

# Chapter 5

## Trade in agriculture

5.1 This chapter examines recent developments in China's agricultural sector and Australia–China trade in agricultural products. Of particular interest is the shifting pattern of food consumption in China, the Chinese government's commitment to reduce farmers' taxes, and the growing export opportunities in China for Australian agricultural producers.

### Recent developments in China's agricultural sector

5.2 The structure of China's agricultural industries is changing in response to changing consumer preferences. Increasingly, Chinese consumers are including vegetables, fruits, meats and dairy products in their diet. The consumption of traditional staples, such as grains and rice, is declining.<sup>1</sup>

5.3 These changing consumption patterns, and the absolute increase in demand for agricultural products, reflect China's rapid economic growth and urbanisation. Urban incomes tend to be higher than those in rural areas and the proportion of urban to rural dwellers has increased sharply in recent years. In 2003, rural households' consumption of grain products was 222 kilograms, compared with 80 kilograms per urban household. Rural households' consumption of fruit, eggs and milk was significantly lower than that for urban households, albeit at lower absolute consumption levels than for the traditional staples.<sup>2</sup>

5.4 Between 1975 and 2002, higher disposable income in China contributed to a fivefold increase in the consumption of vegetables, fish and meat, measured in calories per person.<sup>3</sup> The consumption of fruit and eggs increased eightfold. An international comparison shows that China's 2002 consumption of fish per person was higher than Australia's. The same year, China's per person consumption of vegetables was the highest of any nation in East, South or South East Asia, and more than two-and-a-half times the intake per Australian.<sup>4</sup>

5.5 Traditionally, agricultural self-sufficiency has been a key policy of the Chinese government. Its market reforms since the late 1970s, and improvements in technology, have enabled the sector to meet these growing and changing consumer

---

1 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. iii.

2 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 6.

3 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 5.

4 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 5.

demands. Indeed, for many products, China's share of global output in 2002 either exceeded, or was equal to, its share of global population. Table 5.1 shows that these products include pork (2.2), vegetables (2.0), eggs (2.0), tobacco (1.7), rice (1.6), rapeseed (1.3), corn (1.0) and cotton (1.0).<sup>5</sup> The output to population ratio is low for products including fruit (0.7), beef (0.4), sugar cane (0.3) and milk (0.1).

5.6 Over the past decade, the changes in consumer preferences in China have contributed to a shift in Chinese production from land intensive products such as grains and cereals, towards labour intensive goods including meat, fruit, vegetables and dairy goods. As a result, the area of land harvested has fallen.

5.7 A good example is the case of wheat. Over the period 1997–98 to 2003–04, the area harvested in the production of wheat fell from 30.1 to 22 million hectares. Over the same period, China's production of wheat fell from 123.3 to 86.5 million tonnes, while domestic wheat consumption fell from 109.1 to 104.5 million tonnes. Since 2000–01, China's domestic consumption of wheat has exceeded domestic production. In 2000–01, China imported 0.2 million tonnes of wheat; in 2003–04, it imported seven million tonnes.

**Table 5.1: China's food self-sufficiency**

	Share of global output relative to share in global population (2002)
Pork	2.2
Vegetables and melons	2.0
Eggs	2.0
Tobacco	1.7
Rice	1.6
Rapeseed	1.3
Corn	1.0
Cotton	1.0
Wheat	0.9
Poultry	0.9
Fruit	0.7
Soybeans	0.4
Beef and veal	0.4
Sugar cane	0.3
Milk	0.1

5 See P. Gallagher, 'Agriculture in an Australia–China FTA', 10 August 2004, p. 3. A ratio of 1.0 means China's share of global output of that product is equal to its share in global population.

## Recent developments in China's rural incomes and trade policy

5.8 The single-most important shift in China's agricultural policy was the introduction of the system of 'household responsibility' in the late 1970s. The system gave production incentives for farmers that have increased over time to allow farming production to respond quickly to changes in urban consumption patterns.<sup>6</sup> However, real farming income has fallen as production costs increase and agricultural prices fall.<sup>7</sup>

5.9 The Chinese government has been increasingly concerned at the widening disparity between the incomes of rural peasants and a growing urban middle class.<sup>8</sup> The plight of China's 900 million farmers—and the damage caused by the government's agricultural policies—was recently depicted in the Chinese bestseller 'A Survey of Chinese Peasants'.<sup>9</sup>

5.10 The book makes the point that the proliferation of taxes and local fees has greatly increased the tax burden on farmers. In the period 1994–97, the average agricultural income grew by 90 per cent; the rural tax burden increased by 800 per cent.<sup>10</sup> The most recent estimate is that a farmer pays three times as much in tax as a city dweller, on a sixth of the income.<sup>11</sup>

5.11 In March 2004, Premier Wen Jiabao announced that agricultural tax would be eliminated over five years, with permission for provincial authorities to accelerate the rate of reduction.<sup>12</sup> The decision is part of the government's broader policy of subsidising rather than taxing farmers, and ends the centuries' old practice of paying taxes based on family size and acreage area. Official statistics record that in 2004, these policies increased the net welfare of Chinese farmers by \$US5.4 billion.<sup>13</sup>

5.12 In June 2005, Premier Wen announced that farmers would be exempt from agricultural tax from 2006, three years ahead of schedule. The central government would increase transfer payments—by \$US1.7 billion—to offset the revenue decreases in local budgets.<sup>14</sup> Still, the direct subsidies and tax reductions have been

---

6 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 16.

