

The Agriculture Policy Advisory Council was set up in 1979 to re-examine the basic aims and objectives of agricultural policy. The outcome was The Basic Direction of
Agricultural Policy in the 1980s publication. The review outlined a number of objectives to be met by the promotion of domestic production through increased efficiency within the industry fostered by structural improvements. Essentially, the 1980 initiative was designed to make Japanese agriculture more competitive by supporting progressive farm practices, and ensure that food supplies were not threatened by diplomatic 'blackmail'. It recommended that crops with low domestic production such as wheat and soybeans be encouraged in the rice diversion program, while imported products should be linked to long term contracts, reserve stocks and diversified sources of foreign supply. However, according to George (1988), and Johnson and Fisher (1988), the reality of efficient reform was not pursued. The structured political economy of the Japanese agricultural system meant the review was used as the basis for renewed protection among agricultural producers, failing to implement the forecast efficiency gains.

Liberalisation of the agricultural sector became more significant as Japan's role in the global economy became paramount. International pressures to open markets to ensure greater access of foreign goods have been fed by rising trade deficits among Japan's large trade partners. This led to concessions on agricultural imports, but policy remains significantly removed from total liberalisation. Agricultural protection had become institutionalised in the Japanese market, and the drain on both government and consumers pockets has traditionally been absorbed due to the significant power wielded by agricultural interests, and domestic security assumptions. These issues need to be addressed by those preparing to infiltrate the market.

3.4.2 THE TAIWANESE AGRICULTURAL SECTOR

Like Japan, economic growth in Taiwan has been spectacular in the postwar period, and importantly, has been accompanied by stable prices, achievement of relative full employment, and a relative balance in income distribution. Central to this growth was
the 1950s program of agriculture reform which ensured a supply of surplus labour vital to the industrialisation process, and enabled the industry to achieve the necessary efficiency gains to stimulate growth. The development process can be divided into two phases: the first characterised by inwardly oriented import substituting industrialisation, and the second marked by outwardly oriented export expansion. Both fostered a move towards advanced manufacturing industries and processing facilities.

Since the inception of the industrialisation process, agriculture has become less important to the economic growth rates of Taiwan. Huang describes the Taiwan experience as being a case of 'agricultural degradation'. The dominant features include: i) minimal agricultural sectoral growth and an inability of the rural population to adapt traditional agriculture to new circumstances, ii) government policy favouring the non-farm population, and iii) a lack of domestic agricultural development leading to domestic social problems and increasing dependence on foreign imports. (Huang, S. (1982.) pp.4.) Whether the diminution process has been marked by such dramatic outcomes may be called to question, as the sector has begun to wield significant political power in recent years. However, it is significant to note that Taiwan is now one of the highest net importers of agricultural products in the world, and is unlikely to adjust its agriculture program dramatically in coming years.

The origins of the modern agricultural industry in Taiwan are based around the forced program of land reform initiated in the 1950s. Its significance has gradually diminished as the fundamentals of the industrialisation program have ensured the growth and prosperity of manufacturing industries, and the success of an outward oriented export policy. Taiwan is now one of the highest net importers of agricultural products in the world, and relies on agricultural imports for a number of its key industries. The

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7 for a complete outline of the recent rise of power within the agricultural sector see Taiwan's agricultural sector in KUO Chap 5.
economy has gone through massive growth and structural adjustment throughout the 1980s and early 1990s designed to stabilise and maintain the impressive economic growth rates of previous decades. In January 1990 Taiwan applied for GATT membership to further add credibility to its role within the global economy, and indirectly ensured essential reforms to the protective mechanisms inherent in the Taiwanese agricultural sector.

A significant feature of Taiwan's rapid economic growth was the speed of industrialisation. This had a major impact on the country's economic structure with agricultures' share of GDP falling from 32% to 9% between 1952 and 1979. Industrial output increased from 22% to 52% within the same period. This growth in the manufacturing sector was largely attributed to three specific industries; food processing; textiles; and electrical machinery; which contributed more than one third of the total manufacturing expansion in the post war period. Food processing was the first sector to expand accounting for over 25% of total manufacturing expansion in the 1954-1961 period. Kuo argues this trend was fostered by the traditional development process of drawing on agriculture efficiencies and productivity gains to finance and advance industrial expansion. However, as industrialisation proceeded and per capita income increased, agriculture diversification occurred, and the share of food processing in manufacturing declined. Resources were directed into light manufactures destined for the export market, and agriculture came to represent only a minor sector in Taiwan's new economic structure.

Over the years, agricultural policy has changed drastically with social and economic conditions encouraging a move from taxing to subsidising farmers. The agricultural sector in Taiwan has enjoyed significant government support in recent years. Rice remains the dominant crop, but its relative importance has diminished since the

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9 actual rate was measured at 25.4% National Income of the Republic of China Data, Op.Cit. Kuo, p11
10 Ibid. p128
government initiated its diversion program in 1984, and its role in the domestic diet has changed. This has led to the growth of other sectors within the industry. In particular hog and chicken production has been transformed from traditional backyard operations into large business enterprises with government benefits in the form of technical guidance, trade protection, and liberalisation of coarse grain and oilseed imports. Dairy products and beef imports have also grown tremendously with the structural adjustments to the industry and what many analysts recognise as the changing patterns of affluent food consumption.\textsuperscript{11} Rising wage rates have been integral to this dynamic process, and will continue to influence the direction of the agricultural industry due to their impact on production costs and the lack of an efficient farming scale.

The government set out to address the needs of the agriculture industry in a six year Integrated Agriculture Adjustment Plan (IAAP) initiated in 1986 to ensure a minimum level of self sufficiency, and encourage farm products that are competitive and viable in the long term. The program is designed to facilitate the gradual reduction of tariffs and other protective measures to enable Taiwan to attain GATT trade status. However, resistance remains strong among producers.

"Taiwan's farmers, long obedient and staunch supporters of the government, have begun to take more rebellious action against its trade liberalisation policy ... In fact, farmers discontent with agricultural trade policy have received considerable political attention and complicated the liberalisation process." (Asia-Pacific Review, (1993.) pp.130.)

This fervent opposition to reform will need to be addressed if the structural reforms outlined in the IAAP is to be implemented. The projections for Taiwan's agriculture is for a decline in most crop production, and for imports to maintain their mantle as the primary base for agriculture products in the domestic market. However, the key to the industry is the speed at which change is adopted and implemented to bring

agricultural support and trade policies in line with GATT requirements, thus providing greater opportunity for Australian farmers and commodity producers.

3.4.3 THAILAND'S AGRICULTURAL SECTOR

Thailand has also enjoyed significant growth in recent years, with annual GDP growth rates of between 7% and 7.5%. However, the industrialisation process has been less well orchestrated than in Japan and Taiwan, with taxation from the agricultural sector providing significant, but inconsistent, surplus funds for industrial expansion. The success of the agricultural sector is due largely to expanded cultivated lands as opposed to efficiency and productivity improvements thus forcing an environmental strain that is now having to be addressed. The imposition and administration of taxation has also caused difficulties to the farm sector rather than encouraging surplus production. According to Feeny, the process has suffered at the hands of corruption and inefficient government policy, (Feeny, D. (1982.) pp.39.) which has ensured significant agricultural contributions being met by little monetary or social reward. The outcome has been concentrated industrial development in and around Bangkok financed by government funds drawn from rural areas that benefit little from development outcomes.

The experience of agriculture in Thailand appears to be quite different to that of its many Asian neighbours. Over the past thirty years the economy has enjoyed annual growth rates of between 7% and 7.5%. Much of this growth has been fuelled by the expansion of the agriculture sector. It remains at the forefront of the countries drive for greater export capacity, and is still the dominant sector in the country's economic structure. It contributes some 25 % to GDP, accounts for 60% of exports and absorbs
70% of the country’s workforce. The performance of the agricultural sector has been all the more extraordinary in light of the international market which has been characterised by unfavourable price policies and heavy export subsidies. However, is Thailand’s agriculture sector significantly different from the traditional industries of its more established Asian neighbours (Japan, Taiwan, Korea), or is it merely fuelling the capital requirements of the country’s imminent industrial development to be relegated to obscurity by future economic growth?

Of primary importance to the growth of agriculture in Thailand had been the availability of arable land and the expansion of irrigation programs making dry season cropping a reality. Crop yields have remained relatively stagnant, indicating that limits in land mean current growth rates cannot be indefinitely maintained. For growth to continue, productivity and crop yields will need to be improved enabling a better utilisation of current agricultural lands.

An inconsistency in economic development has come to characterise the history of Thailand’s industrialisation process. The paradox centres on significant growth in agricultural output being matched by limited gains in rural incomes. This has been linked to "the pattern of government taxation and expenditures such that net transfers are made out of the rural sector." (Feeny, D. (1982.) pp.113.) Government officials have shared in the rents created by manufacturing expansion, and this has meant entrenched interest exists in maintaining current schemes. (Ayal (1965), Behrman (1968), & Chirmsak (1977).) The divergence between the goals of national security and economic development and between the social interest and the private interests of the elite which explained Thailand’s underdevelopment in the pre-World War II period persist in modern Thailand.

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Agriculture in Thailand was characterised by a subsistence structure prior to the 1950s. Food policy objectives were set at this time to raise government revenues for further development. Rice taxation became the key source of government revenue throughout the 1950s and 60s, and gradually diminished with the diversification of the economy. Price stability was used as the basis for Thailand's food policy objectives. The outcome was consistently lower domestic prices in relation to the world market. The asymmetry of price stabilisation was legislated by the 1974 Farmer's Aid Fund Act, which endeavoured to place a premium on produce to be spent on farmers welfare, therefore ensuring the future of the agricultural industry. However, the reality of this process was less than successful, due to the remaining constraints on the farm sector including the cost of inputs and the tax placed on farm products.

Thailand's food policy instruments have been varied. These include export taxes, quantitative controls, consumption subsidies, farm price supports, and input taxes and subsidies. The use and application of these instruments has been largely ad hoc, although the relevance of each has been influenced by regular government plans.

The introduction of the premium system in 1955 marks the beginning of the modern era of export taxation. The premium on the export of rice was adjusted frequently to maintain domestic price stability, but became less than effective over time. A quantitative control and rice requirement ratio were then introduced to offset adjustment difficulties. A sugar premium was also applied at various stages, although Thailand's inefficient production meant that under normal world market conditions the sugar industry was protected by import tariffs and export subsidies. Since 1983 rubber has also endured an export tax burden of 22% of the gazetted price, which amounts to a tax burden of between 35-40% on farm values.

Historically, quantitative controls have played a significant role in the agricultural sector. Quantitative restrictions were invariably export quotas set by government
agencies to alleviate quality problems (perceived rather than actual, though the
government was definite about issues such as the protein levels of wheat), cartel
obligations (the Thai government had a number of agreements with other producers as
to the output and supply of specific agricultural goods), price undercutting (subsidies
in the agricultural sector were beginning to become an important issue in inter country
trade) and domestic supply (which varied significantly as affluence grew). They varied
from one year to the next and importantly were very difficult to overcome. Input
taxes and subsidies were also used extensively in the agricultural sector. Of particular
importance was the monopoly structure of the fertiliser industry, irrigation programs
and the free availability of forested land for increased cultivation.

Given the significant taxes imposed on the agricultural sector, and Thailand's industrial
immaturity there are and have been significant opportunities for Australian exporters.
While tariff rates remain high, the institutional barriers that characterise the market in
Japan and Taiwan have not yet infiltrated Thailand, therefore making it important that
Australian companies capitalise on opportunities before restrictions are imposed.

3.4.4 A DEFINITION OF NON-TARIFF BARRIERS

Given that agricultural protection was institutionalised among many of the East Asian
countries, it is important we consider how the protection is imposed and how its
impact can be minimised. The perceived effect of NTB's was to increase the cost of
the agricultural product, therefore increasing the outlay of consumers and the expense
to taxpayers. The outcome would benefit domestic producers who receive higher
prices for their product but was to the detriment of the exporting country. If we
consider Petrey and Johnson's work on NTB's, the ultimate loss to the international
producers is invariably greater than the gain to domestic producers. Therefore, a

13 for full analysis of the economic model in question, see PETREY & JOHNSON, Non-Tariff
Barriers in Asia Pacific Trade: Old and New Developments, PECC Taskforce on Agricultural Policy,
strong push to reduce the impact of NTB's was initiated with the Uruguay Round of Multilateral Trade Negotiations in 1986. The final outcome of these talks remains pending.

NTB's have come to include mechanisms which hamper or restrict exporters from entering domestic markets. This classification includes such policy instruments as quantitative restrictions (quotas), levies, duties and deposits, administrative practices, technical requirements, sanitary and phytosanitary regulations, market price supports, direct income support, production support mechanisms, marketing activities, controlled exchange rate systems, and a host of other mechanisms designed to impede free market fluctuations. In recent years, advocates including Rolf Saxonhouse (1989), Kym Anderson (1988), and Paul Henderson (1992) have supported the notion that the classification of NTB's should also incorporate a number of more tenuous, though often equally important market characteristics in the equation. These include distribution arrangements, freight regulations, quality standards, technological transfers, contract requirements, government regulation and corruption, alternative tastes and traditions, and different marketing channels and mechanisms.

I have chosen to address both categories in my assessment of market barriers to agricultural trade in East Asia. Given that much of the primary source data is derived from interviews with people in the industry, it is hoped that some framework can be constructed as a means of understanding the barriers to trade with the region. The barriers include allocated quotas, bank authorisation measures, bilateral quotas, global quotas, health and safety regulations, non automatic license requirements, state trading monopolies, total prohibition, and specified technical standards.

Also covered are more indirect mechanisms that include all other barriers that significantly restrict free trade between two nations. This incorporates an extensive array of both government and non-government barriers to trade within markets. The
importance of this classification lies in how the barrier restricts foreign importers. Is it a barrier that can be overcome, or is it a non-negotiable issue that prevents foreigners from operating in the market? This is central to the assessment of agriculture's SMA's.

While government policy is considerably influential in impeding international trade, NTB's have in the literature of Anderson (1988), Henderson (1992), Johnson (1988) and Petrey (1992) come to include a number of more tenuous cultural and marketing issues. These have been isolated as another means by which exporters, whether intentionally or unintentionally, are restricted from entering or infiltrating markets. The classification has come to include those characteristics which considerably impede or restrict international traders from functioning and operating in specific regions. The list of barriers is extensive and has variously included specific marketing arrangements, restricted and censored advertising programs, complex distribution arrangements, customs regulations and traditions, joint venture classifications, contract difficulties, corruption and bribery issues, consumer preferences, changing tastes and traditions, and misdirected information and market flows.

While it could be argued that such characteristics are an evident problem in any attempt to sell and market a product, the NTB issue has come to represent far more to the various industries willing to sell to the East Asian market. Australian agricultural producers and marketeers have consistently faced difficulties in penetrating the East Asian agricultural market, and while they are often restricted by government initiatives, I will argue that major marketing and cultural issues have also been an issue in Australia's performance in the region and could have been addressed by greater adherence to understanding and appreciating the complex characteristics of the market.
CHAPTER FOUR

BARRIERS TO TRADE FOR THE AUSTRALIAN BEEF INDUSTRY IN EAST ASIA

4.1 INTRODUCTION

This chapter examines whether the changing fortunes of Australian beef producers in Japan and Taiwan were due to significant barriers to trade or the failure of the Australian Meat and Livestock Corporation (AMLC) to adequately market and promote Australian beef. This is an important question since lessons from our experiences in Japan and Taiwan could lead to improvements in our export performance and maximise returns from the emerging South East Asian market.

The chapter is organised as follows. The first section explores briefly the history of the Australian beef industry and its associated activities in Asian markets. The historical nature of meat industry activities in the Asian region underwent considerable change in the post oil crisis era and this impacted on its future export operations. The second section takes a brief look at the livestock structures in Japan and Taiwan. The third section investigates the experiences of the Australian industry in specific markets. The significance of the Japanese market is explored and the growth of institutionalised barriers and the effects of liberalisation, particularly in relation to the increasing presence of the US and its associated growth in market share, assessed. The Taiwanese market experience is similarly explored and its characteristics and relevance to Australian exporters described. Finally, the Thai market is used to assess future opportunities and strategies for the beef industry in East Asia.
4.2 THE HISTORY OF THE AUSTRALIAN BEEF INDUSTRY IN THE EAST ASIAN REGION

4.2.1 THE AUSTRALIAN MEAT AND LIVESTOCK SECTOR

The Australian beef industry currently supports 23 million head of cattle, with a gross value of around $3.6 billion and export income of approximately $2.7 billion. The industry is based on a range of mature size cattle breeds that vary according to their location and the requirements of production. The systems of cattle production in Australia differ significantly according to their geographical location. In the south, beef production is directed by mixed farmers with small herds for domestic consumption. In the north, specialisation is widespread, with large properties concentrating on beef production for the overseas market. The meat export industry in Australia has traditionally based its activities around this structure with an emphasis on high volume, low value exports in carcase form.

In the early 1970s the majority of Australian beef exports were bulk products directed at the US market for further processing. A small but growing proportion was set aside for Japanese table beef. The growth of the Japanese market, and its preference for grain fed beef also encouraged extensive investment in feedlot production among Australian producers. This demand saw the size of the Australian herd grow to unprecedented levels peaking in 1976 at 33 million head. The oil crisis had a significant impact on world commodity markets, with cattle prices falling by more than 50% in one six month period in 1975, and total exports falling by over 70,000 tonnes.

14 Feedlots are an intensive form of animal production, in which animals are confined in yards or enclosures for some period and fed with grain and other concentrated feedstuffs to achieve required liveweight gains. In Australia, feedlot cattle are fed mainly on sorghum, barley and, to a lesser extent, wheat and oats. The lot feeder attempts to obtain maximum weight gains at the lowest cost. In the Australian feedlot industry at present, a small proportion of the feedlots are commercial establishments with large capacities, (i.e. 80-90 of 580 registered lots - AMLC 1989), but there is a growing trend towards the proliferation of these operations to satisfy the growing requirements of the Asian market, (AMLC 1989).
between 1973 and 1976. Reduced demand from Japan and the US between 1972 and 1976 meant Australia was forced to reduce its livestock herd. This trade contraction decimated the feed-lot industry. The limited demand for grain-fed beef in the domestic market and reduced trade demand forced many feed-lot operators to return to traditional production techniques. According to Peter Weekes of the Cattle Council of Australia, the large reduction in demand for grain-fed beef caused many Australian producers to dismiss feedlot activities as highly speculative. This was to have long term ramifications for the success of the livestock sector in the Asian region. (Weekes I.N.12.) As demand for grain-fed beef returned, the Australian industry was disadvantaged by a lack of infrastructure.

In response to increasing opportunities in the post oil crisis period, the AMLC instituted two changes to the beef industry between 1978 and 1986. Changes to the meat inspection service were designed to address the growing concern, particularly among Japanese buyers, for more stringent regulation of health and sanitary requirements for imported beef, (Kelf I.N.10.) while the trade program was re-designed to more efficiently deliver product to overseas markets.

The first change was to address growing concern for quality among North Asian buyers. This concern, along with the detection of substituted product in meat exports to the US in 1985, (Austrade, (1985) pp. 13-17.) led to a reorganisation of the meat inspection service. The Authority for the Uniform Specification of Meat and Livestock (Aus-Meat) was established under the auspices of the AMLC with the aim of providing a self-regulated, quality control body that would ensure a uniform description and specification of livestock and meat products. The policy was designed to satisfy the requirements of the consumer rather than, as Tony Pickett put it, 'prostituting bulk product to the vagaries of the world market'. (Pickett I.N.4.) Quality became a central issue and consumers demanded products that satisfied

essential nutritional requirements and could be used in various methods of cooking. (Ingram I.N.9.)

