more give, less take

Economic Report

Special Report: China-Australia Free Trade Agreement

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Photo: Renato Ganoza https://flic.kr/p/6peiQa

Key points

- China is Australia's largest agricultural export market and is growing rapidly. Around 23% of Australia's total agricultural exports are destined for China, compared to only 11% just five years ago.

- The Australia-China Free Trade Agreement (ChAFTA), announced this month, includes significant reductions Chinese tariffs applied to a number of Australian agricultural imports. Dairy and beef are winners under the agreement, but wool and cotton, which make up more than 40% of Australian agricultural exports to China, are not likely to see any great benefits from the deal.

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Dairy cattle near Bemboka, NSW. Photo by Carl Davies, CSIRO http://www.scienceimage.csiro.au/tag/dairy-cattle/i/3401/dairy-cattle/

Tariff changes

China is Australia's largest agricultural export market, valued at AUD8.7 billion in 2013-14 – around 23% of Australia's total agricultural exports for the year. This is up from only 11% five years earlier.

ChAFTA, announced on 17 November 2014, includes significant reductions Chinese tariffs applied to many Australian agricultural imports. The FTA will reduce tariffs to zero over several years for Australian dairy, beef, live animals, lamb and mutton, wine, horticulture, barley, seafood, hides skins and leather as well as processed foods. The FTA also creates an Australia-only duty free quota for wool. There are no changes to tariffs or market access for Australian rice, wheat, cotton or sugar.

While ChAFTA, is relatively 'clean' insofar as it introduces few agricultural barriers to trade, China retains discretionary safeguards (which allow higher tariffs above a trigger level) for Australian beef and whole milk powder exports, as well as an Australia specific duty free quota for wool.

Trigger points for discretionary safeguards on Australian beef and whole milk powder are 170,000 tonnes and an unpublished rate above current levels respectively. Australian beef exports to China stood at 154,294 tonnes in 2013, but have since fallen somewhat in 2014. Nonetheless, the beef safeguard will allow China a trigger to impose tariffs should exports to China grow much beyond current levels.

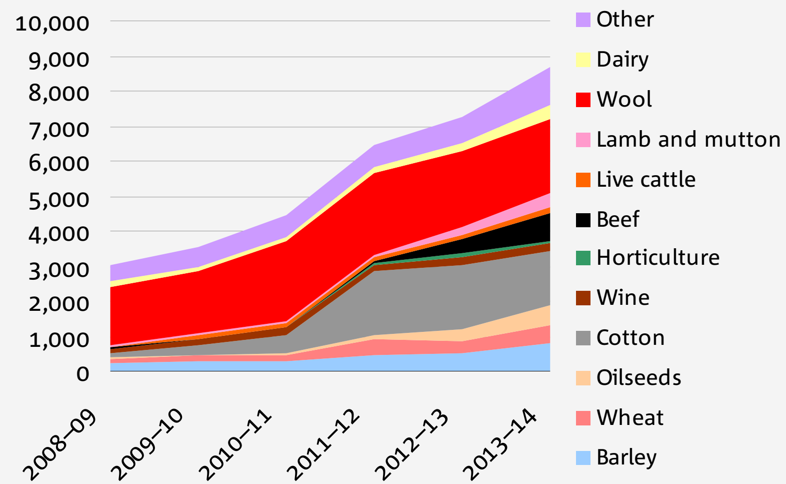
For wool, China already provides a WTO tariff rate quota of 287,000 tonnes, within which tariffs are 1%. ChAFTA will provide Australia with an additional quota of 30,000 tonnes (clean wool). While China may impose a tariff of 38% beyond these quotas, it generally declines to do so.

Figure 1: Chinese tariff reductions for Australian producers

Commodity	Current tariff	New tariff	Timeline
Dairy	12-25%	0%	4-11 years
Beef	12-25%	0%	9 years
Live animals	10%	0%	4 years
Lamb and mutton	12-23%	0%	8 years
Wine	14-20%	0%	4 years
Horticulture	Up to 30%	0%	4 years*
Barley	3%	0%	Immediately
Seafood	14-15%	0%	4 years
Hides, skins, etc.	5-14%	0%	2-7 years

Source: DFAT **for most products*

Figure 2: Australian agricultural exports to China (AUD million)



Source: ABARES (excludes fisheries)

Implications

Australia's agricultural exports to China are dominated by fibres. Over 40% of the total export value in 2013-14 was fibres – wool, cotton and animal skins. Grains, in particular barley, wheat and oilseeds, are also important, as is beef.