7 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

8 See also Chapter 2, paragraphs 2.39–2.48.

9 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

10 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

11 R. Spencer, 'Expose of poverty in China shames regime', *News Telegraph*, 25 February 2004, <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2004/02/25/wchina25.xml&sSheet=/news/2004/02/25/ixworld.html> (accessed 6 September 2005).

12 R. Spencer, 'Expose of poverty in China shames regime', *News Telegraph*, 25 February 2004.

13 Xing Qinjiao, 'Agricultural tax to be scrapped from 2006', *China Daily*, 3 June 2005.

14 Xing Qinjiao, 'Agricultural tax to be scrapped from 2006', *China Daily*, 3 June 2005.

estimated to average only \$US5 per rural household member, and the assistance has not provided farmers with strong incentives to increase plantings.<sup>15</sup>

5.13 Moreover, although the decision to scrap agricultural taxes is significant, the task of alleviating rural poverty requires far bolder measures. Professor Jiang Wenran, a political scientist from Alberta University, has argued that these decisions usually fall short of expectations. He noted that Premier Wen's predecessor, Zhu Rongji, also prioritised reducing the rural tax burden and increasing rural income:

Yet the situation only worsened. China's government must acknowledge that deep income inequality and rural poverty are no longer exclusively economic problems, but threaten social peace and political stability. Comprehensive reform is the only way out.<sup>16</sup>

5.14 An important plank of this reform will be to overhaul the *hukou*—or household registration—system. This system was introduced by Chairman Mao in 1958 as a means for the new Communist government to keep track of its population. Its effect has been to restrict the movement of people from rural to urban areas, and to exacerbate the gap between these areas in income and social benefits. Despite the movement of 100 million farmers to urban areas over the past 25 years, the *hukou* system has offered either limited residency rights or deported these citizens back to their home provinces.<sup>17</sup>

5.15 A recent World Bank report estimated that reform of the *hukou* system could increase rural wages by 17 per cent and allow 28 million people to leave agriculture.<sup>18</sup> Even the official China Daily has argued that the *hukou* system has 'hindered national development by barring the free flow of educated professionals'.<sup>19</sup> There have been signs over the past five years that the ruling State Council may abolish the system. However, the concessions granted to date have been minor.

5.16 The other aspect of China's agricultural policy is trade policy. Coinciding with market reforms beginning in the late 1970s, China has gradually eased its agricultural tariff barriers and begun reforming its foreign exchange system. As chapter 4 discusses, the key milestone was China's accession to the World Trade Organization (WTO) in 2001. In return, China made a commitment to reduce its maximum tariff level for agricultural products from 22 per cent to 17 per cent by 2005. Peter Gallagher of Inquit Communications has observed:

---

15 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 16.

16 J. Wenran, 'Big trouble in rural China', *Australian Financial Review*, 23 April 2004, p. 11.

17 M. Dwyer, 'A moving experience', *Australian Financial Review*, 10 August 2001.

18 C. Ryan, 'WTO quantifies China's economic role', *Australian Financial Review*, 23 February 2005, p. 12.

19 M. Dwyer, 'A moving experience', *Australian Financial Review*, 10 August 2001.

China's WTO schedule sets a benchmark for developing country agriculture and puts some earlier new-industrializers such as Japan to shame for maintaining during the past forty years a panoply of border barriers on agricultural products ranging up to hundreds of percent on an *ad valorem* basis.<sup>20</sup>

5.17 The Chinese government has also frequently employed tariff quotas to influence market access for agricultural imports according to levels of domestic production. For agricultural commodities in which China is a net exporter, tariff quotas have generally been low.<sup>21</sup> In general, China's tariff quotas for agricultural commodities have increased in the years since 2001 to allow for further increases in imports. In 2003, the only major agricultural import that exceeded the set quota was cotton.<sup>22</sup>

5.18 Chapter 10 looks more closely at China's achievements in liberalising agricultural protection under the WTO. Some of the agricultural issues relating to non-tariff barriers are discussed later in this chapter.

### **Australia–China trade in agricultural products**

5.19 In 2004, China's agricultural imports from Australia totalled \$US2.41 billion, consisting mainly of wool, wheat, barley, cotton, meat and dairy products.<sup>23</sup> The same year, Australia's agricultural imports from China totalled \$US233 million.<sup>24</sup> The principal Chinese imports included sugar confectionery, biscuits, pasta, frozen vegetables, sauces and peanuts. Since 1995, trade in agricultural products between Australia and China has increased at an annual average rate of 8.8 per cent.<sup>25</sup>

5.20 Mr Gallagher noted that apart from wool and cotton, 'China is still a small market for Australian agricultural exporters'.<sup>26</sup> He calculated that only six per cent of total Australian agricultural exports are sourced to China. Indeed, Table 5.2 shows

---

20 P. Gallagher, 'Agriculture in an Australia–China FTA', 10 August 2004, p. 7.

21 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 16.

