Australian Government

Department of Agriculture, Fisheries and Forestry

Inquiry by the Senate Foreign Affairs, Defence and Trade Committee into:

Australia's relations with China

Submission by the

Australian Government Department of Agriculture, Fisheries and Forestry

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SUMMARY

1. China's unprecedented economic growth since the initiation of policy reform in the late 1970s and its accession to the World Trade Organisation in 2001 have resulted in strengthening external trading relationships, including in the agriculture, fisheries and forestry sectors, and thereby increasing opportunities for countries with export industries in these sectors. Australia is among the countries positioning themselves to supply agriculture, fisheries and forestry products to meet rapidly increasing consumer and processing demand in China.

2. Wool has traditionally been by far the most significant Australian export to China in the agriculture, fisheries and forestry sectors, and the indications are that it will continue to be a major export. China has also imported a number of other Australian products from these sectors on a sustained basis over the past ten years, notably barley, oilseeds and hides and skins. The Australian Government Department of Agriculture, Fisheries and Forestry (DAFF) considers, however, that the opening of the Chinese market and increased consumer power could be a catalyst for the export of other Australian products to China, particularly in the horticulture sector, if non-tariff barriers can be overcome, but also from other industries in the agriculture, fisheries and forestry sectors.

3. An Australia-China Free Trade Agreement (FTA) which included these sectors could assist in bringing such opportunities to fruition through the negotiation of tariff reduction and of clarification and reduction of non-tariff barriers. An FTA would also assist China to export to Australia those products for which it enjoys a comparative advantage in terms of production and export efficiency.

4. If Australia and China decide to proceed with FTA negotiations, DAFF would play a strong role in provision of technical and policy advice based on industry and trade information to the Department of Foreign Affairs and Trade which would lead the negotiations. This reflects DAFF's main role in bilateral trade issues which is one of facilitation of trade through identifying and addressing trade impediments in conjunction with DFAT, and providing technical advice and export certification services.

5. DAFF also provides significant resources to undertake and administer cooperative activities with its counterparts in China. Such activities constitute a significant catalyst to the bilateral trade relationship in the agriculture, fisheries and forestry sectors.

6. In view of the significant trading opportunities presented by the opening of the Chinese market, it is important that Australia continue to engage with China in addressing issues affecting bilateral trade in agriculture, fisheries and forestry, to help position our industries in these sectors to supply this market with high-quality Australian products.

INTRODUCTION

7. This submission by the Australian Government Department of Agriculture, Fisheries and Forestry ('DAFF' or 'the Department') considers the importance of Australia's trade and cooperation relationship with China in the agriculture, forestry and fisheries sectors.

8. Owing to its unprecedented economic growth since the 1980s and its large and still growing population with rapidly increasing spending power, China is expanding as a potential market for agriculture, fisheries and forestry products. The indications are that it will become both a major world market for agricultural, fisheries and forestry products and a competitive exporter for a number of products in this range. Consequently, the Chinese market has become an important focus for Australian agriculture, fisheries and forestry exports. The Department is contributing to the Australian Government's efforts to remove barriers to trade in these sectors, through the provision of expert input into multilateral, regional and bilateral agricultural trade negotiations.

9. The Australian Government's multilateral trade policy vis a vis China has been to support China's accession to the World Trade Organisation (WTO) and to support China's commitment to its WTO obligations through capacity-building at technical and policy levels. Through this continuing assistance, it is expected that China will move gradually towards trade liberalisation, with the mutual benefits that such liberalisation would bring to China, Australia and other trading nations.

10. The Department's commitment to the multilateral trade liberalisation process through the WTO remains unwavering, with staff continuously monitoring and working to contribute to agricultural trade liberalisation developments in this forum. The process is, however, incremental, and a broad solution to protectionism and trade distortions is most likely to be achieved in the longer term. The Government recognises that Australia's agriculture, fisheries and forestry industries require a shorter-term solution to maintain and improve markets for their products in the meantime, and the Department, in conjunction with officials from the Department of Foreign Affairs and Trade (DFAT) and other Australian Government departments, is working to strengthen Australia's trade relationships at a bilateral level through mechanisms such as Free Trade Agreements (FTAs). The Department views the pursuit of FTAs as being an interim solution to trading difficulties, to be undertaken in parallel with its continuing support of, and contribution to, the WTO process.

11. The Australian and Chinese Governments are considering the feasibility of an Australia-China FTA through a joint scoping study, expected to be finalised in April 2005. On the whole, industry (including DAFF portfolio industries') support for an FTA is strong.

12. Besides maximising China's potential as a trading partner through the complementary avenues of a possible FTA to maximise trading opportunities in the short to medium term and support for longer-term liberalisation of China's trade policy through the WTO, the Australian Government also supports numerous areas of scientific and technical cooperation between Australia and China to underpin the trading relationship. The Department has initiated and manages a number of areas of cooperation, including through the long-running Australia-China Agricultural Cooperation Agreement (ACACA), several Memoranda of Understanding (MOUs) and a range of other important technical and policy cooperation/capacity-building arrangements, including in the area of sanitary and phytosanitary (SPS) measures.

13. The removal of Chinese barriers to trade, including their tariff arrangements and technical barriers to trade, particularly sanitary and phytosanitary (SPS) barriers, is important to the development of Australia's trade relationship with China. These and other trade-related matters such as governance, legal and commercial issues in China and their significance in the trading

relationship are identified and discussed in this submission. Australia's tariff, tariff rate quota (one only, relating to DAFF portfolio industries) and SPS measures are also outlined briefly.

SECTION 1: CHINA'S ECONOMIC GROWTH – IMPLICATIONS FOR AUSTRALIA'S AGRICULTURE, FISHERIES AND FORESTRY SECTORS

14. China has implemented substantial economic policy reforms since 1978, resulting in a gradual shift from a centrally-planned economy towards a more market-oriented economy. A fundamental element of these reforms has been the evolution of agriculture and agriculture-related policies contained in China's governance framework from a basis of agricultural taxation to agricultural support. While the general direction of reforms has been consistent during this time, there have also been numerous small policy adjustments to accommodate unintended consequences or unforeseen events.

15. One of these would appear to be the widening gap between urban and rural incomes. According to Chinese statistics, between 1997 and 2003, per capita income for Chinese farmers increased annually by 4 percent, while that of urban people grew 8 percent. The widening income gap between rural and urban populations has resulted in slower increases in consumption by the rural population. Viewed on a geographical plane, these income disparities also show themselves as a gulf between the poorer, more agriculture-dependent, western provinces and the relatively wealthy and industrialised coastal provinces.

16. The Chinese Government has sought to address this trend by adjusting its policies to accelerate economic growth in less developed regions and to raise agricultural incomes across the country, delivering financial incentives for farmers to continue producing food and thereby reduce the population drift into cities. Policies included direct subsidies for grain production, tax exemption and reduction and subsidising inputs. These policies to support agricultural incomes were strengthened in 2004 through the adoption of 'The Suggestions of the Central Committee of the Communist Party of China and the State Council on Policies for Boosting Growth of Farmers.'

17. The Chinese Government's agricultural policy has the stated twin goals of ensuring social and economic stability at a time of rapid but geographically uneven growth and addressing the issue of food security. Food security is a high priority for the Chinese Government, and, although China is nearly self-sufficient in food, limited arable land and a large and growing population mean that food self-sufficiency (traditionally grain self-sufficiency) may eventually be traded off in favour of production of higher value agricultural products for export.

18. Steady population growth, rapid increase in personal incomes and urbanisation has so far been met by increased domestic agricultural production. Dietary changes have led to a decrease in the demand for food grains and rapid growth for meat, seafood, fruit, vegetables, vegetable oils and dairy products. These changes, combined with limited arable land for food production (China is estimated to have around 20% of the world's population but only about 8% of the world's arable land), are expected to result in the potential for increased agricultural imports, providing opportunities for exporting countries such as Australia.

19. Since economic policy reforms began in the late 1970s, China's economy has grown rapidly, with GDP increasing by 9.7% and 10.7% per year in the 1980s and 1990s respectively. Annual growth has continued at over 7% since 2000 and GDP was 9.4% in 2004.

20. China is now the seventh largest economy in the world, and showing strong signs of moving considerably further up this ladder. By contrast, Australia is a medium-size economy (14th in the

world), and, although performing well, is by virtue of its relatively small and stable population, unlikely to climb rapidly up the economic ladder.

21. In terms of merchandise (goods) trade, 2004 figures show China as being Australia's third largest trading partner and Australia's second largest export market. Australian exports to China totalled A$9.91 billion in 2003-04, with agriculture, fisheries and forestry exports (including hides and skins) at A$1.9 billion, or roughly 19% of total exports. While the Chinese market has become a major focus of the trade strategies for Australian agriculture, fisheries and forestry industries, Australia, as a relatively small economy and supplier, does not pose a genuine threat to China's domestic agriculture, aquaculture, seafood and forestry industries. Among the factors that Australia needs to consider in its determination of future Chinese import demand for agriculture, fisheries and forestry products is the high priority the Chinese Government has placed on food security, and competition from other suppliers.