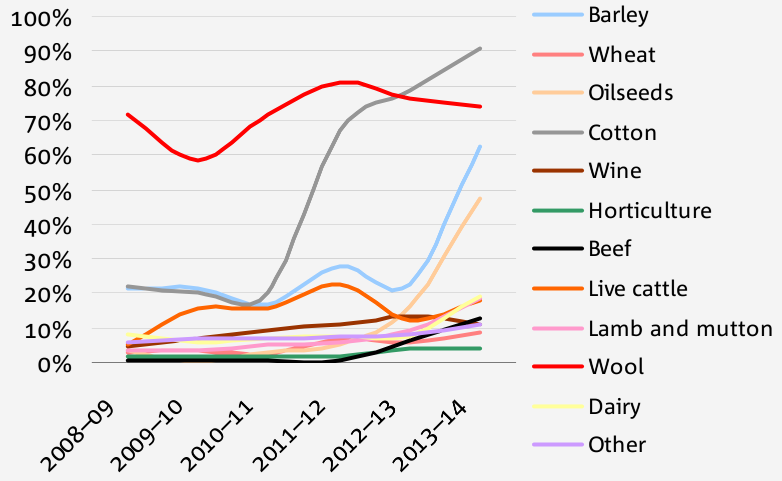
While significant reductions in tariffs for Australian, dairy, beef, lamb, wine and horticultural producers are certainly welcome, these five sectors collectively make up only 22% of total Australian agricultural exports to China. While China has become increasingly important for these sectors over the last 5 years (up from 10% of total exports to China in 2008-09), it remains a relatively small destination for these sectors - less than 20% of total exports for each sector.

Agricultural sectors more heavily dependent on exports to China, such as wool and cotton, do not enjoy greatly more favourable treatment under ChAFTA, notwithstanding the Australia-only duty free quota for wool and lower tariffs for hides, skins and leather. Sectors increasingly dependent on China, such as oilseeds and barley, have mixed fortunes. While China's already low 3% tariff on Australian barley is cut to zero effective immediately, oilseeds do not enjoy improved tariff rates or market access.

Although Cotton is one of Australia's biggest agricultural exports to China, ChAFTA has not delivered an improvement in market access. China will restrict cotton imports to the 894 kt specified in their WTO commitments, an unfavourable outcome for Australian cotton growers.

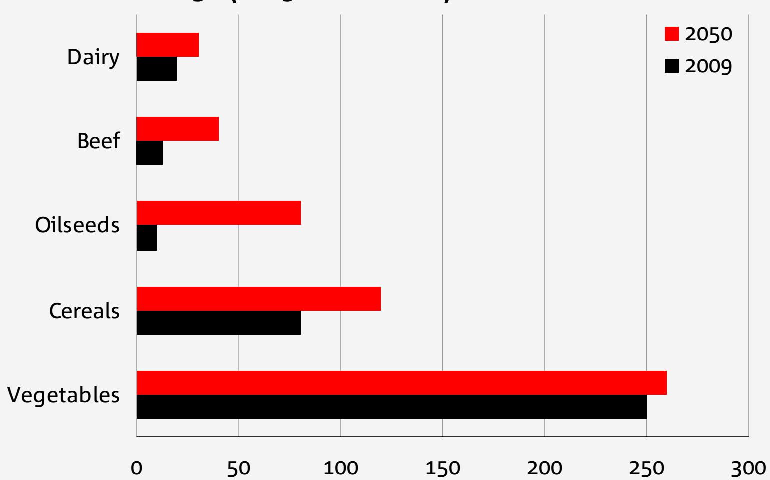
ABARES modelling (Figure 4) forecasts that real real value of Chinese beef and dairy production will grow 236% and 74% respectively between 2009 and 2050. Lower tariffs will give Australian producers an advantage when competing to supply this product. However, the real value of cereals and oilseeds consumption is forecast to grow 52% and 866% over the same period. ChAFTA as announced is not likely to greatly improve Australia's competitive position in these sectors.

