



**Australia – China
Free Trade Agreement
Joint Feasibility Study**

**Submission in response prepared by
Gift and Homewares Australia**

Principal Contact: Brenton (Alby) Taylor

Position: Chief Executive

Postal Address:

Locked bag 103

Silverwater

NSW 1811

Email: alby@agha.com.au

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Summary

Gift & Homewares Australia (GHA) believes that a Free Trade Agreement between Australia and China will be of benefit to members of our Association and there would be substantial economic and trade benefits for both countries involved. There are issues that would need to be ironed out however, mainly in the area of quality control.

Introduction

GHA is the leading industry body representing the gift and homewares industry. GHA (the Association) has over 1,700 full members nationally who comprise importers, wholesalers, manufacturers and agents within the Australian gift and homewares industry. GHA also has over 2,000 associate members nationally who own and run retail businesses.

GHA's membership is dominated by small business operators with around 94% of our members having less than 20 employees. Members of the Association are a key part of the supply chain and conservatively it is estimated that our members supply in excess of 40,000 retail outlets across Australia - this includes all of the major retail department stores and chains.

The majority of our members are importers, only 16% did not import in 2002/2003¹. Wholesalers' expectations for 2003/2004 were that imports would increase. This expectation correlated with profit and turnover expectations for 2003/2004.

Our members import an enormous variety of products, some of which include:

- Artificial flowers
- Body products
- Caneware
- Ceramics/Pottery
- Children products
- Craft/Handmade items
- Furnishings.
- General gift items
- Glassware
- Jewellery
- Kitchenware
- Leather goods
- Lighting
- Manchester
- Tableware
- Toys

Australia - China Free Trade Agreement Survey Conducted by GHA

Given the importance of the China - Australia Free Trade Agreement, the Association found it imperative to conduct a survey to ascertain any other problems and barriers members were facing in relation to importing and exporting to and from China. The survey was conducted in June 2005 and some of the issues surveyed included:

- Market access problems such as issues with tariffs when exporting into China and importing into Australia;
- Quarantine requirements;

¹ Griffith University, 2004. *Australian Gift and Homewares Wholesaler Industry Report*, Services Industry Research Centre, p. 21.

- Problems with import licenses;
- Technical barriers to trade;
- Informal arrangements applied at the provincial level to imports; and
- Quality control issues.

Results of the China - Australia Free Trade Agreement Survey Conducted by GHA

97% of members who responded to the survey identified themselves as importers and of these 85% imported from China. Only 35% of members stated they were exporters with a mere 2% exporting to China.

The main products members identified importing from China include:

Giftware	28.5%
Candles/Candleholders	15%
Kitchenware	15%
Ceramics/Pottery	14%
Christmas/Seasonal	13%
Jewellery/Accessories	13%
China/Porcelain	12%
Toys	12%
Woodware	12%
Fashion	11%
Glassware	11%
Collectibles/Figurines	10%
Tableware	10%

N.B: Percentages do not equate to 100% as members can choose more than one product category.

The main products members identified exporting to China include:

Bath/Body/Toiletries	2%
Craft/Handmade	2%
Collectibles/Figurines	2%
Giftware	2%
Furniture	2%
Woodware	2%

N.B: Percentages do not equate to 100% as members can choose more than one product category.

4% of members claimed to have encountered having problems with tariffs when exporting into China. An example of a specific problem was that it is impossible to sell body products as exporters have to register by product and by region at a cost of \$3000US per product. Other identified issues were the high level of tariffs, government red tape and the high level of duties.

Following on from this, 12% of members stated that they had encountered problems with tariffs when importing into Australia. Some of the identified issues here were:

- Again, the high duty levels on products;
- Transport and the cost of importing;
- The fact that quarantine requirements are clear but hard to implement in China;

- The classification of handmade painted goods not being art (duty free) because the artist's signature was not on the items;
- The vagueness about definitions in the tariff order and the different interpretation of definitions by freight forwarders and Customs;
- The period of time it has taken to clarify products to assess the tariffs available.

In one particular example it was claimed that the importer was charged tariffs for product from China even when they are tariff exempt and in another, a member said that the tariff on clothing is high and that when importing unfinished clothing blanks ready to dye the same tariff is charged as for finished clothing ready to sell.

20% of members said that they have had problems adhering to Australian Customs and quarantine requirements. The products that appear to be of concern are:

- Bamboo sticks;
- Bark, environmentally friendly insect repellants;
- Feathers;
- Herbs;
- Palm leaf;
- Potpourri;
- Shell;
- Specialty tea ingredients; and
- Wood.

The main reasons for problems when adhering to Australian Customs and quarantine requirements are:

- The fumigation and moisture analysis of wood;
- The treatment of animal hair;
- Obtaining a fumigation certificate;
- Customs not accepting some fumigations certificates;
- Goods not being packed prior to fumigation;
- Inconsistent rulings relating to permits.