SECTION 2: DAFF'S ROLE; PORTFOLIO INDUSTRIES' PERFORMANCE IN THE CHINESE MARKET, TRENDS AND FUTURE ISSUES

22. Within the Australian Government's relationship with China, DAFF has a key role in matters concerning bilateral trade in agricultural, fisheries and forestry products, including cooperation with and technical assistance to China in these areas. In particular, the Department pursues requests prioritised by portfolio industries to improve or maintain market access for their products into China and negotiates with Chinese authorities on bilateral quarantine issues. DFAT takes the lead on tariff negotiations, with expert advice from DAFF on industry and technical issues, and this pattern of responsibility would be followed in negotiation of an FTA with China, should that course of action be agreed by the two countries.

23. Over the last 20 years or so the Department and its agencies have enjoyed an excellent and strengthening relationship with counterpart agencies in China. At a policy level, and for a number of issues related to cooperative activities, DAFF's counterpart agency in China is the Ministry of Agriculture (MOA), with which the Department has enjoyed long and productive cooperation. The Australian Quarantine and Inspection Service's (AQIS's) counterpart technical agencies in China are the General Administration for Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) and the Chinese National Certification and Accreditation Administration (CNCA), with which strong working relationships have existed for many years.

24. DAFF appointed an Agriculture Counsellor to the Australian Embassy in Beijing in February 2003. This position assists greatly with DAFF's capacity to pursue market access issues directly with key personnel in China.

25. DAFF pursues market access and quarantine issues with China through the development, exchange and analysis of technical documents required by both countries for access procedures, through its Agriculture Counsellor based in the Australian Embassy in Beijing and through a number of regular (and ad hoc) meetings at Ministerial and officials levels. The Joint Ministerial Economic Commission (JMEC) is the main bilateral Ministerial forum which considers DAFF portfolio issues within a broader economic spectrum. JMEC is held every two years.

26. DAFF is involved in or instigates a number of regular meetings at officials level, including:

- JMEC inter-sessional meeting involving government officials, held in the years between JMEC meetings;
- Joint Agricultural Commission (JAC), held every three years;

- Officials level meetings on the Australia China Agricultural Cooperation Agreement (ACACA), held every 18 months either as part of that the Joint Agricultural Commission, or in the form of the ACACA Liaison Secretaries meeting held once in each three-year period between JAC meetings;
- Joint Working Group on forestry, held every three years in parallel with the JAC, with inter-sessional meetings as required;
- Joint Working Group on Wool (resumed in 2004, after six a year break);
- Annual meetings under the SPS Bilateral Cooperation agreement;
- Plant Quarantine Technical Bilateral meetings held annually, usually immediately prior to the SPS annual meetings;
- Annual meetings on dairy issues, expected to commence in 2005 (established by MOU signed 22 November 2004);
- Meetings and exchange visits under the Memorandum of Understanding (MOU) on Olympic Cooperation;
- A series of workshops begun in January 2005 under the MOU on cooperation in water management signed on 24 October 2003.

The bilateral trade relationship in agriculture, fisheries and forestry – opportunities and trends

27. China's economy has been the fastest growing in the world during the last decade, and this has led to higher personal disposable incomes. This, in turn, has triggered a rapid expansion in China's food retail sector and thereby increased opportunities for agricultural exporters such as Australia. The nature of these opportunities is discussed by product/commodity below.

28. In the agriculture, fisheries and forestry sectors China's imports comprise mostly soybeans and wool, with some wheat, cotton, live animals, sugar, fruit and vegetables, other oilseeds and barley, dairy, eggs, honey, hides and skins and seafood. Chinese exports include cereals, prepared meat and fish, vegetables, preserved food and fish and seafood. Australia's main agriculture, fisheries and forestry exports to China include wool, hides and skins, barley, live animals, cotton, meat, dairy and seafood.

29. China has enormous consumer and processing demands and low-cost labour to support its rapidly expanding agricultural, fishery and forestry product processing sector. The Chinese processing sector imports product under a bonded rate for processing and re-export. Australian industries need to position themselves to meet these demands.

Crops

30. China is an important producer of all major crops produced by Australia. It is the world's largest producer of cotton and canola, the world's second largest wheat producer and the world's fourth largest sugar producer. It is also a significant barley producer.

31. It is likely, however, that China will move resources away from extensive crops, due to the large workforce but small area of arable land, towards higher value, intensive crops/products such as horticulture and livestock production. Such a shift in position could result in increased demand for imports of commodities such as grains, cotton, sugar, and canola which Australia is in a position to supply.

32. Nevertheless, the promise that China presents as a key export market for Australian crops may not be realised in the medium term, and competition from other exporters may be stronger in the

longer term. As a result, it is important that Australian field crop exporters familiarise themselves with the Chinese market if Australia wants to take advantage of emerging opportunities in China.

33. Barley is currently Australia's major field crop export to China. Opportunities for other commodities, such as wheat, cotton and sugar, are likely to emerge as the incomes of Chinese consumers continue to rise and available agricultural land declines due to the rising demand for industrial use, putting pressure on China to meet its domestic demand for these commodities from imports.

34. The table below indicates trade flows, in value terms, between Australia and China in calendar years 2002 to 2004. The figures show that, apart from barley, China remains a largely untapped market for Australian field crop exports. Conversely, China is also an important source of peanuts and essential oils, and during the drought period 2003 to 2004, Australia increased its purchases of rice from China. Australia exported to China almost as much oilseeds as it imported from China in the last three years.

Australia's trade with China in field crops

Commodity	Calendar Year	Australian Imports from China (A$000)	Australian Exports to China (A$000)
Barley	2002	0.0	350,566
	2003	0.0	166,529
	2004	0.0	143,897
Oilseeds	2002	7,675	7,731
	2003	8,903	4,890
	2004	7,230	6,209
Wheat & flour	2002	0.0	4,416
	2003	0.0	1,635
	2004	0.0	7,194
Oats	2002	0.0	1,499
	2003	0.0	2,450
	2004	0.0	179
Seeds	2002	4,095	803
	2003	3,544	613
	2004	3,522	395
Essential oil	2002	3,354	304
	2003	3,248	236
	2004	3,589	238
Sugar	2002	1,085	na
	2003	875	na
	2004	757	na
Peanuts	2002	8,468	167
	2003	9,635	42
	2004	8,281	89
Rice	2002	510	950
	2003	1,786	64
	2004	1,240	26

na: data not available due to confidentiality reasons; however , tonnage of raw sugar exported to China was 391,857 tonnes in 2002, 106,201tonnes in 2003 and 127,164 tonnes in 2004.

Source: ABARE Trade Statistics

Barley

35. Australia is the second largest barley producer in the world after the EU, with an average annual barley production of the period 2001-03 of 6.2 million tonnes, compared with China's average crop of about 3 million tonnes. Average Australian exports to the world over the same period were 4.1 million tonnes. However, for barley, as for other crops, there were significant fluctuations during this period due to Australia's severe drought.

36. In the period 2001-03, annual barley production in China averaged 3.0 million tonnes, while domestic consumption averaged 4.9 million tonnes over the same period. China is currently the largest beer producer in the world and, although the area sown to barley in China for beer production has increased with the demand for beer, China relies on imports to make up the domestic barley shortfall. The average annual shortfall of 1.9 million tonnes over this period was met by imports from Australia and a number of other countries.

37. In the three-year period 2001-03, Australia was China's largest source of barley imports, with other key exporters into China including France, Canada and the United States of America (USA). For the same period, Australian average barley exports to China of 1.1 million tonnes per annum represented 60.7% of total annual Chinese barley imports.

Wheat

38. China is the world's second largest wheat producer after the EU, producing an annual average of 90.2 million tonnes over the period 2001-03, accounting for 15.9% of world production. By comparison, Australia's average annual wheat production over this period was around 19 million tonnes.

39. On average, less than 14 million tonnes of Australia's annual wheat crop is exported. In the period 2001-03, Australia's wheat exports to China averaged 43,964 tonnes per annum, representing 7.7% of China's total wheat imports. Over the same period, Australia was on average China's third most important source of wheat imports, behind Canada and the USA.

40. Both Australia and China apply restrictions on wheat imports for the control of pests and diseases. These restrictions impact on trade levels.

Cotton

41. Australia's annual cotton production averaged 0.5 million tonnes over the three years 2001-03, compared with Chinese production of 5-6 million tonnes, which accounts for approximately 25% of world production. However, China's cotton production is mainly used for domestic consumption by its growing processing industry, whereas over 90% of the Australian crop is exported.

42. China's imports of cotton to supply its processing industry fluctuate: for example, imports were 208,000 tonnes in 2002 but 1,984,000 tonnes in 2004. Australia is the fourth largest supplier of cotton to China, with annual cotton exports to China in the period 2001-03 averaging 23, 222 tonnes, or 6.3% of China's total cotton imports. On the other hand, China is a relatively small market for Australian cotton, taking on average 3.6% of Australia's total exports.

Sugar

43. China is the fourth largest sugar producer in the world after Brazil, India and the EU. Average annual Chinese sugar cane production over the period 2001-03 was 87.4 million tonnes. Sugar cane accounts for 93.6% of China's production, with sugar beet accounting for the remainder.