The second change was the adoption of a more diversified trade strategy for exporting Australian beef. A program concentrating on the emerging opportunities in North Asia was instituted in 1981. (Coombs, (1993) pp. 11.) This program involved the marketing of Australian beef at the retail level through generic branding and labelling of Australian product. Bob Coombs argued that the growth of Australia's market presence in the fastidious markets of North Asia prompted significant change within the Australian industry. Demand from Japan, Taiwan and Korea for tightly specified, high quality beef made the trend towards higher grade product essential to Australia's export performance. (Coombs, (1993) pp.10.) The promotion of beef at the retail level led to a return to feedlot production. This trend was supported by large corporations,\(^{16}\) and the increasingly commercial nature of cattle processing\(^{17}\) which provided the basis for further development of specialised production methods.

Growing export demand in Asian markets after 1980 led to a resurgence in confidence among Australian producers. Demand in Taiwan and Korea grew, fostered by higher disposable incomes (Coombs, (1993) pp.45.) while liberalisation of the market in Japan made trade access less restrictive.

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\(^{16}\) Large scale commercial feedlot operations (ie those over 300 head of cattle) have recently grown to account for around 77% of total capacity in 1992, from previous levels around 60% in 1987, (CLARK, ABARE Research Report 92.8, A Regional Model of Australian Beef Supply).

\(^{17}\) Abattoir and meat processing operations have become concentrated in recent years (see Ibid. CLARK), with renewed emphasis on overseas markets and convenience products. This has encouraged support for a move away from generic branding and export.
4.2.2 THE JAPANESE LIVESTOCK SECTOR

Protection of the Japanese livestock industry was legislated by the reforms to the 1961 Agriculture Basic Law (ABL). Support for Japanese producers was provided by a quota system administered by the Livestock Industry Promotions Council (LIPC). The beef industry was marked for specific attention by the ABL in 1961, and again by the review committee in 1979. The law for price stabilisation of livestock products was enacted in 1961 and the LIPC was established to administer and maintain wholesale livestock prices at predetermined levels that were set according to formulas which determined the floor and ceiling prices for designated grades of beef. The basis for price was the estimated cost of the domestic production of beef.\(^\text{18}\) The government’s justification for these policies was twofold. Firstly, there was a perceived need for an adequate and reasonably priced supply of local product to the domestic market to ensure food security. Secondly, government authorities believed the ABL would foster greater efficiency in livestock production. According to Aurelia George, the reality of such objectives have fallen well short of expectations.\(^\text{19}\)

Cattle raising for commercial beef production is relatively new to Japan due both to land and cultural constraints. As new methods of grain fed production have emerged\(^\text{20}\) the industry has expanded considerably. Japanese cattle are drawn from two main breeds, Wagyu (the traditional domestic beef breed) and Holstein (the dairy breed). Since its inception production has been dominated by small land holders, with most production being drawn from farms with less than ten head of cattle. (Nakase, (1989) pp.23-36) For the majority of producers, beef raising represented a sideline operation

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\(^{18}\) formulas prior to April 1988 were based on previous 7 year wholesale prices and fattening costs; see AMLC data 1991.


\(^{20}\) based largely on the US model of grain fed beef with herd concentrations, and separate breeding and feeding operations. Total production processes are rare in Japan where breeders tend to sell livestock to specialist farmers who fatten the animal and prepare it for retail consumption.
to either alternative agricultural pursuits or off farm employment. Importantly, while domestic production has grown, imports have been required to alleviate shortfalls.

Japan began to import substantial tonnages of beef in 1955. In 1957 after unprecedented increases in the importation of beef products and market speculation, the government decided to impose foreign exchange control measures which restricted the import of beef by value rather than by volume. Importers responded by maximising volume irrespective of quality. Bulk imports of Australian grass-fed beef were imported for table meat and processing purposes.

In 1964 beef imports became subject to the Import Quota system. Australia reacted by implementing a promotion program which resulted in large sales to the Japanese market throughout the late 1960s and early 1970s. Australian grass fed beef with low landed prices offered wholesalers greater margins between the imported and the retail price. Johnson argued that

"this gap was exploited by certain semi-government agencies (LIPC and the Japanese Meat Corporation) to extract levies on imported beef for funding of the domestic livestock and meat industries." (Johnson & Fisher (1990) pp. 90.)

Australian exports and market share fell after 1975. (as shown in fig.3.2.) A change in Japanese government policy switched export preferences from high volume, low value product towards high value, low volume beef imports. The motivation for the change was increasing concern over agricultural self sufficiency,\(^\text{21}\) and later by a preference for US beef. The Japanese government came under pressure from the US in the late 1970s over the rapidly expanding trade deficit, and the continued protection of agricultural markets. As a result considerable concessions were made for US imports between 1979 and 1988.

\(^{21}\) outlined in the Government's *Basic Direction of Agricultural Policy in the 1980s* publication.
The liberalisation of the Japanese domestic beef market was initiated during the 1988 round of bi-lateral trade negotiations between Japan, the US and Australia. An agreement set April 1991 as the elimination date for regulated quotas, to be replaced by a tariff rate set initially at 70% and reducing at 10% annually, to settle at 50% in 1993. Border measures after the fiscal year 1993 should then be in line with the outcomes of the Uruguay Round of multi-lateral trade negotiations.

4.2.3 TAIWAN'S LIVESTOCK SECTOR

Unlike Japan, the livestock industry in Taiwan has focussed on a very small grass fed beef sector providing for the limited consumption of beef products. A much larger chicken and hog sector provided for the balance and bulk of Taiwan's livestock consumption. The livestock industry was made up of local farmers who incorporated livestock production into other farm activities. Most producers concentrated on a small number of animals in addition to crop production. As a result of the secondary nature of production and the significant economies of scale enjoyed by importers such as the United States and Australia imports were cheaper than domestic product. As the consumption of livestock products increased in the 1960s, imports were therefore favoured as a means of supplying the growing market.

The livestock industry was supported by the government's domestic agricultural policies. The Concentrated Agriculture Industry Policy introduced in 1984 focussed support on designated agricultural sectors. While hog and chicken production were the primary growth sectors, productivity improvements in the beef sector also occurred. The emerging grain fed beef market was supported with input subsidies, while efficiency improvements were made to the traditional grass fed sector. Increased efficiency has failed to alleviate the livestock sectors dependence on imports. Given the price fluctuations in grain markets and the limitations of maintaining constant input
stocks among small scale farmers this dependence on grains and other stock feeds has resulted in considerable restraints on growth. The variability in world markets, and the pressure on Taiwan to liberalise its agricultural sector has provided an unprecedented challenge to the government and remains central to the upward trend in agricultural imports to Taiwan.

The 1984 reforms to agricultural policy led to a number of grain fed beef projects and large scale chicken and hog processing operations. However, domestic production continues to fall short of demand making Taiwan reliant on imports. While Australia controls a large portion of this market, the emerging preference for grain fed beef and Taiwan's growing trade surplus with the US has resulted in a growing focus on US imports. The motivations for this trend will be considered in turn.
4.3 THE BEEF INDUSTRY AND PROTECTION IN JAPAN

4.3.1 NON TARIFF BARRIERS AND THE JAPANESE BEEF INDUSTRY

The Australian beef industry accounted for over 80% of total Japanese beef imports in the 1960s. Since 1977 Australia's market share has been declining. In 1989 market share had fallen to just over 49%. Australia's falling share has been in contrast to the rising presence of the US, whose market share has grown from 7.5% in 1973 to account for over 43% of the market in 1989. Australia's fall was due not only to the Japanese government's trade policy and non-tariff barriers to trade, but also to the performance of the AMLC. The work of George and Longworth argued that strategic government barriers have been the main cause of Australia's export decline. I argue that the beef industry's performance has been problematic, leading to Australia's failure to maintain export share. While Japanese government policy has continued to influence Australia's export trade, the AMLC has been guilty of limiting the opportunities for Australian exporters in the Japanese market. The relevance of each of these issues will be considered in turn.

For the sake of tractability, it is best to separate Japan and Australia's trade relationship into two distinct periods. The first period covers the pre-liberalisation phase from 1978, when the first bilateral trade agreements were signed, until 1988 when the first liberalisation proposals were initiated. The second period includes all developments after 1988. Both periods were characterised by a consistent trend towards a preference for US beef.

In her study on Japan's beef trade Aurelia George suggested that the downward trend in Australian livestock exports to Japan was the result of an overt government preference for US beef. If this is true, the marketing and trading activities of the
AML C could do little to reverse its falling market share. However, the Japanese government's overt preference for US product was supported by a set of import barriers that indirectly protected the Japanese market. These barriers extended to health regulations, import restrictions and product requirements. All these indirect barriers could be partly addressed by marketing strategies. According to Geoff Scogull of DFAT (Department of Foreign Affairs and Trade), the indirect nature of Japan's trade barriers was not fully addressed by the AMLC. (Scogull I.N.8.)

Similarly, Richard Baker of the East-West Institute argued that

"... there was a strong need for strategic marketing and promotional activities to minimise the impact of the Japanese government's protection campaign." (Baker I.N.16.)

Once we acknowledge that the protection of Japanese livestock trade depended in part on indirect policy controls, then the marketing and trade program of the AMLC needs to be called to question. Was Australia's fall in market share due to an overt preference for US beef or did the AMLC fail to successfully market and promote Australian beef products?

The pre-liberalisation period in Japan between 1973 and 1988 was characterised by a consistent fall in Australia's market share. Aurelia George's mid 1980s work developed very clear views on the major factors that affected Australian beef trade with the Japanese:

"In the course of US negotiations with Japan on levels of Japanese agricultural protection, the question of market liberalisation has become inextricably linked with the highly visible issue of Japan's massive bilateral trade surplus with the US. Increased sales of American farm products to Japan are seen as one means of redressing the US-Japan trade imbalance." (George (1984), pp. 2.)
Australia's trade position with Japan continued to be heavily influenced by the relationship between the US and Japan after 1984.

George's work explored the changing nature of the Japanese import market between 1978 and 1984, and how it was detrimental to Australian producers and exporters. Through the LIPC, the Japanese government encouraged the importation of grain-fed beef in the mid 1970s. This policy was introduced to ensure the survival of the domestic industry and as support for US agricultural products. The changes encouraged a significant shift in the distribution of quotas to overseas producers and had long term ramifications for the market.

Australia faced a number of obstacles in adapting to these new market conditions. Of primary importance was the commitment by the Japanese to formalise trade agreements. The first agreement covering the beef sector was signed in January 1978 under the Strauss-Ushiba Agreement which undertook to increase imports of grain-fed beef from the US. The initial commitment was to increase import rates by 10,000 tonnes annually. In December 1978 Japan made further concessions, increasing imports in stages of 3,500 tonnes per annum. Given the nature of concessions, the US quickly established themselves as a major supplier to the Japanese market. Peter Weekes of the Cattle Council of Australia argued that the concessions enabled the US to establish a strong presence in the market.

"... The US had previously played only a minor role in Japan, perhaps exporting around 20% of beef requirements. These bi-lateral trade negotiations elevated the position of the US to that of a major player in the livestock sector. This made the negotiations of 1978 central to the changing nature of the Japanese beef industry, ... (and) of vital importance to the future of Australia's livestock industry in Japan."
(Weekes I.N.12.)
The commitment by the Japanese to unilaterally increase beef imports was reciprocated in the January 1979 Australia-Japan bilateral settlement reached during the Tokyo Round of GATT Multilateral Trade Negotiations. The terms of the agreement committed the Japanese government to increasing total beef imports from Australia under quota to 135,000 tonnes by 1982, from 112,000 tonnes in 1978. (George (1984) pp. 5.) This increase was larger in tonnage size than the US commitment, but significantly lower as a proportion of market share. George (1984) believed the policy reflected Japan's response to US trade pressure arguing the 1979 Australia-Japan bilateral settlement was a token gesture given the shift in preference towards US beef.

However, a number of domestic issues were pivotal to the direction of Australia's trade performance. Unlike George, Andrew King, (King I.N.11.) Research Director with the AMLC, argued Japanese initiatives were equally concerned with domestic political economy issues, which required the maintenance of the quota system and the domestic livestock sector. King believed the primary motivation for the re-organisation of Japan's livestock industry's import policy was the concern among farmers and individuals within the Ministry of Agriculture that the pressure for complete liberalisation of the industry would destroy the domestic livestock sector, not yet ready to absorb the impact of a liberalised market.

"... It would seem that the significant pressure from both the US and Australia ensured favourable trade arrangements were negotiated as a means of delaying the imminent move towards the total liberalisation of the market." (King I.N.11.)

Japan's policy was influenced by the power of farmers and livestock organisations. These groups understood that the increasing international pressure for access to the beef market threatened the reform and efficiency improvements aimed at lifting the viability of the domestic livestock industry. Therefore, strong resistance was imminent.
While acknowledging the value of George's conclusions, Peter Weekes of the Cattle Council of Australia, and Justin Winton of ABARE (Australian Bureau of Agriculture and Resource Economics) agreed that King's argument on Japan's domestic politics was important. According to Justin Winton, the domestic Japanese livestock industry was intent on maintaining a presence in the local beef market. To achieve this they needed to lift efficiency and reduce production costs. This process was initiated by the Agriculture Basic Law in 1961, and updated by a review in 1979. Importantly, those within Japan's livestock organisations understood that in 1978 the industry was still some years away from achieving the minimum efficiency levels required to compete against beef imports. Bi-lateral concessions were seen as a means of deferring liberalisation demands.

"...I would argue that the fact that the Government's bi-lateral charter favoured US importers was an added bonus given the significant pressure coming from Washington concerning the rising trade surplus." (Winton I.N.23.)

Weekes was also aware of the considerable influence wielded by Japan's domestic livestock interests and more importantly, its impact on consumption trends. He argued that while it is difficult to discount the impact of US trade pressure to the outcome of the 1978 bi-lateral trade negotiations, the Japanese consumption trends were important to changing trade priorities. US beef characteristics matched those of Japan making Japanese efforts to expand consumption of its own grain-fed beef product beneficial to US imports.

"There was an understanding within the livestock sector that fostering and expanding grain-fed demand would benefit the long term viability of the domestic beef industry. This domestic policy made Australia's position in the market extremely difficult." (Weekes I.N.12.)

While the first revision to George's study was the role of political economy factors, the second revision centres on the quality of beef exports, the relative merits of the US
marketing strategy and the changing nature and demands of the Japanese consumer. Given that these issues were pivotal to the long term fortunes of the AMLC in the Japanese market it is important they be considered in turn.

Fuelled by the growth in US imports, the outcome of Japan's bilateral trade negotiations displayed a preference for grain-fed product. Japanese importers became more selective of carcase quality and cuts. While George claimed that Japan made a concerted effort to administer grainfed beef import trade almost exclusively within the confines of the US agreement, Andrew King, (King I.N.11.) argued that the shift in demand was an outcome rather than a condition of the original US/Japan agreement. According to King the bilateral negotiations encouraged a shift in Japanese consumption towards grain-fed product which matched the characteristics of Japan's domestic beef and was assumed to be of a higher quality than grass-fed beef. This quality differential was encouraged by the domestic livestock sector which sought to benefit from a preference for grain-fed beef. King noted that,

"... the policy of the domestic livestock sector was to ensure that Japanese grain-fed beef remained the most preferred product among Japanese consumers. It's significantly higher price and limited production made prestige important, thus ensuring that grain-fed beef was promoted as a high quality product ... this trend was perpetuated by the access provided to US beef imports. Japanese consumers were now in a position to regularly purchase grain-fed product ..." (King I.N.11.)

This meant that Australia's reputation for grass-fed beef was diluted by perceived quality advantages in US grain-fed beef. The important issue for the AMLC was whether it could respond to the change in Japanese demand for grain fed beef, or whether preferences in favour of the US made it impossible for Australian producers to maintain market share irrespective of AMLC marketing and other strategies.

Prior to the significant change that came with the bilateral trade negotiations in 1978,
Japan had a traditional preference for Australian beef. The Australian product was complementary to expensive domestic grain-fed beef. Frozen product was used by the processing industry, while chilled Australian beef was used and marketed as table beef products. Australia maintained a price advantage over both domestic producers and international competitors, due to its comparative advantage in agriculture products. This provided considerable margins between the landed price of Australian product and the domestic wholesale price. This margin was exploited both by the LIPC and the JMC (Japanese Meat Corporation) which supported Japan's domestic livestock industry.

The bilateral negotiation process which began in 1978 shattered this convenient market arrangement. The HQB (High Quality Beef) quota was put into effect under the grain-fed product commitment which set aside a certain proportion of the beef quota for grain-fed imports. While the quota was officially 'global', Longworth noted that the

"US has a significant advantage over other suppliers in this grade of beef. As a result ... the US has significantly increased its share of the Japanese market at the expense of the traditional suppliers of grass-fed beef (Australia)." (Longworth (1983), pp.13.)

While the Australian grain-fed beef sector was decimated by the 1974 oil shock, the US industry had been protected by a strong domestic market. As Japanese demand for grain-fed product grew the US had the capacity to supply the market. This advantage could be overcome by a consistent policy to expand feedlot production in Australia or by a marketing and advertising program which encouraged Japanese consumers to purchase Australian grass-fed beef.

While the US was advantaged by their capacity for feedlot production, both grain-fed and grass-fed US beef exports were further strengthened by the LIPC's imposition of

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22 US average price per kg was more than twice the Australian level in 1978. Refer AMLC annual Reports 1978.
specific requirements for imported product. Japanese requirements such as fat content, colour, and vitamin levels were consistent with US beef characteristics. According to Longworth, the product differentiation campaign was a clear indication that Japan's government made a commitment to admit US beef over equivalent Australian product. (Longworth (1983), pp. 15.) Various specification procedures were outlined which conformed with US standards,

"both in the type of export grading system used and in the method of producing standard primal cuts from the carcase." (George (1984), pp. 19.)

George was adamant that the Japanese preference for US beef was government imposed.

An alternative explanation was provided by Justin Winton of ABARE (Winton I.N.23.) who argued that the shift towards the US merely reflected the change in consumption among Japanese buyers. Winton believed that the process of grading product was not adequately addressed by the AMLC which failed to explore changing market requirements. While specifications changed regularly in the LIPC Annual Conditions Report, the basic preference for highly marbled, high nutrient beef remained consistent. The AMLC failed to understand that competing with the US for the HQB market meant adopting the favourable characteristics of Japan's domestic beef sector. This meant adopting similar 'finishing' programs to the Japanese, and offering guaranteed production standards to the LIPC.

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24 'Finishing' refers to the means by which feedlot cattle are treated prior to being slaughtered. In Japan, cattle were kept in feedlots for up to 600 days, while in Australia the time was normally around 200 days. This resulted in differences in the marbling and presentation of the beef.
"We can be cynical and argue that the AMLC spent considerable effort exploring the nature of US trade preferences without considering how they might circumvent the changing nature of Japanese demand ... For the table beef market, differential marketing programs concentrating on the low price sector were not addressed by the AMLC's generic promotion program. The AMLC's policies made Japan's grading system appear terribly biased without really addressing the central issues in its construction ..." (Winton I.N.23.)

Winton's views were supported by Richard Baker, of the East-West Research Institute (Baker I.N.16.) who was sceptical of the strong link between political economy factors and the fall in Australia's market share. Baker acknowledged that the Japanese government's US focus was an influential characteristic in the rise in demand for US beef, but argued that of equal importance was the transformation in Japanese taste, the rise in beef consumption, and the growing preference for high quality product.

"... It is not difficult to associate the rapid increase in grain-fed beef imports with the dramatic rise in incomes, and the subsequent rise in beef consumption. My experience with market changes over recent years indicates that ... as incomes rose and the general public became more comfortable with regular consumption of beef, there was a move towards more preferred livestock products ... (the) Japanese had always enjoyed grain-fed beef, but had limited consumption to irregular occasions. As US product became more common in the market, grain-fed beef became more widely consumed by the general public ... its' perceived quality benefits and moderate price made it immediately popular in the market." (Baker I.N.16.)