22 I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', *Australian Bureau of Agricultural and Resource Economics*, July 2005, p. 21.

23 Department of Agriculture, Fisheries and Forestry, Opening Statement, *Committee Hansard*, 20 June 2005, p. 2.

24 Department of Agriculture, Fisheries and Forestry, Opening Statement, *Committee Hansard*, 20 June 2005, p. 2.

25 Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', March 2005, p. 19.

26 P. Gallagher, 'Agriculture in an Australia–China FTA', 10 August 2004, p. 4. Mr Gallagher established Inquit Communications in 1996 as a consultancy providing advice to the WTO on international trade and public policy matters.

that only three agricultural commodities—wool, wheat and barley—are among the top ten Australian exports to China. The other seven are mineral exports.

5.21 However, in terms of the agricultural produce that China imports, Australia is a dominant supplier. Table 5.3 shows that Australia is China's largest supplier of barley, beef and wool, and the second largest supplier of rapeseed and sheep and goat meat.

**Table 5.2: China's top 10 merchandise imports from Australia (\$US million)**

	2001	2002	2003	2004
Iron Ore	945	995	1,632	3,346
Alumina	523	589	998	1,103
Wool	639	682	588	900
Crude petroleum	154	242	445	467
Coal	28	146	208	387
Wheat	8	10	1	364
Gases	74	87	127	273
Aluminium	96	135	196	261
Barley	211	229	133	239
Manganese Ores	46	56	104	227

*Source: 'Australia–China Free Trade Agreement Joint Feasibility Study', Department of Foreign Affairs and Trade, Canberra, and Ministry of Commerce, Beijing, March 2005, p. 14. Note: Ranking based on 2004 values.*

**Table 5.3: Australia's prominence as an agricultural importer to China**

Australian exports to China	Ranking and percentage share among world suppliers (average, 2001–03)	Value (2004 in \$US, millions)
Cotton	4 <sup>th</sup> (6.3%)	178
Wool	1 <sup>st</sup> (62.9%)	900
Dairy	3 <sup>rd</sup> (16.6%)	118
Beef	1 <sup>st</sup> (85%)	n.a.
Sheep meat	2 <sup>nd</sup> (23.2%)	155
Barley	1 <sup>st</sup> (60.7%)	239
Wheat	3 <sup>rd</sup> (7.7%)	364
Rapeseed	2 <sup>nd</sup> (25.2%)	n.a.
Horticulture	15 <sup>th</sup> (0.2%)	n.a.

Source: Dairy Australia, *Australian Dairy Industry Submission to the Australia–China Free Trade Agreement Joint Feasibility Study*, Department of Foreign Affairs and Trade, Canberra, 2004; China FTA Study Taskforce and Department of International Trade and Economic Affairs, 'Australia–China Free Trade Agreement Joint Feasibility Study', Department of Foreign Affairs and Trade, Canberra, and Ministry of Commerce, Beijing, 2005.

Note: The percentages for wheat, cotton and beef are based on the 2004 calendar year. The value for wool is an average of 2001–03 exports; the value for dairy exports is based on the 2002 calendar year.

5.22 Furthermore, the absolute figures obscure the significant recent increases in the volume of specific Australian primary exports to China, and several other strong prospects for primary commodity exports.

5.23 Table 5.4 is reproduced from a July 2005 Australian Bureau of Agriculture and Resource Economics (ABARE) report. It shows substantial increases in the dollar volume of Australian cotton, meat, dairy products and live animal exports to China. The falling volume of other exports, such as grain, oilseeds and sugar, has been influenced by climatic factors. The other notable feature is that the value of Australian food and live animal exports to China is nearly eight times the value of China's food and livestock exports to Australia.

**Table 5.4: Australian agricultural exports to China**

<b>Exports to China</b>	<b>1999–2000 (\$m)</b>	<b>2000–01 (\$m)</b>	<b>2001–02 (\$m)</b>	<b>2002–03 (\$m)</b>	<b>2003–04 (\$m)</b>
Wool	855	1 200	1 320	1 309	1 066
Hides and skins	82	182	156	131	176
Cotton	10	26	28	58	185
Grains	84	339	510	332	265
Oilseeds	406	108	137	21	2
Live animals	11	12	13	42	124
Processed meats	63	75	94	97	115
Dairy foods	31	64	96	81	74
Sugar	17	24	88	99	44
<b>Total</b>	<b>1 559</b>	<b>2 030</b>	<b>2 432</b>	<b>2 170</b>	<b>2 051</b>
<b>Imports from China (food and live animals) (\$m)</b>	<b>125</b>	<b>152</b>	<b>212</b>	<b>242</b>	<b>264</b>

Source: I. Roberts and N. Andrews, 'Developments in Chinese Agriculture', Australian Bureau of Agricultural and Resource Economics, July 2005, p. 22.