44. By comparison, Australia's annual sugar production averaged 5.1 million tonnes over the period 2001-03 (Australia grows only sugar cane, not beet). Australia exported on average 3.7

million tonnes of its crop during the same period. Australia's sugar exports to China over this period averaged 0.1 million tonnes, only 9.7% of China's total annual average sugar imports.

Canola

45. China's is the world's major canola producer, with average annual production over the period 2001-03 of 11 million tonnes, accounting for 30.8 % of world production. By comparison, Australia's average annual canola production over the three years 2001-03 was 1.4 million tonnes, with average exports of 1.1 million tonnes over the same period.

46. China imports canola to meet the shortfall between its production and domestic demand. China's average annual imports of canola over the period 2001-03 were 0.84 million tonnes, sourced mainly from Canada, Australia and the EU. In the same period, Australia's average annual canola exports of 0.2 million tonnes to China represented 25.2% of China's total average annual imports.

47. It is evident from the figures for crop production and export above that Australia's production capability for most crops is far below that of China.

Horticulture

48. China is the world's largest horticulture producer, averaging 39.8% of world production over the three years 2001-03. However, the majority of China's horticulture production is consumed within its borders, and it also imports horticultural products – approximately 3.2 million tonnes per annum on average of the period 2001-03.

49. By contrast, Australian horticultural production (including nuts and nursery products) averaged 7.8 million tonnes over the period 2000-01 to 2002-03, with total exports valued at A$851 million over the same period.

50. The value of Australia's horticulture exports to mainland China in 2003-04 was $1.9 million and to Hong Kong $96 million. Major exports to mainland China in 2003-04 were sweet corn ($0.4 million) and (fruit juices $0.9 million). Major exports to Hong Kong in 2003-04 were fresh grapes ($25 million), oranges ($21 million), mandarins ($12 million), stonefruit ($12.4 million) and melons ($1.3 million), as well as numerous other fresh fruits and vegetables.

51. The rapid expansion in China's food retail sector to cater for the growth of the urban middle class has fuelled demand for high quality food imports. The Department considers China to be a market of strong potential for many high quality Australian horticultural products.

52. However, the principal barrier to horticultural trade between Australia and China is the lack of official quarantine access for fresh product. Australian exporters and Chinese importers have not been able to take advantage of post-WTO accession reductions in China's horticulture tariffs because formal market access protocols have only been agreed for apples from Tasmania and mangoes. Australia is well placed to become a reliable supplier to China of high quality horticultural products when quarantine access is achieved.

53. The issue of access for Australian horticulture products is discussed in more detail in Section 3 of this submission.

54. Access for Tasmanian apples to mainland China was granted in 1998 but a revision is required to the earlier protocol which prescribes testing for pests and diseases that are not present in Tasmania. There were no exports to China in 2003-04.

55. From 28 October 2004 China agreed to accept Australian mangoes, previously only permitted entry to Hong Kong. Australian mangoes will need to undergo vapour heat disinfestation treatment and orchards must be free of certain insects and diseases.

56. Australian exporters to China have traditionally relied on moving products into China via Hong Kong. Since June 2003, the Chinese government has increasingly restricted this tariff-free trade, with media reports claiming that the controls on the trade will tighten further after 1 October 2005 because it contravenes China's import and quarantine requirements.

57. Australian horticultural exporters (along with other global exporters) are consequently stepping up their bids for official access. Further pressure may also come from inside China, as retailers expanding in the country have identified the significant demand for imported fruit.

58. While the Chinese market has the potential to present considerable opportunities for Australian horticulture exporters, the Australian industry also perceives China as a potential competitor. China is an extremely low cost producer of horticultural produce and is preparing to position itself as an efficient horticultural exporter.

59. Although China is the world's largest producer of a range of fruits, the country is facing a huge surplus of low-grade produce which is not always suitable for export markets. However, Chinese producers are making rapid improvements in the packaging, grading and overall quality of their fruit and are seeking to expand capacity to export to world markets.

60. The value of Chinese horticulture exports to Australia in 2003-04 was $74 million for mainland China and $0.8 million for Hong Kong.

61. The major imports from mainland China in 2003-04 were apple juice ($21 million), mushrooms ($7.9 million), garlic ($5.3 million), and frozen strawberries ($3.5 million). A horticulture-related commodity, natural honey, is also a major import from China, worth $2.8 million in 2003-04. Most horticulture imports from China are in dried, frozen or processed forms owing to Australia's quarantine restrictions which apply to a range of fresh fruit and vegetables.

62. Biosecurity Australia has permitted the entry of Ya pears and Shandong pears from mainland China. Imports of pears and quinces from China in 2003-04 were valued at $257,000. Volumes are expected to remain low and are unlikely to impact upon the Australian apple, pear or nashi growers in the medium term, although competition may increase in the long term.

63. Biosecurity Australia announced on 8 April 2004 that imports of fresh longans and lychees from China will be permitted subject to the application of phytosanitary measures.

Dairy

64. As a result of Chinese Government policy to stimulate domestic consumption of dairy products, China's dairy industry has grown rapidly in recent years. The number of cows in China has increased from 4.2 million head in 1990 to 8.9 million head in 2002, an average annual growth rate of 9.7%. Milk output increased correspondingly from 4.2 million tonnes in 1990 to 17.5 million tonnes in 2003 (an average annual growth rate of 11.7%).

65. The milk processing industry in China has also developed quickly. The output of dry milk products (including milk powder and cheese) increased from 0.3 million tonnes in 1990 to 1.4

million tonnes in 2003. China imports breeding cattle with the objective of developing the dairy industry further and increasing the production of milk.

66. The Australian dairy industry's milk output averaged 10.7 million litres, over the period 2000-01 to 2002-03. 80% of Australia's whole milk production is processed into other dairy products, and over 52% of Australia's dairy output is exported. The value of Australian exports of dairy products grew from A$2 million to A$118 million from 1993-2002. However, exports to China were substantially lower in 2003 ($70m) and 2004 due to lower production attributed to drought conditions.

67. Nevertheless, over the period 2001-03, Australia was China's third largest supplier of dairy products, after New Zealand and the USA. Australia's annual dairy exports to China during this period averaged 43,170 tonnes, representing 4.6% of Australia's total dairy products and 16.6% of China's average annual dairy imports.

68. China is predominantly a milk powders market, and mainly purchases product on the world spot market. Australia's recent drought significantly affected milk production levels, resulting in manufacturers and exporters concentrating on filling long term contracts, particularly those for higher valued products such as cheese. This was at the expense of milk powder production, resulting in less product available for the Chinese market.

Key Chinese imports of Australian dairy produce in 2003-04

Whey Powder	17,783 tonnes
Skim Milk Powder (SMP)	10,930 tonnes
Whole Milk Powder (WMP)	8,295 tonnes
Cheese	6,690 tonnes
Butter	3,245 tonnes
Liquid Milk	961 tonnes

(Source: Dairy Australia, Australia Dairy Industry in Focus 2004)

69. Recent work commissioned for Dairy Australia estimates the Chinese market for imported dairy products will continue to grow by 5% (for products such as condensed milk) to 15% (for cheese) per year for the next 10 years. Australia is well placed to meet the increased demand but faces strong competition from New Zealand.

70. The Australian dairy industry, at commercial and association levels, has worked closely with the Chinese dairy industry for a number of years, including information exchange and a scholarship program. The presence of the DAFF Agriculture Counsellor in Beijing is of substantial benefit as are the scheduled annual dairy talks between the Department and the Chinese Ministry of Agriculture.

71. The Australian and Chinese dairy industries both operate in a diverse range of climatic environments so Australia is well placed to exchange technology and to undertake cooperative research and development that is of benefit to both countries.

Live dairy breeding cattle

72. Australia is the main supplier of live dairy heifer exports to China for breeding and this trade is complementary to Australia's trade in dairy products. The trade has grown significantly since 2000, as China ceased imports of cattle from Canada and the USA as a result of BSE concerns, while embarking on a program of substantially increasing is domestic dairy industry.

73. In 2001, Australia exported fewer than 6,000 head of dairy cattle to China. In 2003 China imported 50,000 head, with Australia accounting for 82.3% of the total. Preliminary figures indicate that Australia exported over 60,000 head to China in 2004. Breeding (as opposed to slaughter) cattle attract a duty waiver of 24.3%. This duty-free access has been a key factor in making the trade commercially viable.

74. While Australian dairy cattle are highly suited to a range of Chinese climatic conditions, there have been concerns from some enterprises in China that the cattle do not always perform as well as expected and that pedigrees are not always available for each animal (compared with dairy heifers from New Zealand, China's other main supplier, which provides a pedigree for each animal).

75. The Australian dairy and live export industries value the trade with China and are keen to ensure any Chinese concerns are dealt with. A number of DAFF/industry delegations have recently visited China to resolve these concerns and Australian industry has proposed certification for each animal exported to address Chinese concerns, and is also exploring the provision of Australian technical expertise to address cattle performance concerns.

