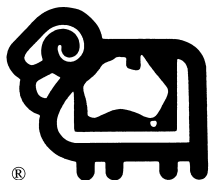


AUSTRALIAN COUNCIL of WOOL EXPORTERS & PROCESSORS INC



Unit 9, 42 - 46 Vella Drive
Sunshine West Vic 3020
Australia
Ph:
Fax:

Email:
Web: www.woolindustries.org
ABN: 59 831 182 459
Reg No: A0048500L

23 October 2015

ACWEP-15-167

The Committee Secretary
Foreign Affairs ☐ Defence and Trade Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

By Email: fadt.sen@aph.gov.au

Dear Sir or Madam,

Submission from the Australian Council of Wool Exporters and Processors
To the Foreign Affairs, Defence and Trade Committee
re the China Australia Free Trade Agreement Implementation Bills

Thank you for the opportunity to make a Submission in relation to the Customs Amendment (ChAFTA Implementation) Bill 2015 and the Customs Tariff Amendment (ChAFTA Implementation) Bill 2015

Wool exports to China have been a major source of export income for Australia for many years; particularly over the last 20 years. The rise in China's demand for wool has been part of China's rise to be the world's largest manufacturer of textiles.

The Australian Council of Wool Exporters and Processors has worked with the Department of Foreign Affairs and Trade on this Agreement since the then Minister for Trade, the Hon Mark Vaile, announced on 28 April 2004 that:

"Australia and China have agreed to fast-track their scoping study on a possible Free Trade Agreement after a meeting between Australian Trade Minister Mark Vaile and his Chinese counterpart Bo Xilai in Beijing yesterday."

The FTA with China is of great importance to the wool industry, as China is Australia's major customer, taking between 74% and 79% of Australia's wool exports in each of the last five years, including 2014/15.

The Australian Council of Wool Exporters and Processors has made Submissions to other Parliamentary Inquiries re ChAFTA.

Our Submission is addressed under the following headings:

1. **Background**
 - 1.1 **Australian Council of Wool Exporters and Processors Inc (ACWEP)**
2. **The Impact of ChAFTA on the Chinese Domestic Wool Industry**
3. **Points Relevant to Australia Wool Exporters and to Chinese wool importer re implementation of ChAFTA**
 - 3.1 **Interpretation of Words**
4. **Quota Administration**
 - 4.1 **Country Specific Tariff Rate Quota (CSQ) Administration**
 - 4.2 **Tariff Rate Quotas (TRQ)**
5. **Ongoing Trade Negotiations with China**

Appendix I **Destinations for Australia's Wool Exports by Value, 2014/**

Appendix II **Destinations for Australia's Wool Exports by Value, 2014/15**

1. Background

1.1 Australian Council of Wool Exporters and Processors Inc (ACWEP)

The Australian Council of Wool Exporters and Processors represents Australian wool exporters and processors in relation to matters associated with the purchasing, processing (if done in Australia) and exporting of wool.

This involves interacting with:

- * Wool grower organisations.
- * Wool brokers, who facilitate the exchange of ownership via auction of most Australian wool.
- * Other service organisations, such as the Australian Wool Exchange and the Australian Wool Testing Authority.
- * The Federal Department of Agriculture, generally on matters relating to the veterinary / biosecurity requirements of customer countries; and to a lesser extent on Australian requirements for importing wool.
- * The Department of Foreign Affairs and Trade on non-veterinary trade issues, in particular on Free Trade Agreements.
- * Equivalent wool exporter organisations in other wool exporting countries.

2. The Impact of ChAFTA on the Chinese Domestic Wool Industry

Australia has been granted an annual Country Specific tariff-free Quota of 30 million kilogram (mkg) of clean wool, increasing by 5% per annum. This is small in relation to Australia's annual wool exports of around 180 mkg clean to China in 2014/15; or in terms of Australia's wool exports of around 240 mkg to all countries in the same period.

The granting of a CSQ of 30 mkg, or even for all of Australia's annual production of 240 mkg would not impact on Chinese wool farmers because, although China has more sheep than Australia:

- * They are used for meat and milk production, as well as wool production.
- * The wool is of poorer quality, is generally broader in fibre diameter than Australia wool; and is more likely to be used in lower-end products than Australian wool.
- * The Chinese wool textile industry is the largest in the world and relies on the supply of Australian wool to manufacture high-end garments and fabrics for export.