*Wool*

5.24 The Department of Agriculture, Fisheries and Forestry (DAFF) noted in its submission to the committee that wool has traditionally been the major Australian agricultural export to China.<sup>27</sup> Some figures support the strength of Australian wool's export performance and prospects.

- China is Australia's largest wool market. In 2002–03, 40 per cent of Australia's wool clip was exported to China.<sup>28</sup> Between 2003 and 2004, the value of Australian wool exports to China increased by 33 per cent to \$A1,243 million.<sup>29</sup>
- In 2004, wool was Australia's highest agricultural export earner in China.<sup>30</sup> It was second only to iron ore as Australia's main export earner in China (\$A2,446 million).<sup>31</sup>
- In 2003, the volume of China's wool imports from Australia was almost two-thirds of China's total wool imports (108 million of 173 million tonnes), and was nearly half China's average wool production for that year.<sup>32</sup> The most recent estimate is that Australia supplies 70 per cent of China's wool imports.<sup>33</sup>
- The Chinese Customs Bureau records that the import of Australian wool has fallen from 200,453 tonnes in 2001 to 151,390 tonnes in 2002 to 107,647 tonnes in 2003.<sup>34</sup>
- The Woolmark Company has estimated that China's apparel wool demand at the manufacturing stage will grow from 256 million kilograms in 2004 to 367

---

27 Department of Agriculture, Fisheries and Forestry, *Submission P41*, p. 2.

28 B. Fargher, National Farmers' Federation, *Committee Hansard*, 22 June 2005, p. 14.

29 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

30 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

31 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

32 *Submission P41*, p.15. See also, Australian Wool Limited *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 15 (Table 9).

33 Australian Wool Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 15, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_2ag17.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_2ag17.pdf) (accessed 6 October 2005).

34 Australian Wool Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 15, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_2ag17.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_2ag17.pdf) (accessed 6 October 2005).



million kilograms in 2010.<sup>35</sup> Australian Wool Innovation Limited anticipates that 'Australia could be expected to take a substantial share of this rising demand for wool'.<sup>36</sup>

5.25 DAFF's submission identifies strong prospects for Australia's wool exporters in China given that:

Chinese domestic wool production is predominantly broad micron, with imports from Australia traditionally representing finer wool types destined for use in China's finer textiles and apparel.<sup>37</sup>

5.26 Similarly, an October 2005 report prepared for Australian Wool Innovation Limited (AWI) noted that while China produced more than 120,000 tonnes of fine wool a year, only 19,000 tonnes of this would compete with the 153,000 tonnes imported from Australia.<sup>38</sup> AWI's submission to the committee noted that production of fine and superfine wool (of 19.5 micron and finer) accounted for 32 per cent of total Australian production in 2003–04. In 1992–93, this type of wool accounted for only nine per cent of total Australian production.<sup>39</sup> The 2005 AWI report argued that the overlap between the Australian and Chinese wool industries is 'minimal'.<sup>40</sup>

5.27 Mr Craig Burns, DAFF's General Manager of Trade Policy, told the committee that while there are significant wool-growing regions in western China, China's wool is 'of different quality to ours'.<sup>41</sup> Nonetheless, Mr Burns acknowledged a perception in China that their wool producers feel threatened by Australian wool

---

35 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 7, [http://www.wool.com.au/attachments/Trade\\_Markets/AWI\\_China\\_FTA\\_Report.pdf](http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf) (accessed 20 October 2005).

36 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 7, [http://www.wool.com.au/attachments/Trade\\_Markets/AWI\\_China\\_FTA\\_Report.pdf](http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf) (accessed 20 October 2005).

37 Australian Wool Limited, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, June 2004, p. 15.

38 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 8, [http://www.wool.com.au/attachments/Trade\\_Markets/AWI\\_China\\_FTA\\_Report.pdf](http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf) (accessed 20 October 2005). See also J. Breusch, 'Producers' spin for China', *Australian Financial Review*, 11 October 2005, p. 11.

39 Australian Wool Limited, *Submission to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study'*, June 2004, p. 11.

40 Australian Wool Innovation, *Economic benefits for Australian wool trade from a China free trade agreement*, Prepared by ITS Global, p. 14, [http://www.wool.com.au/attachments/Trade\\_Markets/AWI\\_China\\_FTA\\_Report.pdf](http://www.wool.com.au/attachments/Trade_Markets/AWI_China_FTA_Report.pdf) (accessed 20 October 2005).

41 C. Burns, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 20 June 2005, p. 4.

imports. Mr Paul Morris, DAFF's Executive Manager of Market Access, commented: 'Clearly they are trying to protect their small ethnic minorities in some of the outer regions, including Inner Mongolia and in the western provinces'.<sup>42</sup>

5.28 The committee heard that most Australian wool is exported to China in raw form, where it is then processed. The processed Australian wool has tended to be 'a bit uncompetitive'.<sup>43</sup> The committee supports current initiatives by the Australian wool industry to establish research and development alliances with Chinese designers and retailers, and to promote Australian joint ventures in China.<sup>44</sup>

### *Cotton*

5.29 China produces five to six million tonnes of cotton annually, which is roughly 25 per cent of world production. Between 2001 and 2003, Australian production averaged 0.5 million tonnes, or 2.3 per cent of world production.