Had the AMLC adopted a more product centred trade strategy, the difficulties encountered in competing with the US would have been reduced. A transformation of production techniques is likely to have been favourable to Australia's export position in the post liberalisation period. While grading changes certainly made it more difficult for Australian product in Japan, little effort was made to overcome changing product requirements. While rising exports between 1978 and 1988 confirm that the US were advantaged by favourable government policies (see figs 3.1 - 3.3.) the relevance of quality factors and the limitations of the AMLC cannot be ignored. Baker's market
research report into East Asian agricultural trends found that Japan's traditional demand for Australian beef diminished as US grain-fed product became more accessible to average consumers. The AMLC failed to address this change in tastes and the associated barriers that came to characterise Japan's modern beef market.

The changing nature of Japanese consumers was illustrated by demand for variety in retail meat products. The specific 'prime cuts' or part cuts policy was of particular concern to Australian producers. The government's trade policy restricted beef imports to a specific range of carcase cuts. This benefited US industry which had the capacity to absorb surplus requirements. Judith Laffen of DFAT (Laffen I.N.7.) acknowledged that the Australian domestic market was a small consumer of grainfed beef. This made it difficult for Australian exporters who understood that domestic consumption could not absorb surplus cuts left from the Japanese market. This was in direct contrast to the US, where surplus product could be absorbed by beef processors and the large table beef market. This resulted in Australian producers being squeezed from the market due to the difficulties of disposing of excess product and the limited effort the AMLC put into finding alternative markets or uses for surplus stock. (Laffen I.N.7.)

George's work on the 'prime cuts' market found that the US not only benefited from the part cuts structure, but were also involved in actually allocating the cuts supplied to the Japanese market. The bulk of US beef imports to Japan were compiled of secondary cuts, thereby failing the 'prime cuts' classification. George argued that only a small part of the market was set aside for high value loin and shoulder cuts (around 8% in 1983), and the remainder was allocated to less desirable forequarter and belly cuts. This suggests that the stated Japanese intention to import premium product was unfounded. (George (1984), pp. 13-17.)

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25 This 8% figure was in direct contrast to the US where some 74% of prime grain-fed beef cuts were made up of loin and shoulder cuts. Refer USDA Feedlot Production and Consumption Schedule, USDA Agriculture Report 1992.
While George correctly identifies differences between US and Japanese cut allocations, her conclusions on the allocative process are somewhat misinformed. Geoff Scogull of the Japan Desk at DFAT (Scogull I.N.8.) attributed the Japanese preference for forequarter and belly cuts to the varied applications available for this type of beef. The Japanese application of beef varies considerably. This has encouraged Japanese consumers to favour beef products that are easily adapted to variations in cooking. The growing demands on the Japanese housewife have intensified the need for convenience. Beef that can be quickly, but tastefully cooked to Western or traditional Japanese recipes has been favoured in recent years. The adaptability of forequarter, and particularly belly cuts made them appealing to Japanese housewives. (Scogull I.N.8.)

Julie Ingram of the Myers Strategic Group, who was responsible for an extensive study of retail trends in East Asian markets found that the Japanese preference for beef was confined to products which were attractively presented, but more importantly suited to a variety of uses. Forequarter and belly cuts were popular because they were particularly suited to Japanese methods of preparation, but could also be used in Western style dishes. (Ingram I.N.9.)

In acknowledging Japanese consumer preferences Scogull was critical of the AMLC's understanding of the part-cuts requirements arguing that,

"the part-cuts policy could have been partly rectified by an AMLC study investigating alternative markets for surplus stock, or through the development of a domestic market for specified grain-fed beef ... while it was easy to assume that the part-cuts policy ensured greater US imports, the priorities of the domestic industry did not extend to investigating alternative means of disposing of surplus cuts ..." (Scogull I.N.8.)
Peter Weekes, of the Cattle Council of Australia concurred, arguing that the opportunities for grain-fed beef in Australia, particularly in the specialised restaurant and hotel sector, were not explored by the AMLC. (Weekes I.N.12.) This limited opportunities in the Japanese market by restricting exports to full carcase cuts.

The distributary role of the LIPC was another restriction to Australia's beef export efforts. The LIPC controlled around 90% of beef distribution at the various entry levels in the Japanese market prior to 1988. Importantly, LIPC powers enabled the government to dictate and control the type of product that would reach consumers. Aurelia George argued that LIPC policy ensured demand for US grain fed product making it a priority in its distributary program. George noted that the beef imported by the LIPC and sold in Japan was "not necessarily what the market wants at all, but what it can obtain." (George (1984) pp. 29.) The power of the LIPC meant that as demand for grainfed beef grew, the necessary distribution infrastructure to support this growth was in place.

While the LIPC policy favoured US importers, the proliferation of grain-fed beef and the LIPC support for its distribution throughout the market can be attributed to the significant growth in demand for grain-fed product not to unfair policies to favour America. While some individuals argue that distribution channels have been a major barrier to trade with Japan, Richard Baker argued that his experiences with distribution were nothing but positive. The problem with the Australian presence in Japan was its product rather than LIPC preferences. The LIPC had a role to cater to the demands of the Japanese consumer. (Baker I.N.16.)

Importantly, the nature of preferential distribution arrangements was that they were in accordance with changes in demand. While George argued that the Japanese consumer merely accepted what the LIPC provided, the experiences of Baker suggest that the demand outcome was far more representative of Japanese consumer
preferences. This concern over the distribution activities and preferences of the LIPC are highlighted by the post-liberalisation experience.

While it is easy to discount the criticisms underlying government restrictions and regulations covering the importation of beef to Japan's market between 1978 and 1988, the results of the post liberalisation period suggest the behaviour and policies of the AMLC have been equally important in limiting the performance of the Australian beef industry in Japan.

Confident forecasts for export rates in the post liberalisation were adopted which saw demand exceeding 500,000 tonnes by 1995, up from 136,000 tonnes in 1988, and rising to over 850,000 tonnes by 2004. New projects to promote Australian beef were proposed including the 'Aussie Beef' campaign, and the Aus-Meat initiative which endeavoured to better maintain and control export standards. Both projects were designed to exploit opportunities for exports to the North Asian livestock market.

However, while significant growth has ensued since liberalisation, with Australian exports to Japan increasing from 136,736 tonnes in 1988 to almost 214,203 tonnes in 1993, US market share has continued to rise relative to Australia's market position. Why has the liberalisation program failed to deliver the benefits forecast and why is the US continuing to draw market share away from Australian producers?

In the previous section it was argued that while Australia's falling market share was influenced by government restrictions, the changing consumption patterns of the Japanese and the demand for grain-fed beef also influenced Australia's export

26 Refer AMLC Export Position Paper 1989. For a more technical analysis of the benefits that liberalisation was to bring to the Australian livestock industry, refer ANDERSON & TYERS. Global Effects of Liberalising Trade in Farm Products, 1991.
performance and highlighted the marketing and trade shortcomings of the AMLC. The considerable changes in government policy and subsequent export outcomes since liberalisation have seen a growing US presence in the market but provide little support for unfair NTB practices against Australia in favour of the US. The liberalisation of the market in 1988 and subsequent trade outcomes may go some way towards validating claims that government restrictions were not as significant to trade fortunes as was previously thought.

As outlined previously, health and sanitary requirements were an important issue for Australia's exporters. In the post liberalisation period, the complaints of George and Longworth that the Japanese government used these NTB's to favour the US and discriminate against Australia pervaded AMLC circles. Some within the AMLC felt that Japanese government sanitary and phytosanitary regulations favoured US importers,

"... the minimum nutrient requirements and protein levels were scrutinised by authorities, and regularly reviewed to suit the changing characteristics of US product. Regulations came to benefit US product high in artificial additives and vitamins." (Kelf I.N.10.)

These regulations were thought to make it difficult for Australian producers, particularly those who had invested in large commercial feedlot operations.

Nevertheless, this argument was a minority view. Justin Winton of ABARE showed that the regular revision of sanitary and phytosanitary standards rarely diverged radically from a set of basic requirements. While Japan's regulations changed frequently, this was as much as anything driven by required agricultural reviews of markets. The LIPC were encouraged by the Ministry of Agriculture to make regular assessments of the market and often changes were merely a result of bureaucratic posturing. (Winton I.N.23.)
Statistics indicate that fluctuations in market requirements in the post liberalisation period were small, with maximum variations limited to 6% annually. Nutrient requirements were also exaggerated with variations limited to a maximum of 4% over European and US classifications. (AMLC Requirements Paper (1990) pp. 5-15.) These figures suggest that the regulatory nature of the market was used to cover poor marketing issues.

George's argument that Australia was confined by the policies and power of the LIPC was challenged by post liberalisation export results. While the distributary power of the LIPC continued to be influential in the post liberalisation period, its influence became increasingly stifled. Richard Baker (Baker I.N.16.) thought that the poor performance of the AMLC in infiltrating Japan's market could be attributed to its' poor marketing techniques. The AMLC generic branding program and the use of established import channels restricted the scope of Australian beef products. The branding program introduced under the Aus-Meat format was designed to develop and manage a uniform specification of beef and supervise codes of practice, quality assurance and accreditation. However,

"... the Aus-Meat program concentrated grading and categorisation to a very limited number of products. I understand that the initial program included three categories of which the understanding among foreign buyers was poor ... the National Carcase Branding Scheme introduced in October 1987 had the capacity to foster greater confidence among Japanese buyers, but failed to explore greater variety in its categorisation system." (Baker I.N.16.)

The grading system was separated into three groups: young beef with accelerated conditioning; young beef from feedlots with accelerated conditioning; and mature beef with accelerated conditioning. By restricting itself to these classifications, the success of the program was limited by its categorisation. The delineation between products under the Aus-Meat program was insufficient to many Japanese buyers who were concerned as to what the categories would represent, and what would be popular
among domestic buyers. It seems clear that the Aus-Meat campaign needed to be better sold and more defined to ensure greater success in the Japanese market. (Ingram I.N.9.)

It was also felt that emerging opportunities with smaller wholesalers and retailers were not explored by AMLC negotiators. Smaller wholesalers were having considerable success in obtaining a share of the internal beef market in Japan but had little contact with AMLC negotiators. (Unpublished East-West Institute Paper (1992).)

The CALM (Computer Aided Livestock Marketing System) service established on 1 July 1987 was a poor vehicle for infiltrating the complex nature of Japan's wholesale meat market. While CALM set out to use computer information to enhance the position of the AMLC in international markets by providing a service that could obtain a more consistent and predictable meat product, its success and application to the Japanese market has been limited. This was acknowledged by Tim Kelf,

"... it is clear that the success of the CALM initiative in infiltrating the markets of Japan and East Asia has not been as successful as we had forecast ... the Japanese and East Asian markets continue to be characterised by a preference for face-to-face negotiation, which has limited the impact of CALM." (Kelf I.N.10.)

The internal issues that afflicted the trade performance of the AMLC were related to the marketing and selling of livestock product on world markets. The policy of the AMLC in marketing its generic Aus-Meat product was unsuitable to the Japanese beef market. This ensured that the initial forecasts for growth in the post liberalised Japanese market were not met. The beef market in Japan has been characterised by considerable barriers to trade over the past twenty years. Since the initial bi-lateral negotiations between Japan and the US, and Japan and Australia took place in 1978, the US has consistently increased its market share at the expense of Australian producers. While George and Longworth argued that Japanese government policies
favouring the US had a considerable impact on the market's transformation, evidence suggests that the role of the AMLC was equally influential to the success of the Australian beef industry in the Japanese market.

Since liberalisation in 1988, the US has continued to expand its market share. While continued regulatory controls by the government have been influential to this trend, the limitations in the AMLC's marketing program and their inability to foster greater ties and contracts with Japanese buyers has been a major factor behind the industries poor performance. Japan offered many opportunities for exports of beef product, but suffered from a marketing approach which failed to exploit these opportunities.
4.4 THE BEEF INDUSTRY AND PROTECTION IN TAIWAN

4.4.1 NON TARIFF BARRIERS AND THE TAIWANESE BEEF INDUSTRY

Unlike Japan where indirect government regulations were the primary restriction for beef imports, the Australian industry in Taiwan struggled against a two tier tariff regime that restrained exporter's opportunities in the market. Different tariff rates applied to 'special quality' and 'other quality' product, distinguished by grain-fed and grass-fed production alternatives. The US benefited from this regulation supplying the majority of 'special quality' beef, while New Zealand and Australia faced higher tariff rates supplying much of the grass-fed product.\(^28\) This regulation, like the regulative system in Japan, meant that

"the Australian beef industry endured a period of eroding market share between 1974 and 1992 as the US slowly took a stranglehold on its beef market." (Morison (1991), pp. 7.)

Government control, however, was only one barrier to beef trade with Taiwan and a number of other factors limited the success of the Australian beef industry.

To assess the performance of the AMLC in Taiwan, it is important to have an understanding of the protective barriers faced by beef exporters. Andrew King and Tim Kelf of the AMLC attribute Australia's changing fortune in Taiwan's beef market to two major factors. The first was the growing levels of government protection and regulation initiated by the 1984 agricultural reforms. The second was the expanding trade surplus with the US. These characteristics combined to redirect trade preferences toward the US and restrict the opportunities available to Australian beef.

\(^{28}\) in 1992 tariff rates on 'special quality' beef were set at NT$23.80/kg, while 'other quality' beef was set at NT$30.00/kg
exporters in Taiwan's market. Since 1976, Australia's share of Taiwan's beef market has fallen from 74% to under 50% in 1992. This trend away from Australian beef was motivated by a strong political commitment to the development of the domestic beef industry. Government policy was directed towards agricultural self sufficiency with consistent import restrictions, but satisfying the demands of the US was also on Taiwan's government agenda due to growing concern over the stability of trade arrangements. (King I.N.11.) Like Japan, Taiwan maintained a rapidly growing trade surplus with the US, and trade concessions for US beef imports were used to dilute Taiwan's' reciprocative trade obligations. Both factors came to characterise protection of Taiwan's market.

Importantly, the self sufficiency and preferential trade explanation for changing export priorities fails to adequately address the issues of changing consumption patterns and eating habits and their impact on Australia's beef export performance to Taiwan. The government's support of domestic production and their preference for US beef was compounded by the AMLC's export strategy which failed to capitalise on growing consumption rates and traditional market characteristics. Julie Ingram of the Myers Strategic Group noted that,

"the existence of an established market for grass-fed beef and the growing demand for beef products should have enabled the Australian beef industry to maintain its market share in Taiwan ... (However) the AMLC did not enthusiastically explore new opportunities and trends in Taiwan even after experiencing falling market rates." (Ingram I.N.9.)

The impact of government controls and trade preferences, and the effect of the AMLC's poor marketing strategy on export rates are considered in turn.

In the absence of an efficient agricultural sector, protective measures were employed by the Taiwanese government in the 1970s. As domestic producers found it increasingly difficult to compete with international suppliers, and manufacturing
industry began to cause a drain on the agricultural sector, the government choose to apply support policies to domestic farmers. The motivation for government support was based on food security and political economy factors similar to those of Japan.

The type of protection measures employed by Taiwan's government were broad. The primary government restriction was bank authorisation, which restricted the allocation of foreign currency to enable commodity transactions. The government was empowered to allocate funds at their discretion, thus performing a regulatory role for processed beef products. Exporters applied to the government to appropriate adequate foreign currency for transactions. This provided the government with an indirect mechanism by which it could allocate trade preferences and support domestic production. The bank authorisation restriction meant the government had a mechanism to ensure protection of the local livestock sector. Limited export rates meant domestic producers were guaranteed a market for their product even with significantly inflated prices. (King I.N.11.)

The beef industry in Taiwan was controlled by a small minority of producers and distributors that developed a strong political voice as industrial development overshadowed agricultural production. Like its North Asian neighbours, the Taiwanese economy focussed heavily on agricultural protection as its economy moved towards industrial efficiency. Anderson and Tyers explored this phenomenon in their 1991 Thames Essay on protection amongst farm products, arguing that advanced industrial economies subsidise agriculture as a gradual progression away from comparative advantage occurs. (Anderson & Tyers (1991), pp.7-32.) The trend away from agriculture encouraged Taiwan's farmers to develop a political voice. As pressure was exerted by agricultural interest groups, the government became more aware of its domestic obligations to maintain the agricultural sector resulting in the 1983 self sufficiency policy. This left Australian exporters increasingly at the mercy of government decision makers, an issue that was to prove pivotal to Australia's long
term fortunes in the market.

The preference for US meat was fuelled by the growing trade surplus Taiwan had established with the US. Tim Kelf (Kelf 1990) argued that the emerging presence of the US in Taiwan’s market was of little surprise to the Australian beef sector where it was understood that the significant trade influence of US agricultural producers was being exploited to establish specific markets. The situation in Taiwan was one of rapidly expanding demand being matched by high disposable incomes, a situation the US believed would be favourable to developing a market for its prime export beef sector. It was widely understood that the US trade deficit with both the Japanese and Taiwan gave its agricultural sector significant power in fostering greater market access. (Kelf 1990)

The ‘special quality’ component of Taiwan’s tariff policy favoured the US who were the primary suppliers of grain-fed SQ (special quality) beef, accounting for around 86% of product. (AMLC Export Report 1990.) The tariff rate was set at a considerably discounted level, enabling SQ beef to establish a dominant position in the Taiwanese market. The discount ensured US product maintained competitiveness against the considerably cheaper grass-fed alternatives that had previously dominated the market. As the preference for grainfed product grew, it became increasingly difficult for Australian exporters to sell grass-fed product into Taiwan’s market.

The work of Morison (1991) and Dickson (1990) argued that the preferential treatment of US beef in the Taiwanese market was driven by the considerable trade surplus problems that Taiwan had faced since the late 1970s. Increasingly, the industrial strength of the Taiwanese economy had ensured widespread trade success. The US played an integral role in this process, and remained the primary market for Taiwan’s manufacturing industry.29 This meant pressure exerted by the US on the

North Asian countries to liberalise agricultural markets was met by considerable concessions for US product. Both Taiwan and Japan were opposed to complete market liberalisation, but could not afford to ignore US demands for trade reform. Thus concessions were made to the US, in preference to market liberalisation. Dickson argued that beneficial trade arrangements became an integral part of North Asian agricultural trade practice. Lower tariff rates and preferential technical standards designed to match US beef characteristics were a common feature of bilateral trade negotiations. While Australian export growth rates remained high, market share was eroded.

The trend towards the consumption of US grainfed product was further advanced by the government's health and sanitary controls. The frequent alterations to health regulations (five changes between 1986 and 1990) were a hindrance to the AMLC, while nutrient requirements and protein levels increasingly favoured artificially enhanced US grainfed beef. (King I.N.11.)

According to Tim Kelf, (Kelf I.N.10.) the important issue for Australian producers was quality. Taiwan's government regulations were designed to maintain quality standards and basic health requirements for food imports. This meant that as US beef became more widely available in the market, consumers perceptions were that the product satisfied specific quality requirements. However,

"the frequent changes to the Customs Schedule merely favoured US beef characteristics rather than rewarded nutritional value and health concerns." (Kelf I.N.10.)

Thus it was argued that the consumer merely accepted rather than controlled the importation of specific types of meat.

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Given the favourable treatment of US product and the government's domestic support program it is argued that Australian imports were squeezed from the market. While this is hardly contentious, it is important to assess what solutions were countenanced to deal with the problems. Unlike Japan, Taiwan had a history of domestic grass-fed beef production and consumption. During the 1960s this preference enabled Australian beef exporters to establish a strong presence in Taiwan's market. However, preferential tariff rates and a concerted US marketing strategy encouraged grainfed beef consumption during the 1980s. Richard Baker of the East-West Centre argued that

"... we should appreciate that the US marketing effort in Taiwan was in direct contrast to the performance of the AMLC ... the increase in domestic income rates and the nature of consumption meant the USDA promoted US grain-fed beef as a prestigious alternative to domestic livestock products. The US established its market for grainfed beef by advertising and selling its product as a premium good initially among the increasingly affluent urban middle class ..." (Baker I.N.16.)