3. Points Relevant to Australia Wool Exporters and to Chinese wool importer re implementation of ChAFTA

3.1 Interpretation of Words

- * Experience gained by New Zealand wool exporters has been invaluable; and highly relevant to Australia's negotiations with China. It indicated that there can be some surprises.

Advice from New Zealand was that their FTA refers to wool exported to China under the CSQ as being exported "directly" to China. Unexpectedly for New Zealand, China interpreted "directly" to mean on the one vessel from New Zealand to China. However, virtually all New Zealand wool exports to China are transhipped to another vessel on route to China. China interpreted this as falling outside their definition of "direct", despite the fact that the containers are not opened or interfered with in any way during transhipment.

The "solution" for New Zealand exporters has been to obtain a "Transshipment Certificate" from the country where the wool is transhipped attesting to each consignment's integrity. Advice from New Zealand is that the "Transshipment Certificates" cost about \$US400, plus logistical inconvenience.

The Australian Council of Wool Exporters and Processors provided this advice to DFAT with a request to avoid a similar occurrence with the Australian FTA, as all wool exports from Western Australia to China are transhipped in Singapore.

Advice from DFAT is that this issue has been addressed. They have provided us with a copy of the wording in the Agreement; and have advised that it will again be raised during the implementation negotiations.

- * We do not know, but it could well have implications for other commodities.
- * In a similar situation (but unrelated to ChAFTA), an Australian wool exporter recently had a container of wool retained under Chinese Customs and Quarantine control for two weeks because of what appears to have been a misunderstanding of all circumstance under which the Health Certificates that accompany wool consignments to China may be issued and printed.

The Chinese Customs and Quarantine Authorities subsequently released the container after receiving a detailed explanation from the Australian Department of Agriculture.

While the matter was resolved, it took considerable input from the Department of Agriculture; and provided further evidence of the problems that can occur through different interpretation of words.

4. Quota Administration

4.1 Country Specific Tariff Rate Quota (CSQ) Administration

The Australian wool industry has received a 30 million clean kilograms (30 mkg) CSQ incrementing by 5% per annum for nine years.

It is understood that the first 30 mkg imported into China each calendar year will be allocated against the CSQ; and will enter China free of tariff. All other wool exports to China will come under the 287 mkg (clean) Global TRQ applied to wool exports from all countries; and will be subject to a tariff of 1%.

This is arguably the most satisfactory method of implementing the CSQ; and is understood by Australia wool exporters.

Wool imported into China in excess of the 287 mkg is subject to a 38% tariff, but, in practice this is not applied as China does not allow the 287 mkg TRQ to be exceeded.

This arose as an issue in 2007, when the 287 mkg TRQ was fully allocated, but not filled, by July. It was resolved only by Chinese importers, who did not have Quota allocated to them, buying it from those who had surplus Quota; thus adding costs to Australian wool exporters and Chinese importers.

China now reallocates unfilled Quota once 70% of the 287 mkg TRQ is allocated. It is understood that this has happened in September this year.

The receipt of a CSQ (such as Australia's and New Zealand's) benefits other countries as any CSQ is outside of the Global 287 mkg TRQ. In the case of Australia and New Zealand, it effectively adds a combined 60 mkg to the 287 mkg.

4.2 Tariff Rate Quotas (TRQ)

While reduction of tariff rates is an important consideration, alleviation of other barriers to trade is also important.

This includes the application of TRQs.

In practical terms China is unlikely to import the 347 mkg of clean wool provided for in the TRQ of 287 mkg and the Australian and New Zealand CSQs, each of 30 mkg (and increasing by 5% per annum).

Under these circumstances, the need for a TRQ for wool starts to lose its relevance. There is little doubt that once this stage is reached, both the Australian wool industry and the Chinese wool processing industry would benefit from the abolition of Quotas.

China has done much to liberalise its trading arrangements in recent years. The abolition of Quotas would be one more step in that process.