Some specific examples include:

- Nativity sets containing bark and the documentation was inadequate even though they were in a container that was fumigated in China;
- One member states that some specialty tea ingredients including rose petals from China are now prohibited. The member stated that they also have had products seized from the mail and destroyed even though some items were not restricted. Further, quarantine did not identify the products correctly nor were the members given the chance to assist in identification of the products;
- The issue regarding fumigation appears to be that fumigation certificates must state "fumigated prior to packaging", though many factories cannot do this as they pack the items prior to fumigation. However, because the cartons are porous there may be no problem, yet Australian Quarantine and Inspection Service (AQIS) did not acknowledge this;

- The problem of inconsistent rulings by AQIS raised by a member is of concern in that one ruling required permits and radiation and when they applied to renew the permit the member was told the product was harmless and did not require a permit, let alone radiation.

9% of GHA members have had their products rejected by Customs. The main reason for this is that the products were natural materials.

In one instance it took over 12 months for goods to be approved and then AQIS seized the items and had them gamma radiated. In another, some bamboo skewers were recalled due to borers found in the packets. This was because the bags they were packed in did not have holes for fumigation to take affect.

Only 2% of members have had issues with import licenses and the main reason for this was merely delays in receiving the permit.

Again only 2% of members had problems with technical barriers to trade. Members stated the main reasons for this were red tape and the long processes required to get products registered and part shipments and Customs issues for example, having to ship to Hong Kong as opposed to Shenzhen.

Understanding that different provinces in China may behave differently in relation to applying laws, members were asked if they have had any problems with provincial governments when trying to import product. 7% of members stated that they have had problems relating to this. Some of these problems were:

- Not being able to import components for partial assembly here (they must import the complete, assembled item only);
- The inconsistent application of laws;
- That it is hard to combine shipments from different factories into one FCL shipment as each factory needs a separate export licence for its products;
- Local taxes and export being restricted to state-owned trading companies.
- Fumigation (ensuring it is an Australian-approved quarantine fumigator);
- That different provinces have different laws and different products. Crossing borders in provinces are difficult and cumbersome;
- One member stated that the process beings in Guangzhou and then the same process needs to be undertaken again in Beijing. They state that it is all double paperwork and it all takes months to do so you waste three months in each place.

3% of members have had problems with clients in China refusing to accept back goods when exporting back to China. Some of these problems included:

- The fact that credits were only completed upon next orders;
- The majority of the container being below standard quality and the client refusing to take it back;
- Ordering one particular product and receiving something totally different and of poor quality and being unable to return it.

Quality control issues are a major problem for the majority of GHA members with 58% of members stating they had problems relating to this. The responses to this were varied however they can be summarised as follows:

- Product poorly packaged;
- Poor product quality;
- Unacceptable and poor quality control on soft toys;
- Goods manufactured with wrong materials or different from approved production sample shipped away;
- Poor China copies of European products;
- Product packaged into bags that either did not fit or were squashed into boxes and damaged the goods;
- Inaccurate barcodes and packing quantities;
- Faulty goods sent;
- Missing items; and
- Damaged stock.

It appears there is a major problem in relation to packaging in China. Correct packaging is essential for a myriad of reasons. However, the main reasons are that it is essential for warehousing back in Australia and at times the goods have to be re-labelled for quarantine even though the packages are only going to be broken down for re-packaging into smaller units for retail sale in Australia.

Another major issue identified above is the poor quality of goods arriving here in Australia. This includes products such as dinner sets, jewellery and toys. Issues raised were the poor finish, colour variation, the arrival of goods in a state not fit for sale and incorrect product specifications.

On the other hand however, a member did state that they have educated their Chinese manufacturers to pack under Australian import standards such as ensuring the products include style numbers, the material used, the quantity and country of origin etc. However, this can be very costly and time consuming for the small business owner.

Recommendations

As requested by DFAT, this submission has attempted to draw out issues relevant to the Australia - China FTA and hopes that it will assist in the development of negotiation priorities.

From GHA's perspective, a Free Trade Agreement with China would require attention to be drawn to quality control measures in particular. GHA would also request that AQIS and Customs keep their websites updated and any changes be made available to importers as it appears many problems for members could have been dealt with simply and efficiently if the information was made available to them.

Eventually it could also be beneficial to create a uniform code of entrance for Organisation for Economic Co-operation and Development (OECD) countries having to re-fumigate multiple times as is the case in New Zealand. It is a waste of money for exporters and importers if they have to clear the goods in one location and then again somewhere else. They should be certified the first time to gain entry elsewhere.

A final consideration by DFAT however, should be to recognise the intellectual property rights of importers and exporters. At present Australian companies are very vulnerable to having their designs copied with little or no way of stopping this happening. Many GHA members have stated that this is a wide spread problem and is being conducted without permission.

On the positive side however, the majority of GHA members believe that China is improving every year and that on the whole importing is often trouble-free. Such a move would assist the members of the Association to strengthen and assist their companies to grow. Further, our members who deal with cottage industries realise the importance of building relationships with the people of China and see it as a priority to maintain relationships there.

Gift & Homewares Australia looks forward to the signing of the Free Trade Agreement between Australia and China for the betterment of both countries.