Processed Food

76. The food processing sector in China is growing with the spending power of Chinese and the opening of China to trade and potential food exports. It is estimated that China processes 50% of the food it produces – a relatively low figure compared with a highly developed economy like the USA (where 80% of food produced is processed), but likely to continue to increase.

77. Australia has an established food processing industry and enjoys a good reputation for the safety and consistent quality of its food. Nevertheless, Australian food processors face increasing competition from low-cost Chinese processors both in Australia and in third markets such as Indonesia and Thailand, regardless of whether an FTA is negotiated between the two countries. The processing of Australian agricultural products in China for possible re-export to Australia reflects the market reality of the competitiveness of Australia's exports as inputs into processed foods and China's comparative advantage in the labour costs associated with processing.

78. The burgeoning Chinese economy and increasing consumer power in China present opportunities for Australia and other countries with strong food processing industries to undertake joint ventures in processing and provide technical expertise and equipment. Complementary linkages in the two countries' food processing sectors range from ingredients sourced from Australia and processed in China, to exploration of commercial possibilities for functional, branded and convenience foods, and for packaging material, equipment and technology.

Australian food trade with China (A$ million)

	Exports to China		Imports from China	
	1999-00	2003-04	1999-00	2003-04
Minimally transformed	503	363	29	36
Substantially transformed	164	335	99	245
Elaborately transformed	4	10	4	15
Total	**672**	**709**	**132**	**296**

Meat

79. Given the growth in the Chinese economy, reflected in an expansion of meat retail and food service outlets, together with falling import tariffs since China's accession to the WTO, significant growth in red meat imports is likely as consumption increases. The initial import growth areas are

expected to be in sheepmeat and offals, as China's large domestic cattle herd and its potential for increased meat production are considered likely to meet demand for beef and could therefore limit the potential for growth in Australian beef exports to China in the short to medium term.

80. To date Australia has not been a major supplier of red meat to the Chinese market, as the table below indicates.

Available Trade Figures and Trends:
Australian red meat exports to China

	Beef		**Sheepmeat**	
	Quantity (t)	*Value ($)*	*Quantity (t)*	*Value ($)*
2004	2 955	13.3m	11 225	17.6m
2003	3 721	11.9m	7 375	12.3m
2002	3 334	8.7m	9 692	15.9m

Source: ABS

81. Most Australian meat exported to China has been destined for the food service sector and niche markets for manufacturing beef, under an exemption arrangement comprising four categories
. meat cooked after import and before retail sale;
. meat processed before re-export;
. meat used in accredited hotels; and
. meat for personal use of diplomats.

82. The Australian Quarantine and Inspection Service (AQIS) has made considerable progress in establishing formal protocols to reduce the impact of China's import policy changes. The first of these, for beef, sheep and goat meat, were signed on 26 June 2003, and China has now registered a total of 35 Australian meat establishments to export these meats, with additional establishments being assessed. Where appropriate, AQIS will recommend additional establishments for approval. Under these new arrangements the trade should be able to continue after June 2005.

Beef and veal
83. China is the third largest beef producer in the world, with total cattle numbers over 130 million head, compared with an Australian herd of 27 million.

84. Over the period 2001-03, Australia's average annual production of beef and veal was 2.1 million tonnes, of which 43.9% was exported. Australia's average annual exports to China were 3,128 tonnes over the same period, representing 27% of China's total beef and veal imports, and met shortfalls in the production of high quality beef products.

Sheep and goat meat
85. China is the largest mutton and goat meat producer in the world, dwarfing Australia's average production of 0.9 million tonnes (annually, 2001-03). China imported on average 31,368 tonnes of sheep meat a year over the period 2001-03, with Australia as the second largest source of imports after New Zealand. Average Australian exports to China over this period were 7,286 tonnes. This represents 23.2% of total Chinese sheep meat imports.

Pork
86. China is one of the world's largest pork producers and exporters, producing on average 43.4 million tonnes annually over the period 2001-03 and exporting an annual average of 159,951 tonnes over the same period. China has not exported pork to Australia and Australia's potential to export pork to China is likely to be small.

87. By comparison with China's pork industry, Australia's average annual production was 0.4 million tonnes over the period 2001-03, of which average exports to China over the same period were 658 tonnes.

88. The negotiation of a formal protocol to cover exports of pig meat to China is in progress.

Poultry

89. China is the largest poultry producer in the world, producing an annual average of 9.6 million tonnes of meat over the period 2001-03. By comparison, over the same period, Australia produced an annual average of 0.7 million tonnes of poultry meat, of which 22,111 tonnes were exported. Average Australian exports to China over the period 2001-03 were 1,101 tonnes per annum, and Australia's potential to export poultry meat to China is likely to be small. China has not exported poultry meat to Australia.

90. AQIS and the Australian poultry industries are discussing possible protocols to cover trade in poultry, with negotiations expected to be initiated shortly with China for an export protocol.

91. AQIS is also discussing with the ratite and game meat industries possible protocols to cover trade in these meats. It is expected that negotiations will be initiated shortly with China for protocols for the export of these meats and for offal exports. Further detail on the Department's work in these areas is provided in Section 3 of the submission.

Hides and Skins

92. China is a major market for imported bovine hides and skins which are processed and used in finished leather goods for export.

93. Although China is one of the world's main producers of hides and skins from its large cattle, sheep and goat industries, domestic production does not meet the demand from its growing processing industries. As a result of developments in its tanning industry during the 1990s, China had become the leading importer of hides and skins in the world by 2001.

94. Hides and skins are regarded as a by-product of Australia's meat industry, but constitute an important export to China in themselves, ranking third in value behind wool and barley in the period 2000-01 to 2002-03. Australia's exports of hides and skins to China have increased more than four-fold in the last ten years, from A$35.3 million in 1993-94 to A$176 million in 2003-04, and peaking at A$182 million in 2000-01.

95. Given China's strong processing industry, hides and skins are likely to remain a significant agricultural export for Australia.

Wool

96. China has the largest sheep flock in the world, with 157.3 million head of sheep in 2004, accounting for 15% of world sheep production. By comparison, Australia has the world's second largest sheep flock, with an average size of 100 million head over the period 2001-03. However, Australia is the world's largest wool producer, with average annual production over the years 2001-03 of 0.6 million tonnes (27% of world wool production). China is the third largest wool producer, behind Australia and New Zealand.

97. China produced an annual average of 0.3 million tonnes of wool over the period 2001-03, importing an annual average of 0.2 million tonnes over the same period. China is the world's largest

importer of wool and Australia is China's major source of wool imports. Wool is Australia's most valuable agricultural export to China.

98. Over the three year period 2001-03, Australia exported on average 0.15 million tonnes of wool to China annually. This represented 62.9% of China's average wool imports and 48.7% of China's average production. In 2004-05 China is forecast to take around 47 percent of Australia's wool exports. While China has increased its share of Australia's wool exports over the past decade, the volume of Australian wool exports to China has increased only moderately. It has been estimated that around 65% of Australia's raw wool exports to China are absorbed domestically.

99. Both world and Australian wool production have been decreasing since the early 1990s. This downward trend is due largely to increased competition from other fibres and lower prices.

100. China's importance in the world wool market has increased over the past few decades, so that it has now become the global centre for wool processing. It is the world's largest importer of raw wool and exporter of finished apparel wool. China is also a significant producer of raw wool and has a large domestic market for woollen textiles and apparel. However, 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 production. Reflecting assumed strong income growth over the medium term, China's domestic demand for woollen textiles and apparel is forecast to strengthen.

101. The goal of Australian industry is to increase wool exports to China through the elimination of what it sees as additional and unnecessary costs in the wool export process. These include tariff rate quotas on wool and wool tops; the differential tariff and VAT applied to wool and wool tops; the mandatory re-testing of wool by the Chinese and the quota allocation system still in place based on historical demand rather than current demand.

102. The increased market share of China in the global wool processing sector reflects not only advancements in China's processing sector that have improved its capacity to produce higher quality textiles, but also of the competitive pressures experienced by mills in higher cost countries, such as the Republic of Korea, Japan and Italy, that had previously been major buyers of Australian wool.

103. In 2004 Australia and China reconvened the Australia-China Joint Working Group on Wool. This was seen by Australian industry and government as a positive development in the bilateral relationship.

Wine

104. China is a small but growing wine market with enormous potential in the medium to long term. Per capita consumption of wine is currently low at 0.27 litre per person, but it has grown by an average of 11% over the last 5 years. Consumption is mainly centred on major urban areas, particularly Beijing and Shanghai. Western-style wine remains the least popular alcoholic beverage in China, where dinners are often accompanied by rice wines and grain-based high alcohol wines.

105. However, while the beer and liquor markets are not exhibiting growth, wine production output has been experiencing year-on-year growth of over 10% in recent years. In 2003, Chinese wine sales increased by 25% at 61.1bn yuan. Chinese brands such as Changyu, Great Wall, China Red and Dynasty control more than 90% of the wine market. However, foreign companies, mainly European, have been buying into Chinese winemakers, in part to gain access to their distribution channels.