5. Ongoing Trade Negotiations with China

We understand that China has granted Australia "Favoured Nation" status; and has agreed to a review of ChAFTA in three years. These are very good outcomes. Hopefully, further mutually beneficial liberalisation of trade can arise from the Review.

Peter Morgan
Executive Director

cc Chris Kelly - President Australian Council of Wool Exporters and Processors

Appendix 1

Destinations for Australia's Wool Exports by Weight, 2014/15

<i>Australian Wool Industries Secretariat Inc.</i>										
ABN 30 454 304 967 Unit 9, 42-46 Vella Drive SUNSHINE WEST VIC 3020					Reg. No. A0041776E Telephone: 61 3 9311 0103 Facsimile: 61 3 9311 0138					
Exports of Australian wool in kg for period July 2014 to June 2015								5 August 2015		
Country	Greasy	Scoured	Carbonised	Carded	Top	Noil/Waste	YTD Total	As a %	Prev Year	% Change
China	262,164,433	1,767,744	752,478				264,684,655	76.86%	234,118,960	13.1%
India	20,907,897	1,041,682	110,411			59,236	22,119,226	6.42%	25,005,499	-11.5%
Czech Republic	16,548,790						16,548,790	4.81%	14,792,166	11.9%
Italy	12,087,750	859,471	587,439				13,534,660	3.93%	14,112,194	-4.1%
Korea	181,190	73,223	7,006,669				7,261,082	2.11%	5,984,613	21.3%
Malaysia	1,704,310	4,212,516	10,403				5,927,229	1.72%	5,209,508	13.8%
Egypt	3,006,875	179,767					3,186,642	0.93%	3,258,316	-2.2%
Taiwan	2,872,331	14,457	20,811		150		2,907,749	0.84%	2,595,349	12.0%
Thailand	156,653	1,560,548					1,717,201	0.50%	1,002,312	71.3%
USA	969,409	199,807	33,450		2,448		1,205,114	0.35%	983,220	22.6%
Japan	13,609		1,128,399				1,142,008	0.33%	985,408	15.9%
United Kingdom	19,693	789,741	142,508			8,320	960,262	0.28%	1,207,468	-20.5%
Germany	629,722	67,875	137,235				834,832	0.24%	528,663	57.9%
Iran		675,000					675,000	0.20%	300,000	125.0%
Lithuania		337,432					337,432	0.10%	140,660	139.9%
Mexico		98,084	182,704				280,788	0.08%	266,830	5.2%
Turkey		76,846	100,208				177,054	0.05%	128,742	37.5%
New Zealand	63,274		67,457	1,534			132,265	0.04%	260,735	-49.3%
Mauritius	12,158		90,168				102,326	0.03%	55,460	84.5%
Hong Kong			73,868			12,034	85,902	0.02%		
United Arab Emirates	0	75,000					75,000	0.02%	800,000	-90.6%
Pakistan		13,258	53,243				66,501	0.02%	84,339	-21.1%
South Africa	61,800						61,800	0.02%	147,767	-58.2%
Spain		60,000					60,000	0.02%	103,864	-42.2%
French Antilles		55,510	4,305				59,815	0.02%	14,194	321.4%
Argentina	59,478						59,478	0.02%	62,206	-4.4%
Tunisia			41,438				41,438	0.01%		
Canada	13,394		26,406				39,800	0.01%	26,276	51.5%
Switzerland	19,981	15,000					34,981	0.01%	15,419	126.9%
Mali	21,495						21,495	0.01%		
Peru	10,321						10,321	0.00%	18,191	-43.3%
Vietnam					646		646	0.00%		
Georgia									318,826	-100.0%
Singapore									70,509	-100.0%
Senegal									38,769	-100.0%
Belgium-Luxembourg									30,400	-100.0%
Greece									20,339	-100.0%
Ethiopia									20,202	-100.0%
Cameroon									18,243	-100.0%
Myanmar, Republic of									12,477	-100.0%
Albania									12,467	-100.0%
Portugal									5,803	-100.0%
Chile									1,307	-100.0%
Lebanon									181	-100.0%
Israel									20	-100.0%
Totals	321,524,563	12,172,961	10,569,599	1,534	3,244	79,590	344,351,491	100.00%	312,757,901	10.1%
As a % of Total	93.4%	3.5%	3.1%	0.0%	0.0%	0.0%	100.0%			
Figures are in actual Kgs exported in individual classifications: Prepared by AWIS from source data supplied by Australian Bureau of Statistics										
No warranty is given as to the accuracy or reliability and no responsibility is taken for any errors or omissions										
Australian exports of Wool Top by ABS classification:										
Top					2,448					
Top not else where specified										
Combed wool in fragments					796					
Total Top exported in actual kilograms					3,244					