As income rates rose and consumers became more accustomed to the characteristics of grain-fed beef the demand for US product grew. The US promoted grain-fed product to all levels of the market and ensured product was widely available among both urban and regional retailers.

By contrast, the AMLC marketing strategy relied on generic branding of Australian beef and was directed at the traditional table beef market. John Denton (Denton I.N.17.) formerly with DFAT felt that Australia's promotion of agricultural products left much to be desired. While great rhetoric was circulated about progressive marketing strategies beef marketing was confined to bulk handling. The 'Aussie-Meat' campaign designed to represent Australian meat at the retail level did little to remove the generic view that many consumers had of Australia's product (ie. that of a second rate product used regularly and cheaply as an alternative to local beef). (Denton
Craig Penefold (Penefold I.N.13.) argued that the generic marketing Aus-Meat program was difficult to sell in Taiwan's market. The maturation of the beef market in Taiwan called for a marketing program that could sell into all sectors and appeal to alternative buyers. There were emerging opportunities in the fast food sector that needed to be filled, and the appreciation of grain-fed beef at the top end of the market should have appealed to the growing feedlot producers. Aus-Meat restricted the scope of Australian beef products by isolating its profile. (Penefold I.N.13.)

Essentially, Australia's strategy restricted producers from exploiting all their opportunities. The Australian strategy failed to appreciate the changes in market tastes and consumption patterns or address the US marketing program which was absorbing Australia's high quality grass-fed beef exports. (Baker I.N.16.)

The AMLC marketing policies played an important role in Australia's poor market performance to Taiwan. The AMLC response to Taiwan's sanitary regulations was addressed in 1986 with a reorganisation of the Australian meat inspection service and the introduction of the Aus-Meat program. The inspection service was brought in line with international standards, while the Aus-Meat initiative introduced a new uniform specification for meat. Both initiatives were designed to improve the international reputation of Australian beef and maintain consistent quality standards. However, the reform failed to significantly enhance Australia's export performance in Taiwan.

The reforms introduced by the AMLC failed to address variations between markets. There needed to be a recognition of international trade realities. Markets were a long way from offering complete and free market access and the Australian inspection service reform was inhibited by its adherence to a global regulation strategy. Authorities believed that the maintenance of global nutrition standards would be
appropriate for all markets. The experience in Japan, Taiwan and Korea provided a clear indication that this was not so. The inspection and regulatory system needed to appreciate the variability of overseas markets. While diversity seemed like a logical solution, it was far from the minds of those within the department (DPIE - Department of Primary Industries and Energy), and amongst those at the AMLC. (Penefold I.N.13.) The Aus-Meat campaign failed to acknowledge the importance of specific market characteristics. The success of bilateral alternatives, and Australia's previous role in North Asian markets should have stimulated greater diversity in the AMLC's market strategies.

Given the changes that occurred in Taiwan's beef market, the falling presence of Australian beef imports in Taiwan was not driven simply by the government's preference for US product. The AMLC strategy in Taiwan restricted the performance of exports. It failed to capitalise on the changing nature of the market and consider the emerging preference for convenience and processed food products, which has since been addressed by cheaper US imports. (Ingram I.N.9.) Like the market in Japan, Taiwan's growing income rates encouraged a change in consumption towards luxury and processed livestock items. The AMLC and Australian producers took too long to acknowledge this trend. The generic branding and standardisation of the Meat Inspection Service restricted the industries flexibility and in Taiwan where requirements changed frequently this was detrimental to import fortunes.

The AMLC presence in Taiwan, and the markets' predilection for grassfed beef should have provided extensive opportunities for Australian beef exporters. However, the AMLC's export strategy, while being limited by the considerable benefits afforded US beef and the subsequent trend towards the consumption of grain-fed beef, did little to help Australia maintain its market share. Alternative marketing and export strategies could have painted a very different picture for the Australian export livestock industry in Taiwan; it is disappointing the AMLC did not take a more adventurous approach to
activities in the market.
4.5 THE BEEF INDUSTRY AND PROTECTION IN THAILAND

4.5.1 NON TARIFF BARRIERS AND THAILAND'S BEEF INDUSTRY

Having shown that the marketing strategy of the AMLC in Japan and Taiwan was influential in limiting Australia's beef exports between 1974 and 1994, any future strategy needs to address the key limitations of its trade program. The livestock market in Thailand provides an opportunity for the Australian meat industry to explore alternative marketing strategies. Its industrial infancy and significant income growth make it an ideal target for the beef sector. As industrial maturity was achieved in Japan and Taiwan, livestock consumption increased as demand for processed and convenience foods emerged. The market in Thailand has enjoyed only limited exposure to the international market for beef over the past twenty years, due to low consumption rates and income levels, but this trend is set to change, as Richard Baker contends,

"... while the majority of demand in Thailand has traditionally focussed on Bangkok, absorbed by the hotel and catering industry and the expatriate population, an emerging retail and convenience food sector will expand livestock opportunities. This is evidenced by the growth in the small luxury retail market as income levels continue to rise and consumption trends change." (see AMLC export schedule 1992) (Baker I.N.16.)

The long term opportunities for Australian beef exports to the region remains subject to a successful marketing strategy and export program that utilises the favourable characteristics of Australian beef. Given the governmental and traditional impediments to beef consumption experienced in Japan and Taiwan, the AMLC must exploit current opportunities if it is to be successful in the lesser developed nations of East Asia.
The AMLC experience in Japan and Taiwan indicated that of primary importance to the success of the meat industry was an understanding of the historical trends and cultural issues in livestock consumption. Julie Ingram of the Myers Marketing Group found,

"... that religious issues prevent many Thai's from consuming beef and its derivatives. The large Buddhist population were found to be predominantly vegetarian consumers, while other ethnic minorities had limited exposure to a diet incorporating beef." (Ingram I.N.9.)

This meant that even with rising incomes and changing dietary preferences, the adoption of beef in Thailand has been slow. To combat this restriction the AMLC needs to concentrate on packaged and processed livestock products. Geoff Scogull draws on the US experience in the Philippines where "... pre-packaged and processed beef was used to introduce the market to livestock products." In Japan and Taiwan the AMLC choose to market their product on a bulk commodity basis with generic branding. This method limited the scope of Australian beef and put it in direct competition with the favoured US product. Therefore, specified retail products with strong brand promotion might be a more viable alternative in other Asian markets.

Second, the huge income disparity and limited development in rural areas has meant that the majority of Thai's have not had the opportunity to consume beef products. Refrigeration remains scarce, and the transport and logistical difficulties in moving beef to these markets has made it difficult for rural dwellers to adopt alternative dietary habits. The concept of processed preserved beef products was raised by Tony Pickett, former director of Agritec, as a possible solution to infiltrating this market.

"... off-shore investment in the meat processing industry would be a favourable means of expanding the East Asian market. A joint venture off-shore investment of the kind employed by the dairy industry in Thailand would give the industry local expertise in marketing and distribution, as well as provide a secure market for Australian beef,
reduce government import charges and harness future demand."
(Pickett I.N.5.)

Both Tim Kelf and Andrew King of the AMLC felt that the rapid decline in market share in Taiwan and Japan since the emergence of US competition may be reduced by internal investment structures.

Finally, there remains a traditional cultural impediment to the consumption of beef in Thailand. The limited exposure of beef in the market has made it difficult for foreign producers to establish consistent demand. Beef continues to be a peripheral product, consumed by a limited and select few. Justin Winton of ABARE argued,

"... that the vagaries of the Asian market make it extremely difficult to gauge future demands and trends in the region. The future for beef in East Asia is difficult to assume given the considerable societial and cultural barriers that have limited its consumption to date. Therefore, any investment in the market needs to be assessed according to its viability and returns." (Winton I.N.23.)

Unlike the AMLC experience in Taiwan and Japan, the assessment of opportunities needs to be long term and it needs to incorporate a marketing strategy that is both progressive and concerted. Until this trend is changed, the opportunities for growth will remain limited.
CHAPTER FIVE

BARRIERS TO TRADE FOR THE AUSTRALIAN DAIRY INDUSTRY IN EAST ASIA

5.1 INTRODUCTION

This chapter explores Australia's dairy industry performance in the East Asian region. Historically, the industry has been a major contributor to Australia's export trade balance contributing over $1050 million to Australia's export receipts in 1992/93. While a major contributor, its share of exports have been characterised by fluctuating fortunes, with considerable variations in export figures and market share in Asia. Can this fluctuating market performance be explained by Australian domestic problems in the dairy sector or have export opportunities been limited by tariffs and NTB's? I argue that the instability has been caused by the changing focus of the domestic dairy sector and Australian government policy which curtailed the role of the dairy industry in overseas markets. As a result, export opportunities have been restricted, diluting the influence of the Australian Dairy Corporation in the Asian region.

The chapter is organised as follows. Firstly, the history of the dairy industry is briefly explored, including the nature of domestic production and the role of the board in the Asian region. The dairy sector has a long tradition of investment and production in Asia, and this is explored as a prelude to the industry's recent performance. The second section discusses the protective policies and practices in Asian markets. NTB's are investigated, and the dairy corporations activities are looked at to draw final conclusions on how the sector has performed over the past twenty years.
5.2 THE HISTORY OF THE AUSTRALIAN DAIRY INDUSTRY IN THE EAST ASIAN REGION

5.2.1 THE AUSTRALIAN DAIRY SECTOR

Since 1960 the Australian dairy industry has invested over $A400 million in Asian projects and marketing initiatives. (Industry Commission (1991), pp. 32-34.) These projects have included off-shore processing plants in South East Asia and joint venture arrangements for distribution and marketing of Australian product throughout the region. But the industry has been characterised by fluctuating export outcomes and falling market share. (see Figs 3.8 - 3.22.)

The character of the international dairy market impacts on Australian exporters. Firstly, only a small portion of worldwide dairy production is traded internationally, (around 5% of milk production, and 10%-20% of processed product). (World Dairy Trade Summary (1991), pp. 13-25.) Secondly, the market for goods remains largely residual to domestic production and trade is often accompanied by substantial levels of export assistance and import barriers, (70% of products entering international markets are supplied under government funded subsidy arrangements). (Gibson (1993), p.15.) Thirdly, the level of subsidised exports are determined largely by domestic policy considerations. This has meant that export markets are permeated by fluctuating demand and variable prices, which are exogenous to the Australian Dairy Corporation (ADC).

In addition, Australian domestic industry factors impact directly on the ADC's export performance. The Australian dairy industry, located primarily in the higher rainfall areas of south-eastern Australia, consists of four main sectors, farming, manufacturing and processing, distribution and vending, and industry administration. The total farm gate value of production in 1989-90 was $1749 million, accounting for around 7% of
the total value of agricultural commodities. Of Australia's dairy output, some 40% was absorbed by processing industries for export production.\textsuperscript{31} (Industry Commission (1991), p.5.)

The ADC functions, outlined by the Dairy Produce Act 1986, are to improve the marketability and promotion of Australian dairy produce; assist in export and trade of Australian dairy products; control and deal in dairy exports and the marketing of these products; advise the Minister on matters relating to the marketing and export of Australian dairy produce; provide assistance by way of loans to dairy manufacturers; and all other functions essential to the Corporation by or under the Act.\textsuperscript{32} Dairy exports are controlled by ADC requirements that regulate quality, price, quantity, payment arrangements and delivery mechanisms. Before 1986 the Board was responsible for virtually all trading activities, operating as a state trading monopoly organising the sourcing of product and overseas negotiations.

Since the 1986 Dairy Produce Act was legislated, the Corporation's trading activities have been reduced. Export pooling and price equalisation programs were abolished under the new Act, removing the acquisition of dairy product from the farm gate with distribution to market buyers by the ADC. The ADC's trading activities are now limited to, "markets where the Corporation and Council judge that the exercise of statutory controls over exports has a clear potential to increase export returns to Australia."\textsuperscript{33} (Industry Commission (1991), p.104.) In conjunction with these powers, the ADC also exercises its right to maintain the minimum prices of the International Dairy Arrangement. The Commission considers that while Australia remains a signatory to the agreement, it should comply with its obligations.

\textsuperscript{31} Raw milk products are restricted in most nations due to quarantine regulations.

\textsuperscript{32} Dairy Produce Act 1986, Section 7.

\textsuperscript{33} Countries include the EC where Australia is limited by quota; the US where a quota is also applied; the Japanese bulk cheese market for processing and shredding cheeses; and the bulk butter and SMP markets for government instrumentalities in Japan.
Before 1986 international sales arranged by the ADC were traditionally instigated on the behalf of dairy producers, where dairy manufacturers were obliged to supply the ADC with the necessary product for overseas contracts. Any trading profits obtained were pooled to be distributed equally among farmers and processors. (Daniel & Bardsley (1993), pp. 13-16.) Now the ADC purchases product from Australian manufacturers to sell into overseas markets. Profits obtained are transferred to the market support fund for subsequent distribution to product manufacturers. Manufacturers export directly, given that the regulatory price levels of the ADC are not violated. (Industry Commission (1991), pp. 105-107.)

ADC trade in Asia has been largely governed by Asia Dairy Industries (ADI), a fully owned subsidiary of the Australian Dairy Corporation. Established by the then chairman of the Australian Dairy Board, Eric Roberts in 1966, ADI was a vehicle for ADC investment in the Asian region. Its charter was to trade and develop markets in dairy products and livestock, securing markets for Australian dairy products. Given the long-term nature of Asian investment, the ADC took on the task of developing these new markets.

The primary focus of ADI activities was on the South East Asian region, although trade extended into Taiwan and Korea. Processing plants which reconstituted powdered dairy milk for local consumption were established in Thailand, Singapore, Indonesia, the Philippines, and Cambodia through joint venture support.\(^\text{34}\) Trading activities directed dairy products into those countries where processing operations were not set up. ADI executives travelled throughout the region establishing contracts for the purchase of Australian product and, "develop[ing] an extensive network of contacts among Asian buyers through regular visits and consultations."(Gillies I.N.24.)

\(^{34}\) Austdairy investment was designated to help establish a dairy industry and market in Asian countries. The original plan was to support a 90% Australian, 10% foreign investment structure that could be reduced over time to equal 50% shares. The pivotal factor in this arrangement was the lack of local capital start-up costs. Gillies Interview No. 24.
This personalised network came to characterise the activities of ADI.

Given the comprehensive investment and trade structure established by the ADC in Asia, the Australian dairy industry had the necessary experience to exploit the growth in regional demand. However, the ADC’s original export charter focusing on off-shore investment projects which furthered opportunities for Australian processors to export overseas had been replaced by an alternative trade structure due to industry reforms in 1979 and legislative change in 1983 and 1986. The trading role of the ADC was diminished by bureaucratic controls within the DPIE and conservative attitudes among growers. Legislation supporting the growth of large industry processors changed ADC trade policy, by removing its exclusive responsibility for export contracts.

To remain relevant the ADC needed to become more flexible and adaptable to the new and changing market environment. (Daniel & Bardsley (1993), pp. 40.) However, following a highly critical internal Department of Primary Industries and Energy paper in 1976, and studies by Roy Webb in 1977 that questioned the long term viability of the dairy export sector, the DPIE encouraged the reduction of production between 1978 and 1982. The number of dairy farms fell from 117,000 to 15,300, (Daniel & Bardsley, (1993), p.4.) as economies of scale became more relevant to dairy production (due to the considerable technology advances), while real production figures were cut by around 20% between 1978 and 1983 due to falls in the size of dairy herds. (see ADC Statistical Data 1974 - 1994) An Industries Assistance Commission study into the Dairy Industry in 1983 encouraged a concentration of industry activity, to ensure the efficient manufacture of exportable dairy products. This policy was supported by the Commonwealth Marketing Arrangements Act 1986 which encouraged greater autonomy among dairy manufacturers by reducing the export powers of the ADC. As a result Bonlac Foods Ltd. and Murray Goulburn Ltd. expanded their market share to 33.1% and 39.2% respectively from previous levels.
around 20% organised through the ADC export charter. (Industry Commission (1991), p.12.) This reduced the influence of the ADC by placing trade powers with industry processors, thus nullifying the impact of the ADC's export initiatives. (Maclain I.N.27.)

This reduction in ADC trade activity was furthered by the Davis Committee report (1990) into the future of government SMA's. Supporting the changes brought about by the dairy legislative reforms in 1983 and 1986 the Davis Committee recommended that ADI be privatised.35 This proposal was based on the significant improvement after 1988 in the profitability of the dairy export industry, and the increased opportunity for ADI activities, such as pooling and price equalisation to be absorbed by the private sector. The sell-off of ADI was supported by local processors keen to pursue interests in the Asian market. The outcome of this recommendation remains pending.

The outcome of these changes was a dairy industry export policy that failed to capitalise on the growing opportunities in Asian markets. The ADC lost focus with many potential customers and suffered institutional setbacks that continue to hamper trade success. The experience in Japan, Taiwan and Thailand provide useful insight into these outcomes.

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35 The government has been less enthusiastic about supporting large scale overseas investments in the dairy industry since the changes to regulatory activities, and the growth in private industry initiatives. This has been supported by the DPIE, where private industry investment has been encouraged. Interview No.27.
5.3 THE DAIRY INDUSTRY AND PROTECTION IN JAPAN

5.3.1 NON TARIFF BARRIERS AND THE JAPANESE DAIRY INDUSTRY

Nakase argued that the beef and dairy sectors are as important to Japan's agricultural economy as rice, not only because they are essential foods, but also because both are thought to play a role in the efficient use of Japan's limited land resources. (Nakase (1989), p.1) This mentality continues to proliferate among many of those in positions that wield considerable power.

The Japanese dairy industry is supported by a wide variety of protective policy instruments. Government protection is frequently justified by food security issues and the maintenance of rural/urban income parity. In reality, the power of agricultural interest groups is the major factor in the maintenance of agricultural policy. As a result, opportunities for imports are restricted to manufactured dairy products. Fresh liquid milk requirements in Japan are satisfied by local dairy producers, and until 1988, government quota restrictions limited imports to those products which could not be viably produced in Japan or to bulk product destined for further domestic processing. Control was maintained by the Livestock Industries Promotion Council (LIPC), which were responsible for tenders organised on a bulk product basis, with fixed tariff rates. When domestic shortages forced wholesale prices beyond a trigger level, tenders were arranged to cover the demand shortfall and ensure prices remained below LIPC levels. A small market for highly processed specialist products that could not be produced domestically was maintained with tariff rates set at 70%.

36 Outlined earlier, rates were 35% on butter, 30% on WMP and condensed milk, and 25% on SMP.
37 Trigger levels were set by the LIPC annually, and were adjusted according to previous price levels and demand requirements.
38 these set levels varied from between 90% and 110% of the Indicative Stabilisation Price, which was the base measurement around which wholesale prices fluctuated, and was set based on the production cost of domestic dairy farmers and their subsequent output levels. see JETRO Trade Industry Figures 1988.
According to Robert Bruce, the structure limited export opportunities since exporters were forced to satisfy changing government requirements as well as changing consumer preferences. (Bruce I.N.28.) This made forecasting difficult, and encouraged concern within the ADC about the long term viability of the Japanese market. The concern was encouraged by variable demand among Japanese buyers in the mid 1970s, and the increasing efficiency of the Japanese domestic dairy industry. The outcome for Australia's dairy sector was,

"... a tendency for processors and growers to maximise immediate price returns, rather than pursue long term overseas contracts like those initiated by Roy Webb in the late 1960s." (Gillies I.N.24.)

As a result of this short term industry mentality, there was considerable opposition to the abolition of domestic price guarantees by the Hawke government in 1983 to further the long term interests of the dairy industry. Aimed at improving efficiency and price competitiveness on world markets through greater economies of scale and reductions in support mechanisms, dairy farmers resisted change to set prices for their dairy output and pooled returns from both domestic and international dairy product sales. The industry also resisted the Kerin Plan in 1986, which tackled the difficult structural issues relating to the dairy industry and the role of the ADC. Designed to enhance the long term viability of the dairy industry and ensure its competitiveness in world markets, the short-term mentality of the industry meant it was not well received among producers thus hindering the effective implementation of its proposals and restricting the effectiveness of the ADC's export strategy.