106. Development of a wine market has been assisted by official government encouragement to divert consumption from grain-based high alcohol wines and media articles extolling the health benefits of red wine in particular. In the 12 months to September 2003, China imported 32.3 million litres of wine, an increase of 39.2%.

107. Australia is the fifth largest exporter of wine to China, but the second largest exporter of bottled wine. In 2003-04 Australia exported to China:

- 1.6 million litres of wine, valued at AUD$7.1 million (up significantly from 2002-03 exports of 0.7 million litres, valued at AUD$3.7 million); including
- 1.1 million litres of bottled wine, valued at AUD$6.3 million.

Fisheries products

108. China has the world's largest aquaculture industry (marine, brackish and fresh water), producing an estimated 40 million tonnes per annum or around 30% of total world production. Since the initiation of reforms in 1978, the aquaculture industry has been modernising and developing, with ownership changing from government institutions to predominantly large-scale commercial enterprises in the north and small (predominantly freshwater) family-owned businesses in the south.

109. China has the largest fisheries fleet in the world, with an estimated 931,839 vessels. Of these, 478,406 are motorised wild-catch fishing vessels. China is one of the world's largest seafood exporters, averaging 1.5 million tonnes a year over the period 2001-03. It is also a significant seafood importer, averaging 1.4 million tonnes a year over the same period.

110. By comparison with China, Australia's annual seafood production averaged 0.24 million tonnes over the period 2000-01 to 2002-03. Australia's total seafood exports over the same period averaged 58,000 tonnes a year.

111. Australia exported to China on average 4,757 tonnes of seafood a year over the period 2001-03, representing 0.3% of China's average annual imports. China is Australia's sixth most important seafood destination, accounting for 4% of our total A$1.8 billion in exports. Lobster, prawns and abalone made up 85% of the value of seafood exports to China. From China's perspective, Australia ranks 17th as an import source for seafood.

112. Despite the significant appreciation of the Australian dollar in value during the period 2000 to 2004, Australia increased seafood exports to China by 33% from A$50.8 million in 2000-01 to A$67.7 million in 2003-04. However, the total value of Australian exports to China is likely to be considerably understated owing to tariff- and VAT- free exports through Hong Kong. The closing off of this channel should lead to an increase in direct trade with mainland China.

113. Australia's seafood imports from China averaged 6,386 tonnes between 2001 and 2003 – mainly prawns, fish, crab and frozen fish.

114. China has a large and expanding seafood manufacturing and processing industry. This is a major driver for China's increased demand for imported seafood, the majority of which undergoes further processing in China. The other demand driver is the growing disposable income of Chinese consumers which has led to an increasing consumption of seafood (as for meat). It is expected that seafood imports will grow strongly over the next decade. The Australian seafood industry is well positioned to benefit from the expansion in Chinese seafood imports.

Forestry

115. Australia and China share common challenges in the forestry sector, in particular limited access to native forest resources and an increased dependence on plantation forests of pines and eucalypts for industrial wood supply. At the products and export stage, the forest industries of both countries strive to add value to basic forest products and to attract increased investment in their industry (for Australia, this is especially important in the plantation-grown eucalypt processing industry).

116. Both countries recognise the importance of sustainable management of their forests and are working to improve this aspect, for the future of their forest industries and to minimise environmental degradation.

117. According to China's State Forestry Administration figures in 2004, the total area of plantation forest in China had reached 46.667 million hectares, the largest area of any country in the world. The turnover of the forestry sector is increasing rapidly, reaching 586 billion yuan (US$70.6 billion) in 2003. China's production of forest products (unprocessed logs) in 2003 was 47.59 million cubic metres, and 43 million tonnes of paper and paper board.

118. Australia's forests produced an average of 25.2 million cubic metres of forest products and 2.9 million tonnes of paper products over the period 2000-01 to 2002-03. Australia is a net importer of forest products – exports averaged 11.8 million cubic metres of forest products and 0.8 million tonnes of paper and imports averaged 9.9 million cubic metres and 1.4 million tonnes of paper over the same period.

119. On average, Australia's annual exports of forest and paper products to China over the period 2000-01 to 2002-03 consisted of: unprocessed logs (99,000 cubic metres); sawn wood (10,300 cubic metres): wood-based panels(105,300 cubic metres); paper and paper products (197,800 tonnes); and miscellaneous forest products.

120. Over the same period, average annual Chinese forest and paper exports to Australia consisted of: sawn wood (1,000 cubic metres); wood-based panels (6,900 cubic metres); and paper and paper products (44,000 tonnes).

121. Australian forestry exports to China focus on specific niche markets where demand exceeds domestic supply. In particular, Australia expects Chinese demand for sawn wood imports to increase to meet growing housing construction needs, and that there will be a continuing strong demand for higher value and secondary processed wood products.

122. For Australia's forestry sector, one of the best opportunities to enter the Chinese market in the short term is through supplying infrastructure-related needs for the 2008 Beijing Olympic Games. The Chinese Government estimates that nearly US$22 billion will be invested in infrastructure for this event. Furthermore, the Chinese Government is promoting a "Green Olympics", providing good opportunities for building designs that take into account environmental and sustainability factors of materials and use renewable products in building materials and finishing.

123. Opening of the Chinese market would present increasing opportunities to supply agricultural equipment, services and technologies to Chinese farmers seeking to improve productivity, while further relaxation of restrictions on foreign investment since China's accession to the WTO should make it easier for Australian firms to invest in Chinese agricultural and agribusiness sectors.

Nevertheless, it is expected that these sectors will remain challenging for investors owing to land purchase restrictions and an uncertain business and policy environment.

SECTION 3: TECHNICAL ASPECTS OF THE AGRICULTURE, FISHERIES AND FORESTRY TRADING RELATIONSHIP: TARIFF ADMINISTRATION AND TECHNICAL MEASURES AFFECTING TRADE

Tariffs and tariff administration

China

124. China's tariff policy has the objective of encouraging economic reform and opening its economy. China employs three types of tariff rates: general rates, MFN rates and preferential rates. Preferential rates are applied to imports originating in countries and regions with which China has concluded reciprocal preferential tariff agreements, whereas MFN rates are applied to imports from WTO members. General rates are applied to imports from other sources.

125. At 15.3%, China's current average tariff level for agricultural products is higher than its average tariff level for all products, reflecting Chinese sensitivities both in terms of food security and social issues (ie perceived effect of imports on the prosperity and viability of domestic agricultural industries).

126. Most of China's applied tariff rates are ad valorem, except specific rates on 46 items including chicken products and beer.

127. China uses tariff rate quota (TRQ) administration systems and import state trading for a range of agricultural goods. All Chinese agricultural TRQs are global quotas. TRQ volumes are allocated to either State Trading Enterprises or non-state trading entities/ end users. The proportion of TRQ quantities allocated for state trading and non-state trading varies between agricultural goods. For example, for wheat imports, the proportion allocated for state trade is 90% and 10% for non-state trade while for canola imports, the proportion allocated for state trade is 10% and 90% for non-state trade. There is no set quantity or proportion allocated for state trading of sugar imports.

128. For import TRQ volumes earmarked for non-state trading entities, these may be allocated according to: the number of applications; past import performance; production capacity; applicable business criteria; or on a first-come first-served basis. If TRQ allocations are not used or contracted for by September of any given year, they are redistributed on a first-come first-served basis to other end users with an interest in importing.

129. While tariffs have been substantially reduced since WTO accession, China applies much higher out-of-quota tariffs for a number of crops including cotton, sugar, and wheat. These out-of-quota tariffs discourage increased Australian exports of these commodities to China. Tariff quotas on many commodities far exceed imports, however, so there is significant potential for increased imports. Increased openness of China to international trade will benefit Australian producers through higher world import demand and higher prices and by greater direct access to potentially important markets.

Tariffs and TRQs for specific products

130. China's in-quota tariff for **cotton** is 1%, with the out-of-quota tariff set at 40%. However, TRQ volumes for cotton increased from 818,500 tonnes in 2002 to 894,000 tonnes in 2004 (final bound level).

131. China's in-quota tariff for **wheat** is 1%, with the out-of-quota rate at 65%. The TRQ volume for wheat is 9.6 milion tonnes. As part of its WTO accession commitments, China agreed to allocate 90% of in-quota imports through the state trading agency COFCO.

132. The in-quota tariff rate for **sugar** is 15%, with the out-of-quota rate set at 50%. The TRQ volume commitment for sugar in 2005 is 1.945 million tonnes.

133. China also maintains a tariff quota on **canola oil** imports, with a tariff quota volume of 1.24 million tonnes in 2005. In-quota tariffs are 9% and out-of-quota tariffs are 19.9%. Under WTO accession commitments China's tariff quota on canola oil will be eliminated from 2006 and all imports will then be subject to a single tariff rate of 9%.

134. China's WTO accession commitments have seen considerable reductions in tariffs on **horticulture** products. The tariff on oranges, for example, has been reduced from 40% to 11%, and on mangoes from 25% to 15%. The tariff on other horticulture products ranges from 10% to 30%.