Appendix 1I

Destinations for Australia's Wool Exports by Value, 2014/15

Australian Wool Industries Secretariat Inc.

ABN 30 454 304 967
Unit 9, 42-46 Vella Drive
SUNSHINE WEST VIC 3020

Reg. No. A0041776E
Telephone: 61 3 9311 0103
Facsimile: 61 3 9311 0138

Exports of Australian wool in \$'000 for period July 2014 to June 2015

5 August 2015

Country	Greasy	Scoured	Carbonised	Carded	Top	Noil/Waste	YTD Total	As a %	Prev Year	% Change
China	1,970,964	12,100	8,554				1,991,619	73.46%	1,718,519	15.9%
India	164,764	11,368	1,241			39	177,411	6.54%	186,909	-5.1%
Italy	126,043	8,275	6,384				140,702	5.19%	146,728	-4.1%
Czech Republic	122,477						122,477	4.52%	103,802	18.0%
Korea	1,733	761	76,103				78,596	2.90%	60,524	29.9%
Malaysia	14,889	47,074	125				62,089	2.29%	59,099	5.1%
Egypt	28,034	1,870					29,905	1.10%	28,826	3.7%
Taiwan	22,740	238	220		2		23,200	0.86%	20,432	13.5%
Thailand	1,362	19,433					20,795	0.77%	13,012	59.8%
Japan	187		11,792				11,979	0.44%	9,884	21.2%
United Kingdom	189	8,366	1,624			19	10,197	0.38%	13,142	-22.4%
USA	6,743	2,155	410		102		9,409	0.35%	6,534	44.0%
Germany	6,208	702	1,408				8,318	0.31%	5,306	56.8%
Iran		7,759					7,759	0.29%	4,083	90.0%
Lithuania		3,725					3,725	0.14%	1,618	130.1%
Mexico		961	1,749				2,710	0.10%	2,335	16.1%
Turkey		860	1,127				1,987	0.07%	1,453	36.7%
Mauritius	158		1,084				1,242	0.05%	616	101.6%
United Arab Emirates	1	1,006					1,006	0.04%	10,533	-90.4%
Hong Kong			867			9	877	0.03%		
New Zealand	309		525	21			854	0.03%	1,553	-45.0%
South Africa	737						737	0.03%	666	10.8%
Pakistan		130	492				622	0.02%	614	1.3%
Argentina	612						612	0.02%	576	6.2%
French Antilles		499	42				541	0.02%	135	299.5%
Tunisia			517				517	0.02%		
Spain		382					382	0.01%	776	-50.7%
Switzerland	124	146					270	0.01%	218	23.8%
Canada	62		203				266	0.01%	151	76.3%
Mali	157						157	0.01%		
Peru	49						49	0.00%	58	-15.4%
Vietnam					27		27	0.00%		
Georgia									3,221	-100.0%
Singapore									641	-100.0%
Senegal									277	-100.0%
Belgium-Luxembourg									228	-100.0%
Greece									183	-100.0%
Ethiopia									170	-100.0%
Albania									90	-100.0%
Cameroon									83	-100.0%
Chile									78	-100.0%
Myanmar, Republic of									62	-100.0%
Portugal									55	-100.0%
Lebanon									8	-100.0%
Israel									3	-100.0%
Totals	2,468,541	127,809	114,469	21	131	67	2,711,038	100.00%	2,403,199	12.8%
As a % of Total	91.1%	4.7%	4.2%	0.0%	0.0%	0.0%	100.0%			

Figures are in actual Kgs exported in individual classifications: Prepared by AWIS from source data supplied by Australian Bureau of Statistics
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