5.30 Whereas most of China's cotton production is consumed domestically, 90 per cent of Australian cotton production is exported.<sup>45</sup> Australia is the fourth largest supplier of cotton to China, although Chinese demand for cotton imports can vary markedly from year to year. China's cotton imports of 208,000 tonnes in 2002 increased to 1,984,000 tonnes in 2004.<sup>46</sup> Between 2003 and 2004, the value of Australian cotton exports to China increased by \$A142 million, or 210 per cent.<sup>47</sup>

5.31 One of the key factors promoting Australian cotton exports to China will be further appreciations of the Chinese yuan.<sup>48</sup> In July 2005, Queensland Cotton Holdings Chief Executive, Mr Richard Haire, highlighted the importance of international trade issues such as the value of the Chinese currency to the domestic industry.<sup>49</sup> Moreover, the committee notes the opportunities for Australian cotton exporters given the size of China's textile industry and the fact that it has not moved to become self-sufficient in cotton.

---

42 P. Morris, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 20 June 2005, p. 4.

43 P. Morris, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 20 June 2005, p. 4.

44 Australian Wool Innovation Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, pp. 7 and 23, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_2ag17.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_2ag17.pdf) (accessed 28 September 2005).

45 *Submission P41*, p. 8.

46 *Submission P41*, p. 8.

47 DFAT Briefing Materials, 'Bilateral trade and investment', June 2005.

48 In July 2005 the People's Bank of China pegged the yuan to a basket of foreign currencies and strengthened its value by 2.1 per cent—from 8.27 yuan to the US dollar to 8.11.

49 T. Lee, 'Chinese revaluation strengthens case for takeover: cotton boss', *Australian Financial Review*, 26 July 2005, p. 17.

*Barley and wheat*

5.32 Between 2001 and 2003, Australia's barley production was more than double China's. Over this period, China's production of barley (3 million tonnes) was outstripped by its consumption (4.9 million tonnes).<sup>50</sup> Barley imports from Australia accounted for an average 1.1 million tonnes of this 1.9 million tonne shortfall.

5.33 China's wheat production averaged 90 million tonnes between 2001 and 2003, compared with Australia's 19 million tonnes. Of this amount, Australia exported an average of 14 million tonnes of wheat annually, of which 43,964 tonnes (0.3 per cent) was exported to China. Australia is China's third largest importer of wheat behind the United States and Canada.<sup>51</sup>

5.34 The State of Western Australia is the principal exporter of both wheat and barley to China. In 2003–04, Western Australia contributed 99 per cent of Australia's wheat exports (\$A165 million) and all of Australia's barley exports (\$A25 million) to China.<sup>52</sup> Remarkably, in 2000–01, the state's share of wheat exports to China was only 33 per cent or a little over \$A5 million.<sup>53</sup> The committee heard that climatic factors in Australia were the principal cause for the sharp increase in exports.<sup>54</sup>

5.35 In October 2003, coinciding with the announcement of the Trade and Economic Framework (see Chapter 11), China and Australia signed a protocol on wheat and barley exports. Under the terms of the protocol, China's quarantine authority agreed to remove ring spot as a pest for Australian wheat and barley exports to China for processing.<sup>55</sup> The importance of quarantine and non-tariff or 'beyond the border' issues for Australian agricultural exporters to China are discussed later in this chapter.

*Dairy foods*

5.36 As mentioned earlier, the rising affluence and urbanisation of China's middle class is leading to greater consumption of dairy goods. Table 5.1 shows that China's self-sufficiency in milk, soy beans and sugar cane is low. Dairy Australia stated in its submission to DFAT's FTA Joint Feasibility Study that the Chinese market for

---

50 *Submission P41*, p. 8.

51 *Submission P41*, p. 8.

52 Department of Premier and Cabinet, Government of Western Australia, *Submission P45*, p. 29.

53 Department of Premier and Cabinet, Government of Western Australia, *Submission P45*, p. 31.

54 V. Kelly, Western Australian Department of Agriculture, *Committee Hansard*, 1 August 2005, p. 25.

55 See The Hon. W. Truss, 'Australia and China sign new protocol for wheat and barley exports', Media Release, 24 October 2003, <http://www.maff.gov.au/releases/03/03300wt.html> (accessed 1 October 2005).

imported dairy products will continue to grow between 5 to 15 per cent per year for the next 10 years.<sup>56</sup>

5.37 In 2002, Australia supplied roughly one quarter of China's imports of dairy products. Table 5.4 shows that Australia's exports of dairy goods and sugar cane to China account for a relatively small proportion of total Australian agricultural exports to China. Still, in the decade between 1993 and 2002, the value of Australian dairy exports to China rose from \$A2 million to \$A118 million. Most of this increase can be attributed to the surge in exports of skim and whole milk powder and whey and whey powder to China.<sup>57</sup>

5.38 Equally, the fall in the export value of dairy products to \$A70 million in 2003 reflects the declining export volumes of these key products.<sup>58</sup> The reason for the fall is a combination of the drought in Australia, low world commodity prices for dairy products and the high value of the Australian dollar.