135. In the case of **dairy** products, most now enter China with tariffs of less than 15%, with the exception of ice-cream which attracts a bound tariff rate of 19%. The reduced tariffs since 2000 have led to an expansion in China's food processing sector and dairy consumption more generally. If other North Asian markets can be used as an indicator, (such as Japan, Korea, Taiwan and Hong Kong) Chinese cheese consumption will increase in line with increased disposable income. However, China remains a very price sensitive market so tariffs tend to curb demand.

136. China's applied tariffs for **bovine meat** range between 12% and 25 %; for **sheep and goat meat** range between 12% and 23%; for **pig meat** 12-20%; and for **poultry** 20% or a specific duty per kilograms for certain poultry products.

137. At present greasy **wool** is subject to an in-quota tariff rate of 1%. Wool top is subject to an in-quota tariff rate of 3%.

138. China's out-of quota tariff rate for wool and wool tops is 38%. The TRQ for greasy wool has expanded from 264,500 tonnes in 2002 to 287,000 tonnes in 2004 and the TRQ for wool tops has increased from 72,500 to 80,000 tonnes over the same period. Australian wool exports to China have not reached these levels, although the greasy wool quota in 2002 was almost filled.

139. China dismantled its designated trader system at the end of 2004; however, quota allocation is still based on historical allocation with new enterprises being allocated a restricted quota. The Chinese Ministry of Commerce accepted a submission from DAFF in 2004 on its system of allocation of quotas on wool and wool tops. The submission recommended the implementation of a 'First Come First Served' (FCFS) system of wool trading. Under such a system any trader would be eligible to receive quota on current year demand.

140. As part of its accession to the WTO, China reduced its tariff on sparkling **wine** and other wine in containers holding 2 litres or less from 65% to 14% and for other wine in larger containers to 20% on 1 January 2004.

141. China's tariff rate for most **seafood** products ranges from 0% to 23%, with tariffs for the majority of products around 10%. Prior to WTO accession, China's tariff peaks in the seafood industry were as high as 80% so the current rates represent a significant reduction. Australia's three main seafood exports, lobster, prawns and abalone, face tariffs of up to 15% in the Chinese market in 2005.

142. In terms of **forestry** products, China's tariffs on imported logs and woodchips are currently less than 5%, with most set at 1%. Tariffs on processed wood products currently range from 4% to 17%, and on paper products from 0% to 11%. Further tariff reductions will be phased in until 2010 under China's WTO accession commitments.

Australia

143. Australia has a very open agriculture, fisheries and forestry import tariff regime. All agricultural tariffs are bound at rates from 0% to 29%. Tariff barrier protection has been reduced over the last 25 years, such that from 1996 all of Australia's applied agricultural tariffs (with only very few exceptions) have been reduced to rates of between 0% and 5%. Products with zero tariffs include beef, wheat, wool, sugar, cotton, pork and poultry. Australian tariffs on horticulture products are applied at 5% or less. Tariffs on forest products, including paper products, range between 0% and 5%. Aquaculture and fisheries products enter Australia tariff-free except for a 5% tariff on canned tuna.

144. Australia has only one operational tariff quota on agriculture, forestry or fisheries imports. This applies to certain types of cheese or curd, which attract a tariff of A$0.096 per kilogram within the 11,500 tonne quota and an out-of-quota tariff of A$1.22 per kg.

145. Australia's TRQ on imports of tobacco has not been implemented since 1995, as the applied tariff is zero.

Non-tariff barriers

Technical Market Access issues

146. The Department uses the term 'technical market access' to refer to official non-tariff barriers (ie applied by governments), which have an impact on Australia's ability to export agricultural and agri-food products. Technical market access barriers which have the greatest impact on Australia's ability to export into China are Sanitary and Phytosanitary (SPS) measures, although technical market access or non-tariff barriers also cover measures such as import licensing and labelling requirements (discussed under 'Other non-tariff barriers' below.)

147. Technical market access does not refer to inter-governmental requirements relating to tariffs, quota arrangements, domestic support, or export subsidies, nor to government or commercial quality specifications.

148. DAFF manages a Technical Market Access Program (TMAP) that coordinates our technical market access and market maintenance work, including with China. TMAP aims to assist exports of Australian food and agricultural commodities, particularly where they face barriers or restrictions arising from sanitary or phytosanitary (SPS) concerns.

149. A significant part of the DAFF technical market access effort includes the use of overseas-posted staff to provide a continuous Departmental presence in significant markets to make representations for access for Australian produce, or to assist in the stabilisation of access arrangements should technical market disruptions occur. DAFF's Agriculture Counsellor in Beijing is one of a network of representatives handling technical market access in a number of markets. DAFF Agriculture Counsellors are also based in Seoul, Tokyo, Brussels and Washington and (most recently) Dubai, while the Department also has overseas-based staff (one each in Brussels, Paris, Rome, Tokyo and Washington) handling portfolio trade policy issues.

150. The Department is currently considering the implementation of an Australian Government election commitment to establish the Food and Agricultural Trade Service (FATS) to coordinate technical market access services more effectively. The Service will be established within DAFF and will:

- Identify opportunities for growth in exports;
- Ensure that resources, programs, and policies are coordinated with those of other agencies; and
- Work with industry and Government agencies to remove barriers to trade in overseas markets.

151. Within this context, consideration is also being given to the commitment to expand the Department's overseas representation to facilitate access to key markets. The existing presence in Asia will be retained and the program expanded to nations in South East Asia, with arrangements to be made for Australian agriculture industries to capitalise on Australia's Free Trade Agreements with Singapore and Thailand, and developments in India.

152. SPS barriers and restrictions imposed by Governments are the focus of the TMAP program as they are of a different character to other more traditional barriers, such as tariffs and quota restrictions, and because the expertise required to analyse and address SPS constraints requires particular specialist technical skills and knowledge. Sanitary (human and animal health) barriers can affect exports of live animals, animal products and fresh and processed food. Phytosanitary (plant health) barriers are principally applied to exports of plants and fresh (unprocessed) plant products.

153. Australia places great weight on its positive SPS relationship with China and is pursuing a number of issues bilaterally in relation to access for animals, plants and their products to China, while simultaneously considering requests from China. Both countries are seeking access to each other's market for their agricultural products, or are working together to improve access conditions for those products for which access has already been granted. As Australian Quarantine and Inspection Service (AQIS) and Biosecurity Australia (BA) resources are limited, and do not permit the progress of all market access requests by industry for various countries, market access requests are progressed with China and other markets on the basis of prioritisation by the various Australian industries in consultation with these two Government agencies. AQSIQ examines the access requests in the order of prioritisation indicated by Australia. Similarly, where China wishes to export agricultural products to Australia, it ranks the comparative importance/urgency of these requests and BA works on and completes Australia's decision on access for them accordingly.

154. Australian food standards are applied equally to imports and domestic products and are generally consistent with international standards set by the Food and Agriculture Organization's and World Trade Organization's Codex Alimentarius Commission. In line with WTO rules, Australia pursues a conservative approach to quarantine protection. As an island continent, Australia does not have many of the pests and diseases found in other countries. To preserve this disease-free and pest-free status, Australian's requirements are generally higher than those of many other countries. The WTO's Agreement on the Application of Sanitary and Phytosanitary Measures requires quarantine measures to be based on science. It allows Australia and all other WTO members to set their own level of quarantine protection.

155. Market access negotiations cover issues such as SPS requirements for products, including recognition of pest status of production areas for those products, for example, blue-tongue virus or fruit fly free areas. Recent market access achievements for Australian product into China include:

- Live rabbits: import protocol to allow Australian live rabbits access to the Chinese market signed in July 2004. Trade has commenced.
- Red meat: China's SPS Notification G/SPS/N/CHN/79, known as Announcement 49, will limit exports of meat to species covered by an approved protocol and sourced from establishments approved by China. Announcement 49 means that previous arrangements for access for meat from Australian Registered Export establishments under an import permit and one of four exemption categories will cease on 30 June 2005. Australia now has 35 export establishments listed by China with formal access under agreed protocols for beef, sheep and goat meat and meat products, including green runners (intestines) for processing into products such as sausage casing. Additional access is being negotiated for other categories of offal, and bilateral negotiation of protocols are continuing to maintain/improve market access.
- Mangoes, for which China granted access to its market in October 2004.

156. Australia has also recently granted access for the following products from China: Ya pears, Asian pears from Shandong province, longans and lychees and lucky bamboo.

157. Technical market access issues have traditionally been progressed via bilateral mechanisms, including through those forums listed in Section 2 of this submission, and on a daily basis via DAFF's Agriculture Counsellor posted in Beijing. Progress on technical market access for Australian products into China, particularly horticulture, however, is a slow process, and remains a difficult aspect of the trading relationship.

158. Recent agreements signed between the Australian and Chinese Governments that contain or enable provisions for technical market access include the MOU establishing annual Dairy Talks between DAFF and Ministry of Agriculture (signed 22 November 2004), the MOU on SPS Bilateral Cooperation (signed October 2003), and the Joint Agreement between AQSIQ and DAFF for Co-operation on Bluetongue Zoning in Australia, (signed 29 April 2004). The Agreement on Animal Quarantine and Health currently under negotiation is expected to contain similar provisions.