The upshot of this short term mentality was reflected in the export market by limited investment in the Japanese market, which absorbed only 2% of total ADC investment funds for the Asian region. (Daniel & Bardsley (1993), p.24.) Consequently, the ADC failed to fully exploit the opportunities for LIPC contracts in bulk dairy commodities,
and the growth in imports that followed the partial liberalisation of the dairy industry in 1988.

While the grower’s conservative attitude towards markets encouraged apprehension about Asian export opportunities, the attitude and policies of the DPIE had long term ramifications for the dairy export sector. The DPIE implemented changes in the ADC board in the late 1970s. Gillies attributed much of the activity and investment in Asia in the early 1970s to the efforts of Eric Roberts, then Chairman of the Dairy Board.

"Asia Dairy Industries was set up under his direction, and many of the Board's contacts in Japan had been established through his regular visits to the market ... the vision of Eric Roberts was a catalyst for the dairy board's growth in the Asian region." (Gillies I.N.24.)

According to Robert Bruce who headed Asia Dairy Industries between 1978 and 1981,

"... the DPIE, in all its wisdom, encouraged Roberts to relinquish his position in 1976. I believe this decision was driven by political issues, as well as the department's desire to change the structure of SMA's and their export activities." (Bruce I.N.28.)

With the change of Chairman in 1977, the DPIE sought to exert pressure on the Dairy Board to reduce their activities and exposure in the Asian market. The reasons for this decision remain unclear, although Derek Tribe (Tribe I.N.2.) and Norman Tulloh (Tulloh I.N.3.) imply that much of the criticism of agriculture and the associated activities of SMA's in the Asian market, came from the government,

"... although I don't like to expose individuals, I feel sure that much of the activity in the department of Primary Industries between 1976 and 1980 was driven by the minister himself. The relative success of SMA's in the Asian markets had been a positive initiative ... yet the changes proposed by the DPIE threatened to decimate this success and reduce the contribution of agricultural exports." (Tribe I.N.2.)

39 The dairy industry was not the only industry to come under the microscope of government authorities in the late 1970s. The wheat industry also received attention from the DPIE, and both Tribe and Tulloh acknowledge that funding was cut significantly in agriculture research.
Concern over SMA exposure to commercial failure in overseas markets emerged after 1974, with the growth in the use of credit facilities for large commodity transactions,\(^{40}\) and the increasing risks to off-shore investment which led to the government's move away from export activities.\(^{41}\) The ADC experience in Cambodia, where plant and equipment was lost during the Vietnam conflict was highlighted as an example of the growing dangers of investing in off shore facilities. Given that much of the industry's success in Asian markets stemmed from its extensive investment operations, the new position on overseas investment put the industry in a backward position.

The efficiency of the dairy industry was also called into question. Extensive criticism in Roy Webb's 1977 paper, *Investigations into the South Australian Dairy Industry*, and in an internal DPIE paper released in 1976 fostered concern over policy direction. Both papers were highly critical of the levels of protection in the industry and sceptical of the long term prospects for dairy exports given the considerable subsidisation and protection afforded European and US farmers.\(^{42}\) Bruce claimed, "... that the negative review of ADC activities encouraged a re-assessment of the board's priorities, and promoted a reduction in dairy activity." (Bruce I.N.28.) Besides contributing to the fall in dairy output experienced after 1978, (see ADC Statistical Data 1974-1994) the DPIE's position was vital to the limited success the board had in maintaining and encouraging LIPC preferences for Australian product.

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\(^{40}\) Credit facilities for large commodity transactions were characteristic of the increasing role of the US and the EC in large scale agricultural trade. Credit was used as a tool to encourage many Lesser Developed Countries (LDC's) and large volume buyers to favour US or EC contracts. Australia was forced to offer credit to foreign buyers to nullify these incentives, though they could not hope to match the arrangements of their considerably larger counterparts.

\(^{41}\) Risk assessment became particularly important given the increasing international political volatility. Great losses were incurred by foreign investors in South East Asia following the outcome of the Vietnam War and as a result of the first Oil Crisis. (Bruce I.N. 28)

\(^{42}\) Subsidisation rates for dairy producers were as high as 150%-200% for individual products being sold on world markets. For a full outline of the protective benefits attributing to European and US dairy farmers, refer ANDERSON & TYERS, *Global Effects of Liberalising Trade in Farm Products*, 1991.
While least affected by the reduction in Australian dairy output of the three countries under investigation, Japan's export market was damaged by the changes to the Board's structure and the subsequent production outcomes. Australia's strong reputation for service and supply among Japanese wholesale buyers, fostered by Eric Roberts personal marketing strategy, was threatened by industry reforms. Due to the reduction in dairy industry output the ADC was unable to tender for a significant SMP order of over 2,000 tonnes for Japan's retail powdered milk market (Shiravalow I.N.26.) which caused concern among Japanese wholesalers, particularly those in the bulk cheese market where Australian product played a significant role. It encouraged uncertainty within market circles and, importantly put future growth prospects in doubt due to the perceived or real difficulties in filling large bulk orders for dairy products.

A number of marketing factors were also influential in directing the fortunes of the dairy industry in Japan although they were not the sole responsibility of the ADC. Between 1984 and 1988 the Japanese market was characterised by a growing demand for specialised retail dairy products.43 Michelle Allen, of Kraft Australia (Allen I.N.6) indicated that,

"... the majority of this demand was satisfied by large domestic dairy processors. These companies supplied over 80% of the retail dairy market, (ie. SNOW, MEIJI Corp.) but our feeling was that there were also emerging opportunities for foreign imported products. We found that the growth in the retail sector was a result of the proliferation of convenience foods, and the growing trend towards fast food consumption ... this was certainly an area where Australia had useful manufacturing experience."

However, the ADC continued to focus on the bulk export market and failed to explore the new and growing processed cheese and ready-to-drink milk product markets.

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43 Kraft Australia's Export Department carried out an informal study in 1987 that found that highly processed, convenience dairy product consumption had increased by around 150% between 1983 and 1986. This included the consumption of processed package cheese, cream cheese, fermented milk drinks, yoghurt, ice-cream and drinking yoghurt products. Report data recorded in Allen Interview No. 6.
While total Japanese import figures (see JETRO Trade Figures 1980-1994.) indicate that export volumes did not increase with the trend towards convenience products (ie. traditional dairy product consumption fell), Thomas Langley of International Marketing and Economic Services Ltd. (IMEC) argued that

"long term benefits were available to those who exploited the increased demand among supermarkets and convenience stores that became interested in processed dairy items... the trend towards convenient foods, encouraged by a dramatic increase in the female working population and a new emphasis placed on leisure activities, should have stimulated Australian interest." (Langley I.N.22.)

He found that consumption changes were characterised by strong brand loyalty and an emphasis on health and quality. An IMEC study into the Asian market in 1986 concluded that,

"... Japanese consumers had a strong preference for reputable brands that could be immediately recognised ... this was particularly important for dairy products which had a reputation for being subject to quality and health risks." (IMEC, (1986) *Trends in Asian Food Consumption.*)

Strong brand association was important to the success of dairy products in the retail sector, a claim supported by Allen and also Ross Shiravalow, the Export Marketing Officer of Bonlac Foods. Both argued that branding played a central role in the Japanese market, where Kraft through its well known 'Philadelphia' cream cheese label absorbed some 17% of the market and Bonlac through its 'Allowrie' butter label also captured a market share,

"... branding stood at the forefront of our program to establish a market in Japan. We understood that the key to the Japanese market was to establish a brand loyalty. Our assessment was that this was particularly

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44 processed dairy items destined for supermarket shelves included, ice cream, packaged butter, fermented milk drinks, ready-to-drink milk, yoghurt, packaged cheese, cream cheese and packaged whipped cream products.
important for a product like butter which was still considered a luxury item when we first entered the market." (Shiravalow I.N.26.)

Overall, branding was underplayed by Australian dairy processors and the ADC who were absorbed by a bulk commodity mentality.

There were opposing views among the interviewees on the role of branding. Richard Foster, the Export Marketing Officer with Devondale Foods Ltd., strongly opposed the argument for greater retail exposure raised by Allen and Shiravalow arguing that,

"... the export market for processed products remained heavily protected. Our experience with our Devondale butter and cheese products in Japan's supermarkets and retail outlets was poor, while the opportunities for bulk minimal processed goods remained strong ... This indicated to us that the future of Australia's dairy industry activities in Japan should focus on bulk commodity exports, and a generic marketing strategy." (Foster I.N.21.)

However, Foster underplayed the marketing difficulties and problems associated with Devondale's activities in the Japanese market. Devondale went into the Japanese market with a wide range of quality products, but failed to develop a strong branding program or develop niche products. According to Shiravalow,

"... Devondale's marketing strategy was largely ad-hoc, and not committed to a long term investment in the market." (Shiravalow I.N.26.)

Foster's focus on the bulk dairy market was misdirected given the significant competition from international suppliers (evidenced by the considerable fluctuation in world dairy prices, and the growing worldwide production figures.\textsuperscript{45}) and the propensity for a plateau in Japan's dairy demand. This 'bulk commodity mentality' was highlighted by the partial liberalisation of the Japanese dairy industry in 1988. The

\textsuperscript{45} For figures see World Dairy Trade Report 1986-1990 - A Statistical Summary of Dairy Trade Flows.
commercial cheese market and the market for ice-cream and associated whipped cream products was liberalised in 1988 as a concession during the Uruguay Round of trade negotiations. Processed cheese, ice-cream and whipped cream could enter Japan outside LIPC quotas with a 40% duty. This liberalisation saw demand for processed product grow significantly, (Langley quotes rates of between 7% and 15%) and value adding now became a viable option.

Australia's fortunes in the post liberalisation period have been limited by its poor response to previous opportunities in the processed product sector. (Shiravalow I.N.26.) According to Julie Ingram of the Myers Strategic Group, large institutions such as the Australian Ice Cream Coy., Associated Dairy Industries, Peters, and Wesfarmers, secured contracts (Ingram I.N.9.) in the post liberalisation period, but smaller producers were significant losers. The reasons for the limited success of companies in the Japanese market were problems with branding, such as those of Devondale, quality, including product quality, customer service, freight arrangements, distribution and presentation. (Ingram I.N.9.)

Quality problems generally arose in the post contractual period. Allen argued that dairy exporters failed to consider the perishable nature of processed dairy product, thereby failing to make adequate arrangements for freight and distribution. Alternative packaging and freight arrangements which included smaller batch sizes, advanced plastic cartage, and adequate refrigeration were initially afforded little interest. The detailed requirements of the Japanese consumer were also ignored by many exporters.

Dwayne Maclain, of Murray Goulburn, found that

"... retail packaging was largely ad-hoc and based on domestic designs, and product alterations were rarely considered as an option for overseas markets. This made it difficult for Australian processors to exploit the new opportunities available in the market." (Maclain I.N.27.)
While it is easy to attribute the limited success of small processors to their poor export preparation, Des Walsh of Austrade placed blame with the ADC,

"... the ADC did little to foster interest among the smaller dairy manufacturing sector, ... while those venturing into the market were limited by knowledge that the ADC could well have provided. This made export activities more difficult, particularly for smaller producers with limited knowledge of the market." (Walsh I.N.14.)

The ADC choose to take a less active role in the international trade market as the large dairy processors became involved in off-shore activities. This left the ADC with a more domestic program oriented towards the lobbying of continued domestic dairy subsidisation. Had the ADC advised and directed the activities for smaller firms wishing to enter the Japanese market, Australia's position in the post liberalisation environment would have looked better.

Before the 1970s the ADC had a long and successful history in Japan, but the interviews suggest that the ADC failed to adjust its export strategy to suit changing market requirements after this time. These failures were mainly marketing and supply related. Part of the failure was Australia's domestic industry's conservative grower attitudes towards export initiatives. This affected ADC policy, limiting investment projects in Japan. The corporation's policy toward Japan was also limited by the DPIE which impacts directly on dairy exports. The DPIE changed the focus and structure of the dairy industry by changing ADC board personnel, by reducing dairy output and by influencing overseas activities. These domestic structural changes limited the long term opportunities of the dairy industry by diluting previous trade arrangements and international goodwill. While domestic factors limited the ADC's exposure to export markets, marketing and production issues further limited the corporation's export success. Local processors and producers failed to adopt strategic marketing policies to exploit the opportunities that emerged in Japan after the partial liberalisation of the
dairy industry in 1988. The preconditions for exploiting new market opportunities had been diluted by the board's previous changes, while the poor marketing strategy ultimately had a lag effect on Australia's ability to establish a strong enhanced dairy export market in post liberalised Japan.
5.4 THE DAIRY INDUSTRY AND PROTECTION IN TAIWAN

5.4.1 NON TARIFF BARRIERS AND THE TAIWANESE DAIRY INDUSTRY

While enjoying steady growth since the late 1980s, Taiwan's dairy industry is characterised by significant government and non-government barriers to trade. The government's 1984 goal of self-sufficiency which saw an increase in the local dairy herd and in raw milk production meant,

"... restricted opportunities for Australia's dairy export sector due to the highly preferential nature of its restrictions." (Bruce I.N.28.)

Like the experience in Japan, Taiwan's long history of protective agricultural policies were driven by food security and income parity issues. They have been maintained by significant political economy factors central to government control. Justin Winton, a Research Associate with the Australian Bureau of Agriculture and Research Economics, (ABARE) claimed that,

"The government in Taiwan faced increasing pressure from local farm groups to maintain agricultural support after the implementation of reform policies following the oil crisis. It is evident that large scale support programs were encouraged in the livestock industry, and the dairy sector was a major beneficiary of these grants." (Winton I.N.23.)

Perhaps the best illustration of the change in Taiwan's dairy policies was the fall in total import figures between 1974 and 1978. (see ADC Statistical Data 1974-1994.) The internal focus on dairy production made it difficult for foreign exporters who were forced to compete with increasingly restrictive trade requirements and limited opportunities.

Rob Bruce (Bruce I.N.28.) acknowledged that the years 1974 - 1978 were particularly
difficult for the ADC in the Taiwanese market, due both to Taiwan's domestic support strategy and Australia's recognition of China in 1972. Recognition of China made it hard for the ADC, as a government SMA, to operate in Taiwan. Central government relations between the two countries were strained, and while the ADC was able to negotiate through ADI, Bruce conceded that involvement in the market was poor in the post 1972 period. Nevertheless, the market for international producers in Taiwan was strong, with consumption continuing to outstrip supply. Trade barriers were overcome by those willing to invest in the small but emerging market. The 1984 Taiwan government self-sufficiency policies intensified support and alienated foreign importers. Domestic support policies were intensified and there was a shift towards highly specialised imported dairy products.

In spite of government policies favouring domestic producers, the market for dairy products has been transformed over the past decade. Thomas Langley of IMEC, identified the move towards the consumption of convenience and 'fast' foods.

"... like Japan, Taiwan has been influenced by a move towards eating out, and less emphasis on meal preparation. This trend has been particularly influential in the dairy sector where flavoured milk drinks have become popular, and cheese consumption has expanded considerably due to its role in products such as hamburgers and pizzas. The growth in fast food consumption has had flow-on effects for household consumption with, a growing acceptance of cheese in daily foods, and increased consumption of ready to drink milk products in the home."

This emerging demand for dairy products encouraged domestic processing and production of dairy products, with significant local and international investment in

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46 Australia's recognition of China came with the Whitlam government's electoral success in 1972, and was to be a recurring issue for Australian negotiators in Taiwan throughout the 1970s era. Taiwan's government did not take favourably to the decision, and Australia has been forced to relinquish diplomatic ties with the country to the present day.

47 this data was collected by Langley for a Marketing Report on Dairy Products in South East Asia 1991, and found that the structure of the dairy industry changed significantly between 1985 and 1990. For a full outline of market trends, see LANGLEY, T. *Marketing Report on Dairy Products in SE*
dairy production facilities. More importantly, the growth in consumption and processing activity brought with it opportunities for dairy exporters of raw and semi processed commodity for the emerging processing operations.

While opportunities for dairy imports in Taiwan have been stimulated by a growth in demand for processed dairy products, government regulation remains a major restriction. Unlike the Japanese market where partial liberalisation and government reform has encouraged demand for processed dairy products, Taiwan's market remains skewed towards bulk commodity items, due to import regulations. Control is maintained through its bank authorisation requirement which controls imports by allocating the necessary foreign exchange to importers according to government preference. Its non-automatic license arrangements restrict operators to those chosen by the government, allowing the government to vary imports of foreign product subject to fluctuations in domestic production and demand.

While the protective policies of Taiwan's government have proved a major barrier to Australia's dairy export prospects, it would be incorrect to presume they have been the only issue in Australia's variable export performance in Taiwan. Of considerable importance has been the attitude of the ADC and its members towards exporting into Taiwan's market, and the impact of domestic dairy reforms and subsequent production outcomes for the ADC's export program.

The Board ventured into Asia after the British market was closed following its admission to the European Community (EC) in 1973. The initial purpose of the Board's Asian activities was to provide an alternative market for Australian surplus dairy stock, but as opportunities improved amongst Asian buyers the ADC sought to profit from Asian ventures. (see World Bank Trade Data 1965-1990 for dairy export

growth fig.s) Initially, the ADC's Asian program centred on South East Asia, with processing plants being established in Thailand, Singapore, and the Philippines but the ADC's program grew to include market opportunities in North Asia. Apart from Japan, trade activities were controlled by the Board's stake in Asia Dairy Industries (ADI), which was responsible for the operation and management of processing plants in Thailand, Singapore, the Philippines and Indonesia, as well as export activities throughout the region. Taiwan played an important role for ADC investment in the Asian region, with dairy imports variously contributing over $1 billion dollars to Australia's balance of trade since the late 1960s. (World Bank Trade Data 1965-1990)
The interest in Asia resulted in significant off-shore investment and joint venture arrangements that returned considerable foreign revenue for Australia.

Taiwan sourced most of its dairy imports from Australia in the 1960s and early 1970s. (see Fig.s 3.13-3.17.) Between 1978 and 1988 there was a significant fall in market share, with New Zealand product replacing Australian imports in a number of sectors (see Appendix 1A.). During the period the ADC interest in Taiwan's market diminished. There have been a number of significant factors that have contributed to this shift.

Firstly, the changes in the Dairy Board's structure which took place between 1976 and 1980 influenced the corporation's policy on Taiwan. The chief executive of ADI between 1973 and 1976, Don Gillies was heavily involved in the initial activities of the ADC in Taiwan. He argued that the decision to reduce the presence of the ADC in Asia destroyed opportunities in Taiwan's market. (Gillies I.N.24.) According to Gillies, this decision was encouraged by bureaucrats in the DPIE, supported by a department paper and Roy Webb's 1977 study into the South Australian dairy industry. The DPIE believed that the future of the dairy industry in Australia was limited given the growth in protection among export markets, agricultural subsidies and significantly
deflated world prices. Robert Bruce who followed Gillies as Chief Executive at ADI, provided a similar analysis, arguing that

"... the boards policy to move away from Taiwan's market was a short term price reaction that failed to acknowledge the long term opportunities for quality product among Asian buyers, and did irreparable harm to Australia's strong reputation in the region." (Bruce I.N.28.)

World dairy prices, which fell by over 20% between 1978 and 1983, reduced profitability in the domestic dairy sector, but John Denton, formerly of DFAT, and Ross Shiravlow of Bonlac argued that the decision to reduce the dairy industries exposure to the Asian market was detrimental to the industry in Australia. Like Bruce, Denton acknowledged that

"the well established and highly organised nature of the industry in Asia and the goodwill that was established by ADI was diluted by the ADC board's decision ... the move away from Taiwan failed to appreciate the significant growth in income among workers and the changing nature of Taiwan's consumption patterns as long term indicators of future industry opportunity." (Denton I.N.17.)