5.39 Dairy Australia anticipates that China's consumption of cheese will increase from its current low base as incomes increase and the diet westernises. It noted that 'most older Chinese still find the taste and smell of cheese offensive', but that consumption will probably increase as it has done in other North Asian countries.<sup>59</sup> The committee believes that Australian dairy exporters must continue to conduct careful market research on China. It may be that in some cases, Australian produce must be adapted to fit Chinese tastes.

### *Pork*

5.40 Table 5.1 shows that pork is the agricultural product in which China has greatest self-sufficiency. The proportion of China's pork production relative to global output is more than double the proportion of China's population to world population. Not surprisingly, therefore, China is the world's largest pig producer.<sup>60</sup> Between 2001 and 2003, China's average annual pork production was almost 43.4 million tonnes compared with Australia's production of 0.4 million tonnes.

---

56 Dairy Australia, Australian Dairy Industry *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 3, [http://www.dfat.gov.au/geo/china/fta/submissions/cfta\\_submission\\_2ag14.pdf](http://www.dfat.gov.au/geo/china/fta/submissions/cfta_submission_2ag14.pdf) (accessed 31 August 2005).

57 Whey is a by-product of cheese production. Dairy Australia predicts that whey powder will be replaced gradually by more specialised milk powders as incomes rise.

58 Dairy Australia, Australian Dairy Industry *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', p. 11.

59 Dairy Australia, Australian Dairy Industry *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', p. 12.

60 Australian Pork Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', 18 June 2004, p. 4.

5.41 The two-way trade in pork is insignificant. China has not exported pork to Australia and has a number of well-publicised endemic diseases. Australian pork exports to China are restricted by both the high volume and low cost of China's domestic production. Nonetheless, Australian Pork Limited is optimistic that the Australian pork industry can capture a greater share of the Chinese market provided the current average tariff rates of 20 per cent are eliminated. In particular, it anticipates that 'as the Chinese market develops and consumer incomes rise, there are likely to be significant opportunities for high quality products from 'clean green' countries such as Australia'.<sup>61</sup>

#### *Processed food*

5.42 In its June 2004 submission to DFAT's FTA Feasibility Study, the Australian Food and Grocery Council noted the success of some Australian food producers in exporting to the 'more affluent quality focused Chinese consumers'.<sup>62</sup> Indeed, highly processed Australian food exports to China have increased from \$21 million in 1996–97 to over \$100 million in 2002–03. Total Australian processed food exports to China were valued at \$600 million in 1996–97, rising to around \$900 million in 2001–02, before the drought reduced this value to \$658 million in 2002–03<sup>63</sup>. China's spending on processed and unprocessed food increased from roughly 2100 billion yuan in 1997 to roughly 3200 billion yuan in 2004.<sup>64</sup> The committee notes the opportunities that China offers Australia's processed food exporters.

#### **Recommendation 4**

**5.43 The committee recommends that Australia's agricultural exporters—in cooperation with key government agencies such as DAFF and Austrade—put particular care into researching the China market. There will be significant export opportunities for Australian primary producers as China's incomes rise and the restrictions on trade are removed. For these opportunities to be recognised, it is imperative that Australian exporters have up to date information about consumer tastes and producer requirements as they vary from region to region.**

#### **The role of Australian government agencies in agricultural trade with China**

5.44 DAFF's role is to improve market access for Australian exporters in China. The committee heard that DAFF 'pursues requests prioritised by portfolio industries to

---

61 Australian Pork Limited, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', 18 June 2004, p. 4.

62 Australian Food and Grocery Council, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 3.

63 Australian Food and Grocery Council, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', June 2004, p. 4.

64 C. Ryan, 'Rise of the big spenders', *Australian Financial Review*, 25 October 2005, p. 60.

improve or maintain market access for their products into China and negotiates with Chinese authorities on bilateral quarantine issues'.<sup>65</sup> It performs this function through a variety of forums.

5.45 First, DAFF raises portfolio issues through the Joint Ministerial Economic Commission. This is the main bilateral ministerial forum, held every two years. In the intervening years, DAFF officials also meet with their Chinese counterparts. In addition, a Joint Agricultural Commission meeting is held every three years.<sup>66</sup>

5.46 Second, DAFF has devoted its own resources to the China relationship. In 2003, for example, the department appointed an agriculture counsellor to the Australian Embassy in Beijing.<sup>67</sup> It has also appointed an SES Band 2 officer to represent Australian agricultural interests in the negotiation of an FTA.