159. Horticulture Australia Limited (HAL), the organisation representing the Australian horticulture industry, has also established an agreement with the China Association for the Promotion of International Cooperation in Agriculture (CAPICA), an organisation under China's Ministry of Agriculture (Framework Agreement on Cooperation in Horticulture, signed July 2004) which covers technical market access issues. DAFF was not involved in this agreement.

160. Despite some sticking points in the technical market access area, Australia and China have a strong history of cooperation between on SPS matters, and Australia has provided extensive SPS assistance to China over recent years, to assist China in the development of its SPS regime post-accession to the WTO. Australia has important multilateral and bilateral interests in ensuring that China implements a SPS regime that is consistent with its WTO/ SPS obligations. In particular, there is scope for further work to ensure that measures applied to Australian commodity and agri-food exports are science-based, transparently administered and are neither discriminatory nor more trade-restrictive than required. Australia will continue to engage actively with China in both multilateral and bilateral forums to progress mutual SPS and technical market access aspirations.

<u>Other non-tariff barriers</u>

161. Australian exports to China face some significant technical barriers other than SPS-related measures. These include such matters as import licensing, labelling, compositional standards, quality issues and valuation methods. DAFF has recently commenced bringing these to the attention of Australian industries through circulating relevant notifications under the WTO

Technical Barriers to Trade (TBT) Agreement, as part of the Government's efforts to work closely with industry to address unwarranted technical barriers to agricultural and food exports.

162. Chinese import licensing requirements limit importers' capacity to import particular commodities, thereby affecting Australian exports of a number of products, including crops, food and beverages.

163. Analytical testing, compositional standards and labelling requirements are also an issue, particularly for the Australian wine, beverage and food industries. Labelling and product description requirements are of particular importance for Australian food and beverage and wine exports to China. Chinese authorities require wine labels, for example, to be submitted for examination, verification, approval and registration, at a cost of about AUD$300 per label type, and with a minimum timeframe of three months for approval.

164. A number of portfolio industries have raised issues of inconsistency in interpretation and enforcement of China's labelling regulations and transparency in the implementation of VAT and other internal taxes.

165. Acceptance by China of products that have met internationally agreed standards is also an issue for some portfolio industries, with re-testing of imported product in China or Chinese authorities' refusal to accept analytical results based on international standards, adding unnecessary costs to both Australian exporters and Chinese importers.

166. Differences between Australian exporters and Chinese importers on product quality have also been an issue, with Chinese criticism of the quality of a product countered by concerns from Australian industry that incorrect product specification by Chinese importers is contributing to negative Chinese perceptions.

167. Chinese Customs' valuation methods may also act as a deterrent to Australian agricultural exports. A recurrent issue is Customs' attribution of a higher value to a product than that declared by the exporter, which can lead to higher import tariffs being applied. An agreement on Customs valuation methodology, including a dispute resolution mechanism, could ease this problem.

168. Such non-tariff barriers act to impede the flow of Australian agricultural exports to China in themselves and also cause increases to the cost of imported products to the Chinese consumer, resulting in diminished demand for Australian product in this price-sensitive market. The FTA could provide a useful vehicle for negotiation to remove these types of non-tariff barriers, while Australia continues to argue for the benefits of transparency of technical measures in appropriate multilateral fora.

Other trade-related issues

169. Some access issues lie outside the scope of non-tariff barriers (though demarcation is not simple). These tend to relate to interpretation and implementation of matters of law, and cover all areas of legislation relating to trade and technical product issues, extending also to contracts and intellectual property (IP).

170. Legislation may in itself disrupt trade flows, frequently through its unforeseen consequences. The Chinese law requiring that all importers of goods be Chinese nationals appears to have acted as a barrier to trade in some commodities, as it limits scope to export products into China owing to the need for exporters to establish new contacts with an interest in their products. It

is understood that this law was to be reformed in December 2004, but the nature of those reforms and their effect on trade is not yet clear.

171. As China moves from a centrally-planned towards a market-based economy, the role of state trading enterprises is changing and government control over product distribution networks is relaxing, with the result that Australian exporters can experience difficulty in negotiating rapidly changing arrangements in these areas.

172. Industries in the Australian agriculture, fisheries and forestry sectors would welcome greater transparency in interpretation of Chinese laws, including in relation to their application to and enforcement of commercial contracts, as a means of providing greater certainty for both Australian and Chinese traders. For several Australian industries, notably the food and beverage industry, post border issues such as intellectual property, rules-based trading system and transparency of import arrangements are of at least as much concern as tariff levels. A rules-based trading system would be of immeasurable benefit to both Australia and China in negotiating both technical measures and legal matters. Harmonisation of industry standards would also be of great assistance in the flow of trade between the two countries. It is hoped that the foreshadowed FTA negotiations would promote discussion and progress in these areas.

SECTION 4: CHINA'S WTO ACCESSION

China and the WTO

173. China has been a member of the WTO since 11 December 2001. China's journey towards and achievement of WTO accession has coloured its trade policies as it has carried out reforms to meet the requirements of major parties in its accession negotiations and implemented tariff and TRQ reduction commitments made at accession. These reforms have resulted in increased market openness and trade competitiveness. Tariffs on all commodities are being or have been reduced to an average of 15%, with some dropping closer to zero.

174. In acceding to the WTO, China committed not to use export subsidies for agricultural products and on domestic support, China has no provision for utilising 'Amber box' (most trade distorting) support, but can provide a *de minimis* level of support which has been capped at 8.5% of total value of agricultural production (which is less than other developing countries which can provide up to 10%).

175. In the current WTO Doha Round agriculture negotiations, Australia and China share common interests. Being a major agricultural exporter, China, like Australia, has an interest in ensuring a more open and transparent world market. China has been a useful ally for Australia, particularly across the domestic support and export subsidies 'pillars', where there has been broad consistency in seeking that the Round address massive trade distorting subsidies and export subsidies used by major developed countries.

176. In the agriculture negotiations, China is a member of the G20 country grouping. The G20 is a group of developing countries formed in the lead up to the September 2003 Cancun WTO Ministerial to counterbalance the dominant role played by the EC and the US in the agriculture negotiations. Of the current G20 members, 11 are also Cairns Group members.[1]

[1] Members of the G20 are: Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Tanzania, Uruguay, Venezuela and Zimbabwe.

177. The Cairns Group and G20 share common strategic objectives and both are working towards an ambitious outcome on agriculture. Like China, most Cairns Group members are developing countries, disadvantaged by the subsidies and protection policies of wealthy major developed nations. Australia, through its leadership role in the Cairns Group continues to work closely with the G20 to achieve outcomes that are in both our common interests.

178. While both China and Australia seek an ambitious outcome across all three pillars, one particular area of focus for China in the negotiations has been on the market access commitments of recently acceded members. China has proposed flexibility provisions for recently acceded members in relation to tariff reductions. While Australia is sympathetic to China's concerns about having to make new commitments when it is still implementing significant adjustments to its agriculture sector, Australia sees that it will be hard to get major developed countries to further open their markets unless all other countries are willing to follow suit to an appropriate degree.

Participation in WTO SPS Committee and other technical multilateral organisations

179. China's and Australia's participation in a number of multilateral mechanisms, such as the WTO's SPS Committee and relevant international technical organisations, has been useful in furthering Australia's relationship with China at the level of technical trade issues. DAFF regularly leads or is represented in delegations to the meetings of:

. Codex Alimentarius Commission (Codex), of which China is a participating member;
. the Office Internationale des Epizooties (OIE), of which China is a participating member;
. the International Plant Protection Convention (IPPC), to which China is not a Contracting Party, although it is a member of the FAO, participates in meetings of the Interim Commission for Phytosanitary Measures and is otherwise active in IPPC work. China is a member of the Asia and Pacific Plant Protection Commission (APPPC) (the relevant regional plant protection organisation under the IPPC).

180. Since its accession to the WTO in 2001, a number of concerns with China's SPS regime have been raised via the WTO SPS Committee, and China has also had concerns with the SPS measures applied by other members that have affected China's exports. It is hoped that China's active role in SPS matters at the multilateral level will inform its consideration of and determinations on technical market access issues at the bilateral level.

SECTION 5: FREE TRADE AGREEMENT, IMPLICATIONS FOR PORTFOLIO INDUSTRIES

181. In October 2003, Australia and China signed a Trade and Economic Framework (TEF) with China, in which the two countries undertook to conduct a joint feasibility study into a possible bilateral FTA. The feasibility study includes agriculture, fisheries and forestry sectors.

182. At the time of writing, the Australian Trade Minister, the Honourable Mark Vaile MP, had indicated in a media release that the Study was close to finalisation and that all industry sectors would be included in any future FTA negotiation. DAFF strongly supports the negotiation of a comprehensive FTA covering all sectors and commodities and providing for discussion and resolution of bilateral technical market access and other trade-related issues.

