



5 August 2015

Committee Secretariat
Foreign Affairs, Defence and Trade Committee
Department of the Senate
PO Box 6100; Parliament House
Canberra ACT 2600

Via email: fadt.sen@aph.gov.au

Inquiry into the China-Australia Free Trade Agreement

I am writing on behalf of the Australian red meat and livestock industry in response to the Senate Foreign Affairs, Defence and Trade References Committee inquiry into matters relating to the proposed China-Australia Free Trade Agreement (ChAFTA).

Our industry is strongly supportive of the ChAFTA, which upon entry into force will initiate significant improvements to current access arrangements. ChAFTA has delivered on our priorities via securing future elimination of all import tariffs imposed on our products over various implementation timeframes - thereby helping to maintain competitiveness and bolster trade certainty.

The Australian red meat and livestock industry has been an engaged and contributory party from the outset of the ChAFTA process. The current tariffs imposed on Australian beef, sheepmeat, goat meat and co-products exported to China represent an annual tax on the supply chain of around \$826 million. The gradual removal of this cost burden will positively impact the profitability of Australian cattle, sheep and goat producers, processors and exporters as well as alleviate the inflated (tariff affected) prices paid for Australian red meat, livestock and associated products by Chinese businesses and consumers.

Under the Agreement, the tariffs currently levied on Australian beef of 12-25% will be eliminated within 9 years of entry into force; sheepmeat and goat meat tariffs of between 12-23% will be eliminated within 8 years; the tariffs on offals of 12-25% will be eliminated over 4-10 years; the 5-14% tariffs on hides and skins will be eliminated over 4-8 years; and the 10% tariffs on live cattle and live sheep eliminated over 4 years.

Once fully implemented an FTA with China has the potential to boost the gross value of beef production by \$270 million annually by 2024. Out to 2030, the total benefits for beef will approach \$3.3 billion. Analysis by the Centre for International Economics (CIE) suggests that cattle prices could increase by 8c/kg (dressed weight) above baseline levels when zero tariffs under ChAFTA are realised.

For the sheepmeat sector, the potential benefits are more than \$150 million each year by 2024 – with the value over the next 16 years being in excess of \$1.8 billion. Similarly, economic modelling by the CIE indicates that the elimination of these tariffs under ChAFTA could result in sheepmeat prices paid to producers increasing by 13-26c/kg (dressed weight).

As China is a destination for nearly 90% of Australia's sheepskin exports and 80% of cattle hides, elimination of these tariffs, as well as those on offal, will add \$436 million a year by 2024 across both beef and sheepmeat – and out to 2030, these benefits could total \$6 billion.

The ChAFTA benefits, which in total amount to around \$11 billion (to 2030), will therefore add significant value to the Australian red meat and livestock industry and complement the gains derived from the other FTAs Australia has concluded to date.

During the implementation of the ChAFTA, however, it will be crucial to stress the discretionary nature of the safeguard provisions which accompany the liberalisation of the beef tariff regime. Whilst the initial safeguard volume of 170,000 tonnes is 10% above Australia's historical calendar-year peak beef shipments to China, the safeguard if triggered due to increasing Chinese beef demand (a likely scenario), has the potential to disrupt trade flows - with the applied tariffs reverting to the pre-ChAFTA levels. Our industry's objective was for no safeguard provisions to be introduced under the ChAFTA. We will therefore continue to seek the obviation of this impost.

As ChAFTA is critical to the long term positioning of Australian red meat in China, of acute importance is securing early entry into force of the Agreement. The Australian red meat industry has been at a distinct disadvantage in China over recent years given the very low tariffs that our competitor, New Zealand, has benefited from following the 2008 New Zealand-China FTA. With New Zealand beef, sheepmeat and associated products gaining tariff-free entry in 2016, it is vital that comparable Australian products are afforded similar (albeit lagging) access arrangements as a matter of urgency.

An initial tariff cut in calendar 2015, followed by a second cut on 1 January 2016, will reduce the competitive disadvantage currently faced and ensure that the benefits of ChAFTA can begin to flow as early as possible.

It has been estimated that the failure to secure ChAFTA entry into force in 2015 will cost the Australian red meat industry around \$110 million in 2016.

Additionally, as competition in China will escalate over the next few years (as other lower-cost red meat suppliers obtain improved access to this growing market), Australia's competitiveness is under further threat – a demonstrable reason why timely ChAFTA implementation is essential.

Based on the official ChAFTA text and accompanying tariff liberalisation schedules, the Australian red meat and livestock industry recommends that the Senate Foreign Affairs, Defence and Trade References Committee endorses the ChAFTA so that binding treaty action can be taken without delay.

Yours sincerely

David Larkin
Chair
Australian Red Meat Industry ChAFTA Taskforce

The *Red Meat Industry ChAFTA Taskforce* incorporates the following organisations:

- Red Meat Advisory Council
- Cattle Council of Australia
- Australian Lot Feeders' Association
- Sheepmeat Council of Australia
- Australian Meat Industry Council
- Australian Livestock Exporters' Council
- Meat & Livestock Australia