Shiravalow was also critical of the Board's decision arguing that the Board should have increased investment to exploit the opportunities in Taiwan's market. The nature of agricultural protection in Taiwan meant off-shore investment projects, such as the ADI processing plants in South East Asia, should have been considered. (Shiravalow I.N.26.) The emergence of a large number of domestic processors around this time was quoted as evidence that the ADC should have invested in processing plant in Taiwan.

The ADC's decision to reduce off-shore investment was detrimental to its opportunities in Taiwan. Emerging domestic processors and their associated government subsidies, including companies like President Enterprises, Wei-Chuan
Foods, and Foremost Dairies Ltd., meant processed dairy imports were rare. Unlike the experience in Japan, where overseas trade pressure was reciprocated by the partial liberalisation of the dairy market in 1988, processed products in Taiwan remained heavily protected and dominated by domestic processors. This should have forced Australia to focus on bulk commodity exports destined for further processing. However, Bruce argued that this policy was not actively pursued by the ADC,

"... Australia had vast experience in the supply and export of bulk dairy commodities. But, bulk marketing was hindered by the ADC's inability to secure government contracts with Taiwan and their failure to appreciate the emerging importance of large Taiwanese processing firms." (Bruce I.N.28.)

Wayne Maclain, of Murray Goulburn, believed that the improving market share of the New Zealand Dairy Board in Taiwan was due, in part, to a policy of negotiating direct sales to Taiwan's large processors. Australia failed to exploit this export channel.

"... I would guarantee that this will be evidenced by your market share data indicating a significant improvement in New Zealand's market position, particularly for butter and cheese, at the expense of established Australian exports." (Maclain I.N.27.)

Third, and finally, the ADC structure and export strategy limited Australia's opportunities in Taiwan's market. As the role of the Australian dairy industry in Asia diminished, market capacity was variously won by European and New Zealand suppliers. Shiravalow attributed much of this success to the structural differences between the ADC and the NZDC arguing that the intermediary status of the ADC prior to 1986 was inferior to the NZDC policy of owning its product. The NZDC structure ensured an adherence to long term strategy, and enabled the industry to prosper in an environment of deflated world prices, the ADC system confined

48 For an outline of NZ's market share position for butter and cheese see Appendix 1.
decisions to those approved by growers and processors.\(^4^9\) (Shiravlow I.N.26.)

The changes to the ADC's structure in 1986 was too late to revive previous performance levels. The industry was significantly damaged by the reduction in dairy output. This is best illustrated by the recent performance of the New Zealand dairy industry in the Taiwanese market, and the limited success Australia has had in winning back market share. Australia's policies allowed the NZDB to establish a foothold in Asia that the ADC has found difficult to win back.\(^5^0\)

In hindsight, the dairy experience in Taiwan illustrates that the ADC's proposal to wind back exposure to the market was fortuitous given the considerable opportunities of recent years. The ADC failure to administer a long term investment program in Taiwan proved disastrous to its position in the market. The NZDB's success during the early 1980s and its subsequent expansion of market share indicates that there were consistent opportunities in the market that were not utilised by Australian exporters. The ADC's performance in both Japan and Taiwan illustrate the detrimental effects of short term planning and poor industry reviews.

\(^{49}\) Shiravlow categorises success not in terms of price returns, but in relation to the expansion of markets and the subsequent benefits that this brought to the NZ dairy industry as world prices improved.

\(^{50}\) for NZ and Australian dairy export figures see Appendix 1
5.5 THE DAIRY INDUSTRY AND PROTECTION IN THAILAND

5.5.1 NON TARIFF BARRIERS AND THAILAND'S DAIRY INDUSTRY

The dairy experience in Thailand was different to that of Taiwan and Japan. Local production in Thailand is small and protective barriers are less complex. The restriction on dairy imports into Thailand is based on a sliding tariff scale, designed to stimulate domestic production and preferential distribution and marketing arrangements controlled by local processors of dairy produce.

Thailand's sliding tariff scale includes distinctions of up to 50% in rates of protection. Raw dairy product is accorded tariffs as low as 10% for commodities destined for further processing, while highly processed imports face tariffs as high as 60%. The variation in rates has been motivated by government policy designed to encourage the domestic processing industry, and supported by other non-tariff barriers that make processed dairy imports expensive among retail outlets. (IMEC Study, Langley, T. (1991).)

Distribution and marketing arrangements are essential for a successful export strategy. Demand for dairy products outside Bangkok is limited by low levels of refrigeration, low incomes, primitive retail outlets and limited dairy consumption. Tom Langley of IMEC noted that these limitations made local knowledge of the distribution network vital to selling in Thailand's rural dairy market. Don Gillies, who was involved in ADI's early activities in Thailand, found that rural demand for dairy products was characterised by brand loyalty. This made importers reliant on the expertise of the local distributor, who had control over brand exposure in the rural market. (Gillies I.N.24.)
Similarly, in Bangkok, the marketing and distribution process was determined by the changing consumption patterns of the increasingly affluent urban dwellers. Growing demand for Ready to Drink (RTD) milk products, fermented milk drinks, and ice cream encouraged a new market for dairy produce. The complex structure of Bangkok's retail outlets meant there were methods and practices in Bangkok that were difficult for importers to understand. Like many Asian countries, Thailand had developed a unique system of informal trust within its business structures. According to Gillies, this made it "hard for outsiders to penetrate the market (and) made local expertise and knowledge essential to success in the market." (Gillies I.N.24.)

Distributors knowledge of the local market and its associated structures were important to the activities of the ADC in Thailand.

Given that import barriers were significantly higher for processed dairy goods, and that local knowledge of the market was central to export success both in urban and regional areas, off-shore investment in dairy processing was perceived as the most profitable means for ADC operations in Thailand. Local partners were found to provide the essential distribution and market knowledge, while the ADC provided the plant and equipment for the reconstitution and processing of raw dairy imports. This gave the ADC a reliable and consistent market for dairy output, while providing Thailand with the essential technology and expertise to develop its dairy industry.

The Australian Dairy Board's first processing plant was set up in Thailand in 1967, under the auspices of Thai Dairy Industries. Thai Dairy Industries had three partners with the ADC holding a 34% stake, through its ADI subsidiary, and responsibility for plant management. Other partners included a Thai investor and a Thai-Malaysian investor (both with a 33% stake), with responsibility for the marketing and distribution of product. According to Don Gillies this early ADC investment in Thailand was prosperous. The ADC investment ensured a guaranteed market for Australian dairy production, while local investor enthusiasm encouraged further proposals for ADC
activity in the region, including expansion into the Philippines, Singapore, Malaysia and Indonesia. Local Processing was an initiative that involved the essential elements of good off-shore practice, with the essential components of support among local interests, the supplementation of local supplies and local investment capital. (Gillies I.N.24.)

Rob Bruce concurred, arguing that the goodwill among Asian investors and consumers was the key benefit of the ADI's early off-shore investment in the Thai market,

"... the relationships that were established between Australian personnel and overseas parties was invaluable to the ADC. I would argue that the success of ADC investment was terribly valuable to Australia's long term position in the Asian market as it brokered highly valued relationships and extensive goodwill ..." (Bruce I.N.28.)

These advantages were thrown away after 1978. The ADC investment and export program was diluted by ADC and government initiatives between 1976 and 1986. According to Gillies, the change of government in 1975 brought with it structural adjustments within the DPIE, and subsequent changes to the ADC. Renewed emphasis on accountability and economic responsibility was encouraged by the bureaucracy, and resulted in a changed dairy board structure without a commitment to local processing. Gillies attributed this change especially to the retirement of Eric Roberts from the ADC in 1976. A conscious effort to reduce the exposure of SMA's to overseas market fluctuations was advanced by the DPIE with dramatic consequences for the ADC's investment in Thailand. (Bruce I.N.28.) Rob Bruce argued that the ADB (Australian Dairy Board) decision in 1978 to sell out of its joint venture arrangement in Thai Dairy Industries to K C Leong (Thai-Malaysian Investor) and to concentrate on management services was disastrous for ADI. The decision, driven by DPIE pressure and the ADC, made ADI a fully owned subsidiary of the ADC and therefore fully responsible for all requirements and restrictions of the government's SMA charter. This restricted the ADI's ability to sell directly to the retail
market (a restriction of the SMA charter) and made Thai operators suspicious of the Board's long term intentions given that interest was often measured by the level of financial commitment. (Bruce I.N.28.) The suspicion among foreign buyers and the reduction in investment made it difficult for the ADC to exploit the goodwill it had established before 1976 as the market began to prosper in the late 1980s.

The dilution of the board's presence in the Thai market was made worse by the reduction in Australian dairy output between 1978 and 1984. This reduction in dairy production was stimulated by the DPIE program to reduce the overseas activities of the ADC. The down-sizing of ADC services was relevant to the Thai market where ADI was forced off-shore to satisfy demands for SMP in 1980 and 1981. Rob Bruce, who was responsible for ADI orders during this period revealed that,

"... while demand for Australian dairy commodities remained strong, particularly due to its superior quality characteristics, the sourcing of Australian SMP was extremely difficult between 1979 and 1982 due to production falls in Australia, and the ADI was forced to purchase product from Ireland and Canada." (Bruce I.N.28.)

The decision to reduce production in Australia and to source from overseas meant that the quality advantage Australian product had over its international competitors could not be exploited. Strong demand for premium quality raw product was evident among Thai buyers who were accustomed to the high quality and ease of processing of the Australian milk powders, (Maclain I.N.27.) but the quality advantage was ignored by the ADC. The ADC never tested the price elasticity of the Thai market for higher quality Australian dairy products.

The outcome of these activities was a domestic dairy industry that rejected the views of ADI executives who encouraged ventures in overseas markets. Buyers in Thailand became increasingly sceptical of the ability of the ADC to supply its growing dairy requirements. While the ADI executive felt there were opportunities for the sale of
specialised dairy products in Asian markets where customers were becoming accustomed to processed dairy items, (Vowser I.N.15.) domestic growers and co-operatives became increasingly disillusioned by the Asian experience. Like the experience in Taiwan, grower attitudes towards the Thai market were consistently driven by farm gate returns. This meant that as prices began to fall due to emerging international competition around 1979, growers became increasingly frustrated by pooled price returns from the ADC. Mal Vowser aptly described the position of ADI management thus,

"... It (Asian trade) was a matter that needed to be better understood and explored but we constantly ran into a brick wall when interest was registered in Australia",

Wayne Maclain, of Murray Goulburn, found that farm gate returns

"... encouraged scepticism among both dairy producers and processors over the value of investment in the Asian market. This led to less interest within the ADC over Asian activities and limited opposition to the reduction in Asian investment that came with the industry changes between 1983 and 1986." (Maclain I.N.27.)

Maclain supports this argument using the recent experience of Bonlac Foods. A joint venture project in Thailand. This proposal initiated in 1987 by Agri-tec, a subsidiary of Austrade, offered Bonlac an investment opportunity in a packaging and processing plant in Thailand. After careful consideration, Bonlac decided to reject the deal. According to both Maclain and Tony Pickett, who was director of Agri-tec at the time, this decision was driven largely by the conservative nature of the dairy industry and the ADC executive. (Pickett I.N.4.) Maclain attributed this conservatism to a focus on price among dairy producers. (Maclain I.N.27.) This limited ADC’s off-shore investment after 1983 and led to frustrated dairy opportunities in Thailand during the late 1980s growth period.

The Thai experience provided useful insight into the variable requirements of Asian markets. It showed that the policies of the ADB in moving away from its off-shore investment program and limiting dairy industry activities in the 1970s was detrimental to the long term performance of the sector. The ADC's joint venture partnerships and its capital investment in the Thai market provided the essential framework for long term gains in the region. However, the supply difficulties that followed domestic adjustments in the late 1970s, and the reaction to changed investment strategies in the mid-1970s, saw those early benefits nullified.

The dairy industry strategy to reduce its presence in the market had long term ramifications for Thai content requirements initiated in 1983. Australia's previous influential position in the market was reduced, and where once the ADC may have enjoyed preferential access to local product, it was now forced to compete on the open market. This problem was raised by Maclain who believed that in an environment of restricted local output, Australia's previous influence could have been valuable in affording local product supplies. (Maclain I.N.27.) Likewise, the extensive marketing and distribution network that was characteristic of early ADC investment and provided the essential domestic support and market information suffered from the move away from joint ventures towards management oriented activity. Australia's recent experience in the Asian region has shown that opportunities in the market are often associated with a complex set of characteristics. Before 1978 Australia had mechanisms for participating successfully through off-shore processing, strong links with retailers and wholesalers and a commitment to Asian export markets. These needed to be more carefully addressed by the ADB/ADC in its activities in the Thai market.
CHAPTER SIX

BARRIERS TO TRADE FOR THE AUSTRALIAN WHEAT INDUSTRY IN EAST ASIA

6.1 INTRODUCTION

This chapter examines the Australian wheat industries role in East Asia and the performance of the AWB (Australian Awheat Board) in establishing a profitable wheat market in Japan, Taiwan and Thailand. Has the AWB been productive in managing and establishing new markets or have protective mechanisms stood in the way of developing Asian export markets? This question can be decomposed into two specific issues for the purpose of tractability: 1) Has the AWB's performance been successful in East Asia given the significant changes in world grain markets, and 2) has the existence of NTB's or other protective mechanisms restricted AWB trade activities in the East Asian region?

The chapter is structured as follows. The first section briefly explores the history of the Australian wheat industry and its experience in the Asian region. I argue that the AWB was extremely successful in establishing links and relationships with Asian nations throughout the early 1960s and 1970s, but has since failed to exploit its previous experience. The second section investigates the nature of trade protection in the wheat sector in Japan, Taiwan and Thailand, and how it has influenced trade fortunes and fluctuations. I argue that while trade protection has restricted market access, the AWB has been slow to react to the changing nature of the East Asian market and slow to implement strategies to counter protection.
6.2 THE HISTORY OF THE AUSTRALIAN WHEAT INDUSTRY IN THE EAST ASIAN REGION

6.2.1 THE AUSTRALIAN WHEAT SECTOR

Since the initiation of the Australian Wheat Board (AWB) the Australian wheat industry has, along with coal and wool, remained at the forefront of both export volumes and revenues. Between 1950 and 1970 wheat generated about 8% to 10% of Australia’s total export income.\textsuperscript{52} Since 1970 the industry has supported around 45,000 wheat farmers in Australia who between them produced annually an average 15.5 million tonnes of wheat, of which 85.5% was exported, accounting for around 11% of the world’s trade in wheat\textsuperscript{53} and making Australia the fourth largest exporter in the world behind the US, the EC and Canada. Given that Australia is a major wheat exporter, the important issue for the AWB since 1970 has concerned its changing role in an increasingly competitive world market. The AWB went through a number of changes in its export structure between 1978 and 1984 which involved a move towards efficient technological based trading systems, and a more impersonal marketing program. The impact of this transformation varied significantly among the AWB’s primary markets.

"The effect of the changes to the AWB's structure around 1980 was varied. While the new structure was well suited to the major markets of China and the Soviet Union due to their preference for large volume standard quality wheat, the more discerning buyers in Japan and Europe were not enthusiastic about the loss of the direct and unique export service ..." (Wootton I.N.18.)

These changes altered the nature of AWB trade. The effect of the changes to AWB exports to Japan, Taiwan and Thailand is difficult to assess given the variable nature of import figures and the changes in consumption rates. I argue that there were

fundamental problems with how the changes were employed in East Asian markets and how the AWB went about conducting business in the Asian region which was detrimental to the nature of the AWB’s East Asian trade. While tariffs and NTB’s influenced the way the AWB traded with the Asian market, not enough emphasis was placed on how domestic structural issues affected the AWB’s trade performance.

To assess the performance of the AWB’s trade strategy, it is important to have some understanding of the nature of the AWB’s operations. The AWB has a number of different roles, of which the primary function is to market and maintain Australia’s wheat export contracts and opportunities. The AWB pools sales returns and growers are paid the average return for that grade of wheat. Since 1985 these returns have been set at around $A160 a tonne for Australian Standard White (ASW). (AWB Crop Report (1986-1991) prices pp. 11-15.) The AWB divides its wheat into categories according to quality and protein levels and markets these amongst buyers around the world. The bulk of exports fall into the Australian Standard White (ASW) category. However, since 1980 an effort to expand markets for more niche type products has been encouraged, including noodle flour for the East Asian market and specialised strains of wheat suitable for unleavened bread production in the Middle East. This strategy was employed as the demand for more diversified strains of wheat became apparent to AWB traders. (Amadio I.N.I.) While the domestic wheat market was deregulated in 1988, the Australian Wheat Board (AWB) remains the primary distributor and buyer of Australian product for the export market.

The mechanics of the AWB selling process became more varied after about 1980 due to changing demands among international clients. Purchasing arrangements were organised according to buyer’s needs. Some used tender arrangements, as is the case in Japan, while others preferred negotiated contracts or small order strategies.54 Sales

54 Small order strategies involve the regular purchase of wheat according to fluctuations in domestic demand. They are normally used by smaller customers and are purchased through the AWB trading desk at current prices.
are conducted on an f.o.b. (free on board) basis, or alternatively with c&f (cost and freight) included, or c.i & f (cost, insurance and freight) included. The arrangement was negotiated between the buyer and the AWB who, "endeavour to maximise benefit to growers by satisfying buyers trade requirements. The AWB try, where possible, to satisfy buyer requirements thereby enabling optimum returns." (Amadio I.N.1.)

Against this background, the AWB's activities in Asia are best broken into two phases. The first phase was initiated in the 1950s by Chris Perrett, General Manager between 1945 and 1963 and Len Dorman, General Manager between 1963 and 1977. Perrett and Dorman, in his initial capacity as Assistant General Manager, explored opportunities in the Asian region in response to reduced sales among European buyers after the Second World War. Dorman in particular took an active interest in pursuing export markets seeing his role as 'eighty percent export'. He made eighteen trips abroad as assistant general manager and forty seven as general manager, arguing that, "... it was necessary for the senior management to go in search of markets and sign the deal." (Whitwell & Sydenham (1991), pp.237.) The other feature of Dorman and Perrett's period at the wheat board was the dominance of management over the board, with an emphasis on diplomacy and contact with overseas contacts.

Both Don Gillies, an early director of the Australian Dairy Corporation's Asia Dairy Industries, (Gillies I.N.24.) and John Boyd, who researched the early involvement of the wheat board in Asia, confirmed that the sales of Australian wheat and the reputation of the AWB in the Asian market grew during the 1950s and 1960s. Gillies noted that,

"in the early years of the ADC's activities in Asia, the wheat board's operations were well advanced ... many of the government officials or contacts we spoke to were acquainted with wheat board personnel exploring opportunities in the market ... it was comforting for us to deal with people familiar with Australians, and in time we began to interact at a basic level with individuals from the AWB ... importantly,
the significant growth in wheat sales and the success of the AWB encouraged us to support our operations in Asia and focus on wider investments." (Gillies I.N.24.)

The role of the AWB was central to this process. Boyd argued that the AWB's marketing strategy was an important component of its expansionary plans. The strategy focussed on a number of key individuals intent on developing personalised contacts that were maintained through regular visits. Perrett and Dorman exercised great effort in establishing and maintaining Asian contacts and buyers. The board was committed to the Asian region and believed it was vital to establish trust and goodwill in order to stimulate trade.  

It was a well established view among those interviewed that the AWB experience was both profitable and well organised, both because of management's personal input, which encouraged confidence among Asian buyers, and because their efforts were focussed on largely untapped markets. Norman Tulloh, Emeritus Professor in the Department of Agricultural Science, Melbourne University, and current director with the Crawford Foundation argued that the initial activities of the AWB in East Asia were characterised by all those things that are central to success in the Asian market. Namely, trust and goodwill among the negotiating parties that establishes invaluable goodwill among buyers. A long term commitment and understanding of the market was something else that made AWB managers stand apart from many other operators in the region,

"... my work in East Asia during the early period of AWB activity centred on contributing to the development of agricultural industries and services. What was amazing on first going into countries like Thailand, the Philippines and even Japan was the degree to which both academics and business-people understood or had heard of the activities of the AWB and later the ADC ... this put the board in a strong position to exploit the growing opportunities for exports to the region." (Tulloh I.N.3.)