5.47 Third, DAFF plays an important role in several ongoing forums with Chinese officials on agricultural issues. In April 2004, for example, the department oversaw meetings:

- in Beijing for the Joint Working Group on Wool;
- in Guangzhou for discussions on market access for Australian horticultural imports; and
- in Beijing for discussions on animal and plant health, following the October 2003 Memorandum of Understanding on Sanitary and Phytosanitary Cooperation.<sup>68</sup>

5.48 Fourth, DAFF has responsibility for promoting Australian joint ventures in China through the Australia–China Agricultural Cooperation Agreement (ACACA). Since the ACACA was signed in 1984, there have been more than 170 Australian projects approved across a wide range of agricultural and natural resource industries.<sup>69</sup>

5.49 Fifth, DAFF has signed several Memoranda of Understanding (MOU) with various Chinese ministries to improve collaboration on agricultural issues.<sup>70</sup> In

---

65 P. Morris, *Committee Hansard*, 20 June 2005, p. 2.

66 P. Morris, *Committee Hansard*, 20 June 2005, p. 2.

67 P. Morris, *Committee Hansard*, 20 June 2005, p. 2.

68 This MOU was signed with China's General Administration of Quality Supervision Inspection and Quarantine.

69 See Department of Agriculture, Fisheries and Forestry, 'Background on ACACA', <http://www.daff.gov.au/content/output.cfm?ObjectID=D2C48F86-BA1A-11A1-A2200060B0A04223> (accessed 2 September 2005).

70 A list of existing bilateral trade and economic agreements across all portfolios can be found at [http://www.dfat.gov.au/geo/china/fta/feasibility\\_annexes.pdf](http://www.dfat.gov.au/geo/china/fta/feasibility_annexes.pdf) (accessed 1 October 2005).

October 2003, for example, DAFF signed an MOU on water resource management with China's Ministry for Water Resources.<sup>71</sup>

5.50 DAFF's lead role in the bilateral dialogue on agricultural issues is supplemented by agencies such as the Australian Centre for International Agricultural Research (ACIAR). According to ACIAR, its strategy on China focuses on:

...sustainability aspects of agricultural production through policy and technical projects on better management of water, land and forest resources in less-developed regions in northwestern and southwestern China. In addressing sustainable production, the need to raise farmers' incomes through increased productivity and quality of crops, livestock and forestry products is also addressed in project design.<sup>72</sup>

### **The impact of free trade on Australian agriculture**

5.51 Australia has a comparative advantage in land based agriculture—grains and broadacre crops—and in high quality dairy products. Chapter 11 finds that a comprehensive FTA would enhance significantly Australia's market access for these exports. The 2005 AWI report (paragraph 5.26) estimates that free trade with China could increase the value of Australia's wool exports by \$794 million.<sup>73</sup> Free trade would also enable Australian exporters to capitalise on China's growing demand for wool and dairy products.

### **Quarantine and 'beyond the border' issues for Australian exporters**

5.52 Another key issue for Australian agricultural exporters in accessing the Chinese market is quarantine. China, as a member of the WTO, has obligations to apply a science-based approach to import risk-analyses. The WTO's sanitary and phytosanitary (SPS) measures serve to guide, rather than restrict, national quarantine rules. The SPS measures are respected internationally as a science-based framework for the protection of consumer safety and the promotion of trade. The general grievance with China's quarantine standards is that they are often inconsistent with WTO standards and are not obviously science-based.

5.53 The export of Australian wool to China is a good example. A submission from R. J. Quirk Consulting to the Joint FTA Feasibility Study in June 2004 noted that China refuses to recognise the internationally accredited status of WTO test certificates. All Australian wool exports are subject instead to the Chinese system of

---

71 See The Hon. W. Truss, 'Australia and China to co-operate on water resource management', Media Release, 24 October 2003, <http://www.maff.gov.au/releases/03/03301wt.html> (accessed 2 September 2005).

72 Australian Centre for International Agricultural Research, 'China—Country Profile', p. 11 [http://www.aciar.gov.au/web.nsf/att/ACIA-672VCD/\\$file/ACIAR%20China%20profile%2022Oct04.pdf](http://www.aciar.gov.au/web.nsf/att/ACIA-672VCD/$file/ACIAR%20China%20profile%2022Oct04.pdf)

73 See J. Breusch, 'Producers' spin for China', *Australian Financial Review*, 11 October 2005, p. 11.

mandatory inspection and retesting. Mr Quirk argued that China's State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) officials:

...claim that their local testing procedures are as good, if not better, than those of IWTO [International Wool Textile Organisation] but continually ignore the fact that it is physically impossible for their technicians to obtain representative samples for testing from dumped wool bales. IWTO procedures make provision for any suspect test results to be queried but AQSIQ refuses to recognise IWTO certificates and China's membership of IWTO.<sup>74</sup>

5.54 In other industries, China's quarantine system significantly inhibits trade. Mr David Minnis, deputy chairman of the Australian Horticultural Exporters Association, claimed that Australian citrus producers remain excluded from the Chinese market after seven years of negotiations.<sup>75</sup> A major reason is China's protocol that Australian citrus must be held at temperatures close to zero during shipment. The export of Australian apples to China has been particularly problematic. Tasmanian apple growers do not have access to the China market because of quarantine measures requiring exporters to show that certain insect pests do not exist.<sup>76</sup> Yet, the types of pests that are screened do not exist in Tasmania.