183. DAFF considers that an FTA that addresses Chinese tariffs, TRQs, and governance and transparency issues including import licensing and labelling has the potential to deliver great benefits for the Australian agriculture, fisheries and forestry industries. The Department would also support technical market access issues, including transparency and cooperation on import risk

assessment, being addressed in any FTA process. Preferential access for Australian horticultural products under a bilateral FTA would be expected to increase exports to meet counter-seasonal demand, develop a market for specific varieties of Australian horticultural products, and supply a growing food processing industry with inputs for domestic and export markets. With a major increase in tourism projected for China in the lead-up to the 2008 Olympics, Australian horticultural products could also help to meet the increased demand for high quality, safe, fresh fruit and vegetables for the hotel, restaurant and tourist trade.

184. While China may have some concerns about greater access for Australian agriculture, fisheries and forestry exports constituting a threat to its domestic industries under an FTA, it is clear that these Australian industries are not of a scale to be in a position to flood the Chinese market with product. Moreover, exposure to some imports should boost the efficiency of viable Chinese industries in the agriculture, fisheries and forestry sector.

SECTION 6: COOPERATION WITH CHINA

185. DAFF pursues a range of cooperative activities with the Chinese government to boost trade through the development of long-term friendly and cooperative relationships between the two countries.

(i) Australia China Agricultural Cooperation Agreement (ACACA)

186. ACACA is a long-standing bilateral agreement that provides a valuable framework for cooperation between Australia and China in the agriculture, fisheries and forestry sectors. Since its inception in 1984, some 170 exchange projects from both countries have been undertaken in a range of sectors. Missions focus on specific areas of agribusiness, with the overall objective of promoting bilateral cooperation in the agriculture, fisheries and forestry sectors. Through the cooperative relationship between the Department and the Chinese Ministry of Agriculture (MOA) and State Forestry Administration (SFA), projects often include visits to locations within China and official contacts with Government that would otherwise not be accessible to Australian industry.

187. ACACA comes under the supervision of the Australia-China Joint Agricultural Commission (JAC). The key agencies involved in the administration of ACACA are DAFF, the Chinese MOA and SFA. DAFF advertises and coordinates a selection process for applications for project missions to China under ACACA. China's MOA and SFA conduct a similar process for project missions to Australia. Both countries' selection processes are conducted at about the same time every eighteen months, resulting in around twelve missions, six from Australia to China and six from China to Australia in every eighteen month period.

188. ACACA is one of a range of international cooperation activities funding under the Australian Government's Agriculture Advancing Australia International Agricultural Cooperation (AAA-IAC) program.

189. The key value to Australia of ACACA is its ability to facilitate the development of commercial linkages between Australian and Chinese agriculture, fisheries and forestry sectors and associated agribusiness enterprises. The application criteria reflect the importance placed on the potential for commercial opportunities to develop from ACACA projects.

(ii) ABARE – China activities

190. The Australian Bureau of Agricultural and Resource Economics (ABARE) is conducting a number of activities with Chinese agricultural researchers that will assist both in the development of international agricultural trade policy research capacity in China and in enhancing ABARE's (and Australia's) knowledge base on Chinese agriculture. These activities include developing an MOU and collaborative research program with the China Institute of Agricultural Economics (IAE), participating in the OECD China Country Study project; convening a China Agricultural Trade Modeling Forum in China in June 2005 and conducting a Global Trade and Environment Modelling (GTEM) capacity-building program. The last two activities are being funded under AAA-IAC in 2004-05.

191. An exchange program with the IAE to facilitate the GTEM capacity-building program is being funded under AUSAID's China Australia Governance Program.

192. ABARE is also providing staff resources/expertise to support a project being undertaken by the OECD to develop PSEs for four non-OECD countries, including China. ABARE has made this expertise available in addition to A$50,000 provided by DAFF in June 2004 as a voluntary contribution to the OECD's work on establishing PSEs for these countries. In making the voluntary contribution for this work, the Department indicated its preference that the resources be allocated to the OECD's China study. The results of the OECD's work will be discussed at its High Level meeting in June 2005.

(iii) MOU on SPS Cooperation

193. The MOU on Cooperation in Sanitary and Phyto-Sanitary Matters, signed in October 2003, reinforces the strong working relationship between DAFF and AQSIQ. The scope of the MOU includes plant, animal and human health and food safety, It encourages exchange of information on plant and animal pests and diseases, quarantine legislation and regulations, implementation of international standards and SPS obligations, and cooperation on issues of mutual interest in international fora.

194. The MOU established a new high level bilateral consultation mechanism, the Bilateral SPS meeting, complementing other consultation mechanisms that already existed. The inaugural meeting under the MOU was held in Beijing on 29-30 April 2004, with the next expected to occur at a similar time in 2005.

195. Australia has been providing significant training in quarantine and market access matters for agricultural officers from the China, to address China's SPS training requests. Most recently, four AQSIQ officers spent three months (September to December 2004) on intensive training by DAFF in Australia.

(iv) MOU on Olympic Cooperation

196. In June 2002, DAFF and AQSIQ signed an MOU to cooperate on quarantine preparations for the Beijing Olympic Games in 2008. The MOU covers cooperation on animal and plant quarantine and food safety and provides for two visit to Australia by AQSIQ delegations and one DAFF delegation to China. Although the outbreaks of SARS and Avian Influenza delayed the timetable for the visits, the first of these took place in June 2004.

197. Both countries will reassess the future of this MOU on the completion of the third exchange visit.

(v) MOU establishing dairy talks

198. Australia and China signed an MOU establishing regular dairy talks on 22 November 2004 in Melbourne, during the Australia-China Agricultural Roundtable, a forum organised by DAFF and the Global Foundation and involving government and industry representatives from both countries.

199. The MOU is expected to strengthen the relationship between the Australian and Chinese dairy industries, including in the area of live dairy cattle exports.

(vi) MOU on water management

200. In the area of natural resources management, Australia and China signed an MOU on cooperation in water management on 24 October 2003, designed as a vehicle to expand cooperation between the two countries in the areas of:

a) water management systems and associated mechanisms, institutional framework and operations;
b) exchange of information and experiences on policies, laws and regulation of the water sector;
c) integrated water management, utilisation and management of river basin and regional levels;
d) protection of water sources and water supply; and
e) science and technology, education, training and capacity-building in the field of water management.

201. In April 2004, DAFF agreed to host a China-Australia workshop on water reform in Australia as part of the cooperative arrangements under the MOU. This workshop and a high-level officials' meeting with the Chinese Ministry of Water Resources (MWR) took place in Canberra on 31 January and 1 February 2005, and a work program under the MOU was agreed for implementation in time for a further workshop in China in 2006. DAFF and MWR are to prepare scoping papers to underpin the work program in integrated river basin management, water rights, water market development and Australia's experience with managing water supply and drought in dry-land agriculture. These activities are intended to complement and inform the development of AusAID's Integrated China-Australia Environment Strategy

(vii) Cooperation in wool production and technology

202. Australian Wool Innovation funds the China-Australian Wool Innovation network (CAWIN) which aims to train Chinese textile students in wool textile technology.

203. The Australian industry believes that, with China being the third largest wool producer in the world, there is significant mutual interest for Australia and China to work together in developing new products and reducing costs, despite the substantial differences in the nature of the wool produced in the two countries.

(viii) Cooperation in forestry management

204. In the forestry sector also, Australia has significantly helped China establish a major eucalypt plantation resource in southern China over the last 20 years. This resource is now providing employment opportunities for poor rural Chinese and attracting international investment.

205. Both the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the Australian Centre for International Agricultural Research (ACIAR) have worked extensively in China over the last 20 years and have built strong relationships with their Chinese counterparts in state forest management agencies and research facilities.

(ix) Cooperation in agricultural and veterinary chemicals management

206. There is also a strong record of cooperation between DAFF and the Chinese Government in the area of agricultural and veterinary chemicals. As a result of Australian technical assistance provided to China during the 1990s, the Chinese regulatory scheme for pesticides is based on the Australian pesticide regulatory scheme. As China is a growing source of Australian imports of agricultural chemical products, the development of closer ties between the two regulators would be beneficial.

207. DAFF has provided advice to China on the implementation of the obligations of the Rotterdam Convention for the Prior Informed Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, in particular through the presentation by a DAFF officer to a meeting of Chinese Government officials in December 2004 discussing this issue.

CONCLUSION

208. China is rapidly expanding as a market for agriculture, fisheries and forestry products. As China's economy grows, Chinese demand for agricultural products will increase. Australia is well placed to meet this demand, especially for high quality/price products (eg meat, dairy and horticulture), and for products for which Australia also has a comparative advantage (eg wool and grains such as barley, which are processed in China. DAFF is working in consultation with industry and with other Government agencies to ensure that Australia is well-placed to meet Chinese demand for agriculture, fisheries and forestry products to the best of its ability, within the parameters set by Australia's limited arable land and resources, dictated by its climate and environment.

209. Many obstacles to the trading relationship need to be addressed in positioning Australia to meet Chinese demand for agriculture, fisheries and forestry products. An FTA would constitute a good opportunity to build on the official and commercial relationships related to trade. DAFF will also continue to contribute to Australian Government policy to build a more liberal agricultural trading relationship with China, at a multilateral level through its work in the WTO and in technical multilateral organisations such as Codex and OIE.