Ian Haig argued that the AWB strategy was to ensure that expanding markets in Asia

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55 For an outline of the importance the board attached to personalised relations with the East Asian region see BOYD, J. Economic History Research Essay, University of Melbourne, 1993.
were able to replace those lost to the EC. Those involved in the marketing process (ie. Dorman, Perrett and Chapman) were all senior managers with the organisation and had extensive experience in negotiating international wheat sales. The AWB were lucky in having managers that took a great interest in Asian trade and were prepared to provide the time to develop and understand the intricacies of the market before organising contractual agreements. This enabled the AWB to establish a network of buyers who were confident about being supplied and prepared to pay good prices. This early success certainly had much to do with the strategy of the board’s management. (Haig I.N.5.)

A change in the nature of AWB activities took place in the late 1970s. The second phase of the AWB’s development program was initiated by incoming board members in 1978, particular Sir Leslie Price the new Chairman. Old trading patterns, activities and policies were replaced. Price took a far more active role in the board’s activities and focussed heavily on marketing matters having been involved in the Queensland Grain Growers Association Marketing Co-operative. There was a shift in the power balance between the board and management, with a resurgence in the board’s involvement. A decision was made to implement changes to the AWB’s trade strategy, and Price set about re-focussing operations, lifting the quality and professionalism of the board’s staff. As the complexities of world grain trade grew, Ian Haig, Chairman of the Grain Elevators Board and former AWB member (Haig I.N.5.) argued that the board recognised the need for a trade strategy more directed towards large scale commercial transactions. The AWB was forced to focus on other market characteristics, including forecasting, technical and financial analysis, and futures trading. Information came to be an integral part of the AWB marketing strategy, and involved planting intention reports, world weather conditions, exchange rate movements, and transport costs.

Regular and considerable price fluctuations came to characterise world markets as output varied and the emergence of government support programs became prevalent.
"... The ability of a wheat exporting country to offer competitive prices depends only in part on the efficiency of its country's farmers and of its handling and transportation system ... Of considerable and certainly growing importance in recent years has been the willingness of government's to offer subsidies to ensure that prices are competitive." (Whitwell & Sydenham (1991), pp. 238.)

This meant that AWB operations became increasingly subject to artificial world prices, stimulated by the subsidisation of EC and US farmers.

A consequence of the new strategy was that much of the personalised contact and negotiation that once characterised the AWB's international activities was abandoned by the adoption of telecommunication transactions. While contact visits and relations between the AWB and its international clients were not completely severed, Derek Tribe argued that the previous goodwill that characterised the AWB, and in fact most Australian agricultural activity in East Asia was diluted by the growing complexity of markets that followed the oil crisis. Previously, organisations could rely on informal agreements and contacts to dispose of exports. The new strategy of the AWB was designed to accommodate a more formal relationship between negotiating parties. While many of the changes were essential to the continued operations of the organisation, it is disappointing that more of the traditional features of AWB's trading system could not be retained. (Tribe I.N.2.)

The changes expanded credit facilities for foreign buyers due to the favourable terms offered by the US and the EC. Importantly, while the AWB actively sought to adopt new strategies, Craig Penefold of the DPIE acknowledged that, given the financial strength of overseas producers, Australia could not hope to match the facilities offered by competitors. The size of agricultural budgets in the US and the EC made it impossible for the AWB to match the conditions or benefits of US and EC producers. There needed to be other factors driving buyer preferences. (Penefold I.N.13.)
While changes to the AWB's trade strategy addressed the issue of increased trade volumes and price and credit arrangements, the strategy was slow to acknowledge the equally important change in the nature of markets. The quality of grain products played an increasingly influential role towards the end of the 1970s in international trade contracts, as Murielle Cossen of the AWB (Cossen I.N.20.) explained.

"Quality became a central issue to international buyers, concerned that wheat imports had to be both nutritional and consistent to ensure successful processed product outcomes."

Wheat was not a homogenous product, with strains varying greatly according to the characteristics of the growing region. Buyers became more discerning and sensitive to quality characteristics as processing methods became more specialised. Export figures and my interview responses indicate that the AWB's success in focussing on quality was limited by the changes made to the structure of the AWB in the late 1970s. These limitations will be explored in the markets of Japan, Taiwan and Thailand.
6.3 THE WHEAT INDUSTRY AND PROTECTION IN JAPAN

Between 1970 and 1992 Australia consistently exported around 900,000 tonnes of wheat to Japan. Throughout this period the Japanese market provided the foundation for AWB activities in the Asian region providing the bulk of the region's imports. Descriptions of its export success have ranged from positive to highly critical. Bob Wootton of the Australian Grain Exporters Foundation, argued that the wheat industry's maintenance of market share in Japan was a major accomplishment, given the level of support provided to US and EC farmers and the growing level of Japanese agricultural protection. The establishment of strong trade links, and trade flexibility in the AWB's trade program was central to the maintenance of market share in Japan. (Wootton I.N.18.) In contrast, Richard Glasson of the Grain Elevators Board, was critical of the program arguing that the AWB's performance in Japan was hindered by a marketing strategy that abandoned many of the traditional characteristics of the AWB's marketing program, and was slow to adapt to changes in the world market. (Glasson I.N.25.) Did the AWB maximise opportunities in the Japanese market in the face of tariffs and NTB's or was its performance limited by a poor marketing strategy which did little to offset tariffs and NTB's?

To assess the performance of the AWB in Japan we need to consider the market's barriers to trade. Wheat exports to Japan are controlled by the government's central food agency. The agency is responsible for organising international tenders to satisfy domestic production shortfalls. The authority is supported by global quota arrangements, and specific health and safety requirements, that ensure that the government remains the primary functionary in the importation of wheat. (Alston Carter & Jarvis, (1991). pp. 176.)
Changes to the *Agriculture Basic Law in 1979*\(^6\), encouraged the Japanese government to increase production in the wheat industry. This re-alignment of agricultural production was encouraged by the heavy reliance on imports of grain and soy products, exposed by the 1973 `soybean crisis'. The `soybean crisis' was caused by a disruption in the world anchovy market which supplied much of the essential proteins in stockfeed. Soybean was a recognised protein supplement, and subsequently suffered from speculative trade activities. This encouraged a US soybean embargo which limited Japanese imports of essential soybean requirements.

As a response to the crisis, the government diverted production away from rice and into crops with low domestic output, of which wheat was a high priority. Importantly, the greater focus on domestic production which increased output from 202,000 tonnes in 1973 to 1,021,000 tonnes in 1988 satisfied increases in consumption among Japanese consumers which only grew from 5,600,000 tonnes in 1975 to around 6,300,000 tonnes in 1986.\(^7\) This limited opportunities for foreign exporters in a stagnating market. The only real opportunities for exporters was in the supply of specialised strains of wheat for the production of bread and noodles. The increased domestic wheat production levels, and the emerging international competition in world grain markets made it increasingly important to focus on the growing market for noodle wheat and high protein product for baking. The traditional exchanges of the past were no longer appropriate. These changes led to a need to develop new export strategies to meet the growing Japanese emphasis on quality and variety in wheat imports. (Haig I.N.S.)

The most important aspect of the changing nature of demand for specified wheat products was the need to focus on quality and variety. The ability of the AWB to

\(^6\) The changes to the *Agriculture Basic Law* involved a commitment to wholesale support of minimum domestic production levels, and subsidisation of specific agricultural activities. For a full outline, refer *Agriculture Basic Law 1979*.

\(^7\) For fig.s see International Grains Council Trade Review 1992.
satisfy this requirement was limited. Derek Tribe of the Crawford Foundation noted that,

"... the AWB's capacity to supply the increasing demand for disseminated wheat products was stifled by the limited quality and wheat control mechanisms of the board prior to 1989. While there was a clear understanding of the variable nature of international markets, it appears that the board remained convinced that changes to the grading process would do little to improve the position of Australian wheat in international markets." (Tribe I.N.2.)

Geoff Scogull of DFAT found that wheat imports were increasingly identified by product specifications essential to specific methods of processing. Different flours for the production of bread, noodles and snack foods encouraged a delineation between soft and hard wheat strains, colour characteristics and protein levels. This transformation in demand for alternative strains of wheat challenged the AWB's trade program with Japan. While John Amadio, a former export director with the wheat board, argued that the new board actively pursued marketing solutions to these emerging variations in demand, particularly in the Japanese market where West Australian soft wheat was promoted for its suitability to noodle production and Australia's premium ASWW wheat was directed towards the snack food market where its characteristics were widely appreciated by Japanese processors, (Amadio I.N.1.) the implementation of a successful marketing strategy was limited by a number of important failures.

Firstly, the new board failed to develop a successful grading system for Australian wheat. Japan's processing technologies made grading and wheat variation central to the AWB's export strategy. The sponge and dough baking method employed by

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58 Scogull has extensively explored the consumption trends of the Japanese market over recent years in a bid to understand the changing nature of Japanese cultural and consumer behaviour. These issues have been variously covered by those within DFAT and outside research consultants. see DFAT North Asian Trade Reports, and Coffey and Partners, Investigations into North Asian Market Trends.

59 The sponge and dough baking method employed by Japanese producers relied upon different technology and involved different means of 'proving' the dough. The sponge and dough baking
Japanese bread producers during the 1950s and 1960s limited demand for ASW and made North American hard wheat varieties preferred for domestic bread making purposes. The technologies employed by Japan's bakers throughout the post war period made it difficult for the AWB to establish a market for bread making wheat. The mechanisation of the milling and processing industries further disrupted demand for ASW. Japan's market required very specific grades of wheat not adequately covered by AWB classifications. (Amadio I.N.1.)

While the AWB introduced 'minimum standards' protein requirements in 1978 in a bid to provide guaranteed wheat quality, the regulation failed to adequately cover the increasing dissemination among wheat varieties. This issue was addressed by Derek Tribe of the Crawford Foundation who noted that,

"... international trends towards the consumption of varied wheat products, evidenced by the expanding import rates of alternative wheat strains by the USSR and Japan, 60 should have necessitated the introduction of a highly specialised grading process. However, the AWB's decision to merely implement minimum protein requirements made it difficult to achieve consistency in imported product." (Tribe I.N.2.)

The Japanese government policy requiring maximum protein levels for wheat designated to the production of noodles, and minimum protein levels for bread making wheat61 made consistent quality levels imperative. The AWB had a persistent problem in meeting protein obligations due to the variations in ASW wheat quality between growing districts. The inconsistency was unpopular among Japanese buyers who demanded consistent flour colours and protein levels. (Cossen I.N.20.)

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60 see International Grains Council Trade Review 1986.
61 wheat requirements are covered by the Japanese government's Sanitary and Phytosanitary requirements for Food Imports Publication 1992.
The quality and consistency issue was only addressed by the AWB in 1989 with the establishment of the 'payment for quality' scheme which encouraged growers to improve nutrient levels and achieve consistency in output. The scheme was introduced by the AWB after pressure came from the Grain Exporters Association, and variously from the growers themselves, who were concerned at the variable rates received from different standards of wheat. The new scheme enabled growers to be paid according to the quality of their wheat and its suitability for export. It enhanced efficiency, encouraging farmers to concentrate on wheat quality rather than yield, and offered export customers greater choice by providing alternative products.

"The initiative improved the nature of Australian wheat, but importantly, its implementation lagged behind competitor's initiatives..."
(Cossen I.N.20.)

While one can acknowledge that the scheme encouraged diversification in Australia's trade program by expanding the customer's choice, the delay in its implementation was clearly detrimental to Australia's trade reputation. The procrastination among AWB personnel in implementing quality and consistency initiatives, and the difficulty the board faced in adjusting to Japanese processing technologies made it difficult for the AWB to convince the Japanese to maintain or expand import levels, negating the benefits of the marketing strategy. This was confirmed by Tony Pickett of Agritec who argued that the position of the AWB in the Japanese market, like many other Australian companies, was stifled by its lack of innovation. The AWB had understood for some time that the Japanese had a strong preference for special quality wheat, but were late in adopting a system to exploit this preference thus limiting it's export opportunities. (Pickett I.N.4.)

Second, and perhaps more importantly, the changes to the board and structure of the AWB alienated traditional Japanese buyers with an increasingly impersonal nature of operations. The change in trade strategy between 1978 and 1984 encouraged by the
increasing complexity of international trade disrupted the goodwill that had been encouraged by previous AWB trade activities. Derek Tribe (Tribe I.N.2.) attributed the poor performance of the AWB to the strong informal marketing arrangements and contacts that were lost in the structural reorganisation. Between 1965 and 1980 the AWB's trade relations with Japan relied heavily on personal contact with the Japanese central food agency. This contact was damaged by the limitations of the AWB's new trading system. (Tribe I.N.2.)

This informal relationship, supported by DPIE and AWB trade tours in 1967, 1969, 1973, 1976 and 1978, provided the AWB with a forum by which to assess future demand and an indirect means to market its product. Jonathon Boyd (1993), in his work on the activities of the AWB in Asia found that the activities of Perrett and Dorman were pivotal to the success of the AWB. Personal relationships among senior bureaucrats and trade officials provided the AWB with guaranteed access to the market, and encouraged confidence among Japanese officials and processors. The changes in personnel and AWB trade activities between 1978 and 1982 closed these information channels restricting the dissemination of information about the Japanese wheat market. Information covering the changing preference of Japanese processors for strong white flour and wheat with variable nutrient requirements became difficult to attain as the AWB severed its links with individuals involved in its earlier marketing program. (Tulloh I.N.3.)

While we should appreciate the limitations of the AWB marketing program in Japan, it is important to acknowledge that there were other barriers to the board's activities in the market. As outlined in the reference to the meat industries experience in Japan, political economy factors played an influential role in agricultural protection. In the wheat sector, the relationship between Japan and the US came to represent a barrier to Australia's performance in the market. The Japanese use of US baking technology meant there was a preference for North American hard strains of wheat for bread
making purposes. (Pickett I.N.4.) More importantly, it was argued that the relationship was supported by a bi-lateral trade imbalance explored by Aurelia George in her work on Australian beef exports to the Japanese market. Craig Penefold noted that George found,

"... similarities between the experience of the wheat industry and that of the livestock sector ... George agreed that the trade deficit between Japan and the US may well have encouraged a preference for US wheat ..." (Penefold I.N.13.)

However, it is equally important to understand that the means by which wheat trade was conducted by the Japanese food agency was quite different to that of the LIPC (Livestock Industry Promotions Corporation), and that while the US were competing with Australia in Japan's market, there were significant differences between Australian and US wheats making the import program reliant on strong marketing strategy. Therefore, it is unlikely that the preference for US wheat provided a major barrier to the AWB's efforts to infiltrate Japan's market. Rather,

"... the preference for US wheat was as much an issue of quality, as was the failure of the AWB to expand it's market share in Japan ..." (Penefold I.N.13.)

Given the growing complexities of international trade and the change in demand among Japanese processors, changes had to be made to the AWB's market strategy in Japan. The growing demand for convenience type products made alternative strains of wheat increasingly popular among Japanese traders. This necessitated a more detailed and complex marketing strategy. In retrospect, it is easy to emphasise the wheat industry's stable export volumes to Japan and argue that the AWB's experience was relatively successful. (see fig.s 3.23.) However, to draw this conclusion would necessitate overlooking important shortcomings in its marketing program and difficulties experienced with quality control. Had these problems been addressed, the
export story would have been more favourable, with higher export volumes and a larger market share.
6.4 THE WHEAT INDUSTRY AND PROTECTION IN TAIWAN

Since the early 1970s, the Australian wheat industry has had limited success in Taiwan. A minor presence in the market between 1965 and 1977 was followed by an absence of thirteen years between 1978 and 1991. The factors behind this absence included Taiwan's protective government import policies, negotiation difficulties, bilateral trade agreements and export priority issues. The relative importance of each of these factors varied considerably among the interviewees. Importantly, the experience in Taiwan differed from the board's activities in Japan and Thailand. While the board went to some effort to raise the profile and expand wheat sales in Japan and Thailand, the board's performance in Taiwan was not driven by the same motivations. The complex import barriers and the established position of the US in Taiwan's market made it almost impossible for the AWB to establish and maintain a profitable operation. Given

"... the situation in Taiwan was such that the AWB had to constantly confront considerable government protection, ... (and) a strong preference for US product ..." (Haig I.N.5.)

it was decided that the AWB's future in the market should be reliant on greater market access. This meant that until changes were made to Taiwan's protective policies, the AWB choose to take no active part in exporting into Taiwan's wheat market.

Given that the AWB maintained a presence in Taiwan prior to 1978, its long absence from the market would seem to be a blot on the AWB's efforts in the region. However, the nature of trade prior to 1978, and the renewed trade program initiated in 1991 represent significantly different market conditions. Exports to Taiwan throughout the late 1960s and early 1970s were dominated by livestock feed requirements, with early AWB exports to Taiwan characterised by low quality, low
priced product\textsuperscript{62} that concentrated on the supply of the grain-fed livestock market. This was due to the long history of North American wheat in the market and the strong influence the US wielded in Taiwan throughout the 1950s and 1960s. It is argued that the concentration on the supply of stock feed to Taiwan did little to promote the reputation of Australian product in Asia and was therefore abandoned in the late 1970s. (Haig I.N.5.)

The extent to which Australian wheat was used for human consumption was minimal. The Taiwanese preference for US and Canadian wheat was a traditional characteristic of the market.

"Wheat processing and technology had been drawn from the US, and there was a feeling that North American wheat was more appropriate to Taiwan's market ... the pre-eminence of the US was fortified by the trade deficit between the US and Taiwan which enhanced it's position in the market ..." (Wootton I.N.18.)

The preference for North American wheat evolved from the early involvement of the US in the supply of processing technology, and the significant influence the US maintained in trade relations with Taiwan throughout the post-annexation era.\textsuperscript{63}

Unlike Japan, where the AWB had made a strong commitment to furthering exports of Australian wheat products, the limited opportunities for the AWB in Taiwan encouraged strong debate over what role the organisation should play in infiltrating the market, and was central to its absence after 1978. This debate was fostered by a number of factors.

The structure of Taiwan's wheat market was an influential factor in the AWB's position on future exports to the region. Strong barriers to exports into Taiwan's market

\textsuperscript{62} for corroboration of this argument see figures for stock feed exports to Taiwan in Appendix 2.
\textsuperscript{63} the US maintained a significant presence in Taiwan in the post civil war period. This presence has fostered strong trade ties between Taiwan and US companies.
resulted from government protection provided by the Ministry of Agriculture. Import quotas were set annually according to demand and domestic production outcomes, and were allocated by the government through its bank authorisation scheme. This scheme required importers to make an application to the government for the necessary foreign exchange to complete an import transaction, thus ensuring government control of imports. This control which initially focussed on the expansion of local production, and a reduction in the reliance on grain imports was justified by food security issues and the government's policy of agricultural self-sufficiency. Farmers were provided with support to move production away from rice, and into other grains to enhance the diversification of the country's agricultural output, and provide essential support for the expanding livestock sector.\textsuperscript{64} This resulted in the maintenance of protective mechanisms to support domestic producers. Bob Wootton (Wootton I.N.18.) of the Australian Grain Exporters Association, listed quota arrangements, and health and safety regulations as key government barriers to infiltrating Taiwan's market arguing that,

"... Taiwan's wheat import structure was surrounded by government controlled barriers restricting foreign imports. The quota regulation system managed by the bank authorisation scheme and the control of health and safety regulations enabled the government to choose its import priorities ... these structures were used by the government at various times to direct its wheat imports to politically preferred clients."
(Wootton I.N.18.)