5.55 Mr Morris told the committee that the department has been working 'for some time now' to get the Chinese to advance their import risk assessment system for citrus products so that trade can occur.<sup>77</sup> The Murray Valley Citrus Marketing Board highlights the opportunities in China for high-quality Australian citrus products, but adds that 'a more efficient and effective quarantine access approval process would be a very desirable outcome in any FTA negotiations'.<sup>78</sup>

5.56 Currently, discussions on quarantine issues are generally left to specialised bilateral negotiations, such as those resulting in the Australia–China MOU on Sanitary and Phytosanitary Cooperation in October 2003. There have also been opportunities for Australian officials to have side discussions with their Chinese counterparts at the SPS committee in Geneva. DAFF did acknowledge to the committee that:

...in order that some of the gains we might get out of the FTA do result in real trade, we as a department need to move in parallel with the FTA in negotiations, trying to advance as best we can the scientific issues to do

---

74 R. J. Quirk Consulting, *Submission* to the Department of Foreign Affairs and Trade, 'Australia–China Free Trade Agreement Joint Feasibility Study', 15 June 2004, p. 2.

75 P. Hunt, 'Anger over China's fruit import rules', *Weekly Times*, 10 August 2005, p. 10.

76 P. Hunt, 'Anger over China's fruit import rules', *Weekly Times*, 10 August 2005, p. 10.

77 P. Morris, *Committee Hansard*, 20 June 2005, p. 7.

78 J. Tesoriero, Murray Valley Citrus Marketing Board, *Submission to the Joint FTA Feasibility Study*, 30 June 2004.



with quarantine market access, as we have over the last few years. Certainly we will be endeavouring to do that over the next little while.<sup>79</sup>

5.57 He added:

We do have very good relationships with the quarantine authorities in China. We have been working for a long time on technical cooperation with the Chinese, and that work has included having some of their officials sit within our department for about three months at the end of last year so that they could become accustomed to how we operate. We put our counsellor there in 2003, and that has also helped to develop relationships with the quarantine authorities there. I think in the long run those relationships we are building will have a beneficial effect in terms of getting access.<sup>80</sup>

5.58 A closely related concern for Australia's agricultural exporters is the variation in quarantine costs from province to province. Mr Steven Macmillan, a consultant from China Business Focus, told the committee that:

there is a testing procedure for wool that is imported into China and it has a small fee attached to it. That fee is set at the provincial government level and it differs from provincial government to provincial government. That is an example of something that should ideally be under the purview of the national government, being a foreign trade issue. But it is not, and it is unpredictable as a result of that.<sup>81</sup>

5.59 This imposition of a local fee provides another example of the problems Australian businesses confront at the provincial level. Chapter 4 has acknowledged that local government interference is a major impediment for Australian businesses operating in China and recommended a system for reporting these impediments to Austrade (recommendation 3).<sup>82</sup>

### ***Committee view***

5.60 Australian agriculture stands to benefit significantly from China's rapid industrialisation and diversification of consumer tastes. It is well placed to capitalise on strong Chinese demand for milk and butter, and to build on its well-established foothold in China for its wool and grain exports. As a key agricultural supplier to the Chinese market, Australia will benefit from freer agricultural trade with China (see chapter 11).

5.61 The committee acknowledges the legitimate concerns of the Australian horticultural industry competing with low-cost Chinese producers. It supports the Australian government's October 2005 decision to strengthen food labelling laws by

---

79 P. Morris, *Committee Hansard*, Canberra, 20 June 2005, p. 8.

80 P. Morris, *Committee Hansard*, Canberra, 20 June 2005, p. 9.

81 S. Macmillan, *Committee Hansard*, 27 June 2005, p. 13.

82 Chapter 4, paragraphs 4.78–4.89.

requiring both packaged and many unpackaged products to display a specific country-of-origin label (see chapter 12).<sup>83</sup> The committee also supports stronger efforts to ensure China's quarantine rules are based solely on scientific assessment of import risk. Australia's policy of a more liberal agricultural trading relationship with China must not be damaged by quarantine, anti-dumping or tariff measures used to protect its own local industries. Accordingly, state assistance for Australia's horticultural industry must focus on reducing local production costs, capitalising on seasonal export opportunities and selling the merits of the high-quality Australian industry.

## Conclusion

5.62 China's agricultural sector will be the focus of continuing rapid social and economic change. Roughly 60 per cent of China's population is employed or directly reliant on agriculture. Their wages are, on average, 40 per cent less than their urban counterparts.<sup>84</sup> Many have left agriculture in the hope of factory employment in urban areas: the *hukou* system restricts many more from leaving. Whether the government's policy to abolish rural taxes has slowed the movement from rural to urban areas is unclear. In any event, China will retain a strong comparative advantage in labour-intensive agriculture for some time yet. The government's ambition to treble the size of the national economy between 2000 and 2020 will depend principally on urban expansion. The welfare of the majority of China's people will depend on rising rural incomes.

---

83 'Growers in food label win', *Hobart Mercury*, 29 October 2005, p. 10.

84 J. Durie, 'Chanticleer in China', *Australian Financial Review*, 24 September 2005, p. 64.