Figure 3: Share of total Australian agricultural exports sent to China



Source: ABARES (excludes fisheries)

Figure 4: ABARES projected increase in Chinese food demand to 2050 (2009 USD billion)



Source: ABARES

In Focus: Dairy

There has been considerable interest in the impacts of ChAFTA on Australia's dairy industry in light of the impact of the New Zealand-China FTA on New Zealand's dairy industry.

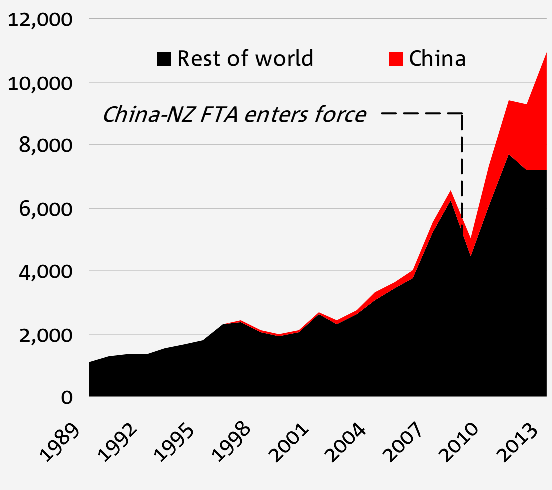
The New Zealand-China FTA is often credited with boosting New Zealand's dairy exports since coming into force in October 2008. Figure 5 shows a substantial increase in New Zealand dairy exports to China since 2008, although New Zealand enjoyed strong dairy export growth throughout the 2000s.

Longer term trends for Australian dairy have been less favourable and characterised by industry consolidation and lower milk production. Total Australian milk production fell 15.2% between 1999-00 and 2012-13.

Lower Australian production has arguably been driven by the removal of price regulation in 2000 combined with the effects of the millennium drought on the industry.

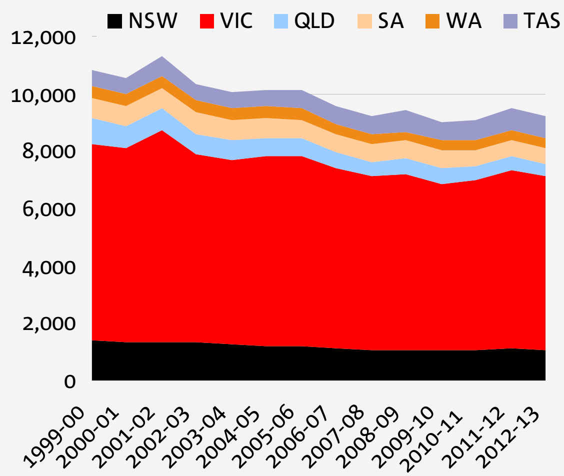
It remains to be seen whether the China-Australia FTA will spur increased Australian dairy production and export. While New Zealand dairy benefited from an FTA with China, it was already enjoying strong export growth, in part allowed by favourable climatic conditions for dairy. To fully capitalise on the ChAFTA, Australian dairy producers require further economies of scale in farming and investment in processing capacity, as well as strategies to mitigate the effects of future droughts.

Figure 5: New Zealand dairy exports (USD million)



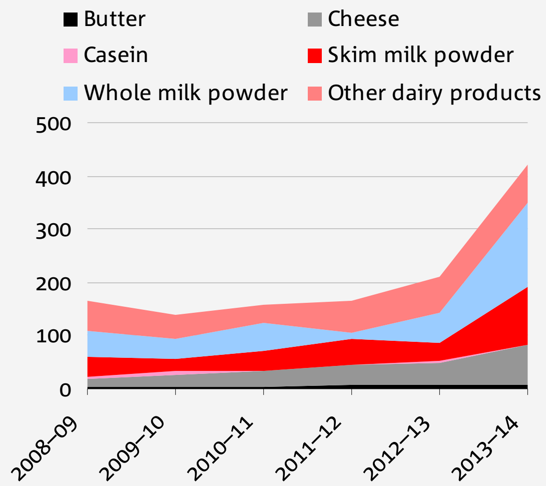
Source: UN Comtrade, NAB Group Economics

Figure 6: Australian milk production (million litres per year)



Source: Dairy Australia

Figure 7: Australian dairy exports to China by type (AUD million)



Source: ABARES, NAB Group Economics

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