While the government's protective barriers were justified as domestic support mechanisms, their relevance to Taiwan's emerging preferential trade arrangement became increasingly apparent in the late 1970s. This external trade factor was another issue inhibiting the AWB from establishing a grain market in Taiwan. Unlike Japan where the domestic production policy was relatively successful, Taiwan's domestic

\textsuperscript{64} Taiwan's reliance on imported grains for livestock production increased dramatically between 1975 and 1985. The significant corporatisation of hog and chicken production, and the growing output in grain-fed beef meant real concern was afforded to the supply of livestock feed.
production program was limited by cultivation problems that limited production to 5,000 tonnes between 1980 and 1992. While the failure of the domestic industry was perceived to offer new opportunities for the AWB, subsequent growth in the market was almost entirely absorbed by US suppliers. Aurelia George, (George, (1984) pp. 33-35.) in her work on bi-lateral trade preferences in the beef industry of North Asia, found similarities between the experience of the wheat sector and the beef industry in Taiwan's market. George argued that Taiwan's traditional preference for North American wheat, was enhanced by trade surplus issues between Taiwan and the US.

The preferential nature of grain trade between Taiwan and the US made the AWB wary about re-entering the market. This apprehension was criticised by Thomas Langley (Langley I.N.22.) of the International and Marketing Services Group who argued that,

"... the US presence in Taiwan was merely a convenient arrangement for government importing authorities and should have been tackled by appropriate AWB marketing strategies ... my priorities would have been set on a program that included active quality promotion, bi-lateral government negotiation and in-country marketing personnel ... the failure of the domestic industry should have encouraged the AWB to invest in a concerted marketing effort." (Langley I.N.22.)

The problem with this analysis was that Langley's criticism was made on marketing grounds, supported by a brief on the growth in demand for wheat in North Asian markets. Taiwan's maintenance of policy favouring US wheat imports made Langley's marketing criticisms weak. It was apparent that the favourable nature of agreements between the US and Taiwan were encouraged by trade issues. It was understood that Taiwan's large trade surplus with the US meant trade concessions for agricultural products were not uncommon. US pressure to access markets was often matched by concessions to US importers. (Amadio I.N.1.)
The failure of the domestic production program meant the industry continued to rely heavily on imported product. The established protective mechanisms designed to advantage local producers, including the government's bank authorisation scheme and restrictive sanitary and phytosanitary mechanisms were used to favour North American wheat products. Wootton outlined the situation thus,

"The expanding presence of the US in the market can be attributed to the growing pressure from US authorities to liberalise agricultural markets ... understandably the government (Taiwan's) made concessions to US imports rather than totally liberalising its markets ... this made it difficult for other producers to infiltrate the market." (Wootton I.N.18.)

The trade surplus issue was particularly important to the AWB's attempts to re-enter the market in the early 1980s. The initial reluctance among the AWB to re-establish a presence in Taiwan was rejected by the board's intention in 1981 (Amadio I.N.1.) to exploit the growth potential of the North Asian region. Ian Haig acknowledged that the former concentration on the livestock feed sector was not considered a viable option among board personnel. Therefore, the AWB sought to explore opportunities in the processed products market. This was supported by Justin Winton of ABARE who found that the board's policy on Taiwan was that the previous concentration of feed stocks should not be resumed. However, there was an appreciation for the benefits of the convenience and processed foods sector, but also an understanding that for the AWB to re-enter the market it had to circumvent US trade preferences. (Winton I.N.23.)

Associated political factors including Australia's recognition of China in 1972, which strained relations between Australia and Taiwan, and the difficulty with the US trade
surplus issue restricted the AWB's efforts to secure wheat contracts. This was made apparent by Cossen who argued that,

"... the predominance of the US in the market made it convenient for Taiwan's government to focus its demand on US product. This kept the US demand for greater trade access at bay, and more importantly made Australian access difficult." (Cossen I.N.20.)

Given that Taiwan's government protection mechanisms were maintained throughout the post-oil crisis period it is unlikely the AWB could have infiltrated the market without governmental co-operation. The support of the domestic wheat industry in the 1970s and the favourable treatment of US importers throughout the 1980s made this impossible. While individuals such as Ingram were concerned that the AWB failed to enhance obvious opportunities in Taiwan's market, the limited success of the AWB is best attributed to both the traditional preference for North American wheat, and the preferential treatment received by US exporters. It was the government's support of these barriers that restricted the AWB's role in the market and provided us with an illustration of the difficulty importers can have in infiltrating markets.

Government policy in Taiwan made it virtually impossible for the AWB to establish an export market. Unlike Japan and Thailand, the institutional arrangements for wheat imports to Taiwan meant that the changes in the AWB and its trade structure were of little consequence to its export performance. It is important to recognise that the AWB experience in Taiwan was not a typical story for the AWB in Asia.
6.5 THE WHEAT INDUSTRY AND PROTECTION IN THAILAND

Of the three countries examined, Thailand represents perhaps the most disappointing export market for the AWB. Given the rapidly increasing opportunities and the strong position Australia had established in the market, the fluctuating export figures and rapidly falling market share has been an unfortunate outcome for the AWB. From unprecedented beginnings when Australian market share was as high as 50%, and throughout the 1970s and early 1980s when it consistently exceeded 30%, recent figures have been marked by a consistent downward trend in market share falling to under 15% in recent years. Given the considerable expansion in consumption rates, and the rapidly expanding Thai income levels, the AWB failed to significantly expand its export base. This section explores the inadequacies of the AWB's export program and the trade impact of external issues that were beyond the board's control.

The AWB has a long tradition in exporting wheat to Thailand. Spectacular growth was experienced in the early 1960s, with market share as high as 65% in 1974 before trade patterns changed in the mid 1970s. (USDA Statistical Review 1974-1994) This considerable development is explored by Boyd (Boyd, (1993). pp. 5-25.) in his work on the AWB between 1950 and 1970. Boyd attributed the growth to the 1962 construction of the United Flour Mill in Bangkok and the astute efforts made by the AWB in arranging wheat supplies for the new operation. The AWB were quick to appreciate the benefits of supplying Australian wheat to the new mill and made specific arrangements regarding credit terms on which wheat could be purchased.65 Boyd shows that much of the success was due to the speed and efficiency of the AWB in recognising and exploiting new markets.

"Naturally, whilst wheat sales to Thailand would never have increased were it not for Thai investment in a mill, it is important to recognise that the AWB's wheat marketing was sharper than the US or Canada in this country, and hence made inroads into the market by establishing a positive trading relationship and goodwill even before production had begun." (Boyd, (1993). pp. 28.)

This was further enhanced by regular visits to the region, and favourable relations with the mill's directors which resulted in 70% of orders being allocated to the AWB.

The extraordinary growth and expansion of AWB exports to the Thai market in the 1960s was relatively shortlived. Export rates stabilised in the early 1970s and experienced considerable falls between 1975 and 1979. Australia's market share also began its decline in this period and continued well into the 1980s. (USDA Statistical Review 1974-1994) A number of factors explain this transformation and provide a poignant reminder of the difficulties that can be experienced with any foray into the Asian market.

Of primary importance to the AWB's performance in Thailand was the change in the structure and nature of the board's operations. Incoming board members focussed on new management priorities, with the complex nature of world markets encouraging a more corporatised structure and a move away from many of the strategies employed by Dorman and Perrett in their approach to overseas markets. Gradually the personnel attached to the AWB reflected this new approach. (Haig I.N.5.)

The board's charter focussed heavily on a move towards corporatisation. This was confirmed by Don Gillies who found that,

"... like the ADC, the AWB was forced to adopt a more advanced marketing strategy as the complexities of the world market made it increasingly difficult to operate under the old regime. This change started at the top with changes in senior management ... where the
ADC pursued an accounting based personnel structure, the AWB focussed on marketing ... the structural changes had a significant influence on agricultural exports to the East Asian market." (Gillies I.N.24.)

The gradual move towards a more market oriented structure, and corporatised environment resulted in alternative arrangements for the Asian export program. The board was encouraged to establish greater autonomy by government authorities and new emphasis focussed on technical analysis, futures trading, exchange rate movements, and transport costs. (Whitwell & Sydenham, (1991.) pp. 248)

International wheat subsidisation was another factor driving the AWB to rethink its export strategy re-enforcing the new policies which the change in the Board initiated. Of considerable and certainly growing importance in recent years has been the willingness of government's to offer subsidies to ensure that prices are competitive. (Whitwell and Sydenham, (1991) pp. 248.) Australian growers returns became increasingly subject to artificial world prices. Increased competition among international producers encouraged buyers to extract the benefits of subsidised prices. The outcome was a more price conscious world market. The personal nature of the AWB's relations was abandoned as price became more important to the wheat market. This issue was raised by Haig, (Haig I.N.5.) who claimed that,

"... as a result of the growing influence US and EC subsidisation had on world market practices, previous contacts and contracts were either lost or re-negotiated with less emphasis on credit options, and greater adherence to international pricing mechanisms. Between 1973 and 1979 around 60% of contracts between the AWB and its Asian buyers were re-negotiated with greater scope for price fluctuation and less emphasis on guaranteed volumes. This had long term effects on the AWB's activities in the Asian market."

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66 this change was encouraged by the department of Primary Industries which decided that the government should not be exposed to the increasingly risky nature of world commodity trade, through its support of SMA's.
The AWB's market in Thailand between 1960 and 1975 was characterised by close ties between key personnel. Tony Pickett, (Pickett I.N.4.) a former advisor to Austrade and director with Agritec felt that these ties were cut as personnel changes were made within the AWB,

"... in my dealings with those involved with wheat operations, it was clear that there was a strong rapport between those involved in the processing industry in Thailand and key management figures at the AWB. Not only did both parties benefit from the trading arrangement, but the personal trust and friendships that developed made relations strong ... It would seem that as the individuals involved in trading and management operations in both countries left or retired the relationship began to dissolve."

Where previously, trade was conducted on an informal basis with regular contact and flexibility built into the negotiation process, (Denton I.N.17.) the changes to the international trading environment and the change in the AWB's structure led to a dramatic fall in market share. It was decided that the AWB would no longer support a trade framework designed to cater to the demands of individual clients given the transformation in world market conditions. (Amadio I.N.1.)

In conjunction with the AWB's re-orientation of its market strategy, was a growing US and Canadian presence in the Thai market. Domestic investment in flour mill operations were encouraged as consumption rates grew, (for Consumption fig.s see fig. 3.28.) A preference for North American wheat was encouraged by US investment in Thai processing industries, and a US marketing strategy which focussed on the preferential characteristics of US wheat. US investment and marketing in Thailand

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was fuelled by the expanding opportunities in the market during the 1980s. Rapid economic growth was encouraged by an expansion in the food processing sector. Demand for raw agricultural commodities grew quickly, and the USDA focussed export development on the emerging Thai market by advocating the benefits of high protein hard wheat varieties to Thai processors. (Amadio I.N.1.) Large multi-national processing companies began to look towards Thailand as a viable market and base for food processing operations. John Denton, a former DFAT employee explained that,

"... companies such as *Unilever* and *RJR Nabisco* took an active role in developing the Thai market ... some choose to invest large sums in off-shore production facilities with others happy to use agents to develop specific product markets. While the success of the operations varied, the exposure fostered a new level of interest for future foreign investment projects in Thailand." (Denton I.N.17.)

The diversified domestic agricultural sector ensured a ready supply of specialised raw product, while cheap labour rates and industry mechanisation made the country a useful base for further infiltration into other S.E.Asian markets. This expansion of international interest in the Thai economy made it difficult for the AWB to appeal to Thailand's mills as a localised seller, particularly in light of the changing focus of the wheat board.

The USDA and AWB marketing strategy also influenced the performance of the Australian wheat industry in Thailand. The USDA policy focussed on transforming the culture of wheat buyers in Thailand. Major emphasis was placed on the high protein strains of US wheat and the health benefits they brought to bread production. The US strategy was directed at the health and nutritional concerns of Thai processors There was a strong mentality among Thai buyers that North American wheat was a more nutritional product than its competitors. (Amadio I.N.1.)

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68 agricultural demand centred on those commodities that could not be readily produced in Thailand, but were essential to the food processing sector. These included products such as wheat, soyahean, dairy products and other grains and legumes.
Bread technology was adopted on the advice of US processors including Central Baking Services and KCR (Denton I.N.17.) and like Japan, Thai processors favoured the US method of baking which utilised the characteristics of US hard wheat. The outcome of these policy initiatives was an industry that focussed on US and Canadian product, and ensured good prices for their high quality wheat, often in circumstances where it was not required. This issue was raised by Amadio, who was adamant that

"the US marketing strategy meant the Thai's were often using high protein wheat where it was not required, or didn't benefit the production process ... the effect of baking and processing on protein levels was not fully appreciated by the Thai's." (Amadio I.N.1.)

The marketing policy of the AWB failed to arrest the trend towards North American wheat. The gradual change in trade arrangements, which included futures market activities\(^{69}\) and single desk trading,\(^{70}\) resulted in a diversification of trade responsibility among AWB personnel. Senior management concentrated on structural issues and policy initiatives while trade arrangements were negotiated by the trading desk. This led to a reduction in the personal negotiation activities of earlier years and put the AWB in a difficult position in the Thai market. The strong appreciation of the service and support provided by the traditional marketing methods of Dorman, Perrett and Chapman, emphasising regular contact and individual considerations for trade agreements, was diluted by alternative trade arrangements not in tune with Thai requirements. (Cossen I.N.20.) Relations between the AWB and overseas mills waned and contact was lost, resulting in the utilisation of wheat sales by US and Canadian suppliers. Previous contacts were lost as management in Thai. mills changed and the

\(^{69}\) futures involve the pre-selling of wheat based on future prices. To farmers, futures act like an insurance policy for set prices. Traders agree to buy the wheat at a given price, and speculate as to whether the price will rise or fall. To the farmer, it means guaranteed prices, and provides some stability to longterm forecasting and planting. To the AWB it provides an opportunity for profitable returns from selling its wheat at higher than the market price.

\(^{70}\) single desk trading involves the distribution of wheat through a separate trading department responsible for the disposal of all international sales. Its' benefit stems from the efficiency of monitoring and distribution that occurs within the trading department.
strong bonds between Australian and Thai managers were cut. (Tribe I.N.2.)

While the AWB's trade performance in Japan, and particularly Taiwan was significantly influenced by external factors restricting access of Australian wheat, the poor performance and lost opportunities in Thailand were driven by changes and the new policies of the AWB. While the board's past experience and relations with Thailand ensured that a useful framework for export gains was an established characteristic of the market, the changes in board policy reduced the level of personal contact between AWB personnel and overseas buyers. These changes, along with increasing demand for North American wheat encouraged by pro-active marketing strategies, and poor marketing by the AWB diminished the AWB's trade performance. Given that the traditional AWB trade strategy in Thailand established a strong position in the market and offered extensive opportunity to expand Australian wheat exports, the subsequent export performance of the AWB has been poor. Changes in the structure of the AWB had to be made as the complexities of the international grain trade grew, but the changes should not have come at the cost of the established and successful trade relationship between the AWB and Thailand.
CHAPTER SEVEN

CONCLUSION

"Since 1970 Australia's agricultural trade policy has been characterised by an adherence to institutional frameworks and structures that have become part of Australian folklore. While agriculture in Australia has been central to the country's economic prosperity, for too many years it has been characterised by conservative trade attitudes, the long term effect of which has been significantly reduced export returns. Australian agriculture and its associated institutions have failed to adopt a global trade strategy designed to exploit our significant advantage in the production of agricultural foodstuffs and products. Until these issues are addressed and a competitive trade strategy is instituted by Australia's statutory marketing authorities, the long term viability of the sector will remain bleak." (Tony Pickett I.N. 4)

Given the growth in Australian agricultural trade receipts since 1970 it could be argued that the comments of Tony Pickett are misguided. However, further to the findings of this thesis, it is clear that Australia's trade performance can be only partly explained by improving trade returns. This thesis set out to explore the nature of tariffs, non-tariff barriers and the performance of Australia's SMA's in exporting agricultural products into the Asian market. What conspired was a study focused on the unsatisfactory nature of Australia's SMA structures and a history of missed export opportunities. Three significant outcomes can be drawn from my research.

First, the relevance of tariff rates and their impact on Australia's international agricultural trade levels is marginal. My analysis of tariff rates and the export performance of the Australian meat, dairy and wheat sectors in Japan, Taiwan and Thailand revealed that Australian agricultural trade is heavily influenced by domestic decision making processes and policies beyond the significant external shocks that affect international commodity markets. In fact, the data indicates that tariff
reductions have had a negligible impact on export rates with no significant correlation between the few tariff changes and export returns. Contrary to the work of Anderson and Tyers (1991) which exhorted the positive effect of liberalising agricultural markets on export rates, my research found that tariff reductions have had little or no effect on Australia’s performance in overseas agricultural markets. This is not to say that the systematic removal of tariff rates on a global scale would hinder increased trading volumes, rather, what it does indicate is that there are a multitude of factors central to the systematic flow of trade benefits for Australian agricultural producers in trading on international markets.

Second, the assumption that the role of tariffs has been diminished only by the increasingly complex nature of NTB’s does not adequately explain Australia’s fall in agricultural market share in East Asia. My data revealed that while NTB’s have played an influential role in trade with the East Asian region, their impact has been focussed on the imposition of specific obstacles and marketing directives which respondents argued could be overcome. The common interviewee response to the NTB issue focussed on the inability of organisations to deal with market barriers rather than the impossibility of dealing with them. The reputation of Australian product and the competitive advantage proclaimed among interviewees showed that the opportunities in the market were extensive but underutilised by the appropriate marketing authorities. This made me confident in concluding that the NTB issue needs to be better addressed by SMA’s in selling into the Asian market.

This brings us to our final outcome that the underlying issue for Australia’s agricultural industry in East Asia has been an export program driven and directed by policies that have failed to adequately and successfully deal with the fickle and often complex nature of the markets of Japan, Taiwan and Thailand. The outcome of this thesis has found that the limitations imposed by incorrect and misguided policy decisions among SMA authorities has been detrimental to the long term opportunities of Australia’s
agricultural industries in the East Asian region. The opportunities for increased profits, sales growth and the defence of market positions were significant. But the overall SMA result of doing business in East Asia, as evidenced by trade and market statistics, have been underwhelming over the past twenty year period. To enhance returns, Australia's SMA's need to recognise the diversity and fragmentation of Asian countries and the associated mechanisms by which these issues can be addressed. To ensure export growth, and avoid some of the problems they have experienced in the past, Australia's SMA's need to institute progressive trade and production strategies that recognise the long-term benefits of strong Asian markets and that avoid the negative impact of conservative policies bent on short term gain. The underlying performance indicators of SMA's over the last twenty years have been somewhat shadowed and marred by the complexity of international trade activities. This thesis indicates that the performance of SMA's has been stifled by poor institutional structures and conservative trade strategies.

While the outcomes of my research are critical of the SMA's performance over the past twenty years, I might add that having gained an understanding of their functions and role within Australia's agricultural markets, I believe they have and will continue to have a very important place in the Australian economy. For all their faults, the SMA's offer a central service that is of great importance to the primary producer. Their specialised knowledge and economies of scale make the international trade process possible for small producers. My view is that the SMA's have merely to change their approach to international trade, expand their global understanding of markets and be less burdened by the attitudes of specific interest groups. If these issues are addressed the sector will continue to grow and provide the essential service required by the countries primary producers.
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**NOTES**

- **SMR (1000 Tones)**
  - Thailand
  - Taiwan
  - Japan

- **Imports**
  - Japan

- **Destination**

**Appendix 1**

080
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**TOTAL FOOD FEED OTHER**

*(000 TONNES)*

**APPENDIX 2**
Author/s: Nelson, Christopher

Title: Tariff and non-tariff barriers to trade in the beef, dairy & wheat industry in Japan, Taiwan & Thailand between 1974 & 1994;

Date: 1995-02


Publication Status: Unpublished

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