

## **The Australia – China Wool Trade**

Submission to the  
Australian Government  
Department of Foreign Affairs and Trade

on

## **The China-Australia Free Trade Agreement Feasibility Study**

by

Australian Wool Innovation Limited

On behalf of

The Australian Wool Industry

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- *WoolProducers*
- Australian Wool Industries Secretariat
- Australian Council of Wool Exporters
- Australian Wool Processors Council
- Australian Wool Testing Authority
- The Woolmark Company

## **INTRODUCTION**

This document is composed of the following sections:

- Executive Summary
- A Situation Statement
- Consumer Data
- Trade Background Information
- Australian Investment in the Chinese Wool Industry
- Issues for Consideration
- Current and Proposed Activities by the Australian Wool Industry.
- Actions the Australian Wool Industry Requests from the Australian Government.
- Benefits to China of Chinese tariff reduction.
- Benefits to Australia of Chinese tariff reduction

## **AUSTRALIA–CHINA FTA FEASIBILITY STUDY**

### **EXECUTIVE SUMMARY**

#### **INTRODUCTION**

The Australian wool industry strongly supports the China-Australia Trade and Economic Framework signed in October 2003 and will work with the Australian and Chinese governments towards establishment of a free trade agreement.

As the world's largest supplier of fine wool, Australia has strong interest in maintaining the position of wool in the apparel market. China is the world's dominant maker of textiles and apparel, which means that Australia aims to have a special relationship with China to ensure that the Chinese industry is satisfied with Australian wool. However, the price of wool is greater than competitor fibres. This is due to the cost and seasonality of wool production, the complexity of wool processing and the length of the supply pipeline.

Therefore, the goal of the Australian industry is to work with its Chinese counterpart to eliminate additional and unnecessary cost in all stages of the wool pipeline. This will be to the mutual long term benefit of both countries.

Furthermore, as China is the third largest wool producer in the world (after Australia and New Zealand), there is significant mutual interest for Australia and China to work together in developing new products and reducing costs.

The Australian wool industry acknowledges the way in which China has implemented many changes as a result of its accession to the WTO. This includes tariff reduction, the implementation of the "first come first serve" approach to quota allocation and cessation of the process of splitting wool import quota allocation between domestic trade and the re-exporting trade.

The Australian wool industry also endorses the gradual reduction in China's Designated Trader system for wool buyers in China. As a result, there are more buyers in China who can deal directly with Australian wool suppliers and the quality of Chinese wool products made from Australian wool will increase. The Australian industry would like to facilitate further improvements in this process.

With the recent resumption of the Chinese-Australia Joint Working Group on Wool, we anticipate fruitful discussions concerning the improvement of trading conditions between China and Australia.

The Australian wool industry is adamant that the Chinese and Australian governments stand firm on the 31 December 2004 date for elimination of quotas on textiles. The countries that are a party to the "Istanbul Declaration" should not be permitted to weaken this important plank of the Uruguay Round Agreement.

Similarly, Australia should support China in resisting any temporary quotas imposed by the USA and/or the EU from 2005 on.

## **ACTIONS THE AUSTRALIAN WOOL INDUSTRY REQUESTS FROM THE AUSTRALIAN GOVERNMENT**

As part of the feasibility study into a China/Australia FTA, the Australian wool industry would like the Australian government negotiators to address the following:

### **1. China's Review of the Designated Trading System**

- As part of its WTO accession China has agreed to phase out its Designated Trader System by 2005. As a result China is currently reviewing the way in which it manages its allocation of quota. The Australian wool industry urges China to meet its WTO obligations by removing the DTS before 2005 and calls on China to accelerate the formulation of a more market oriented quota allocation system, congruent with China's ambition for Market Economy status.
- The Australian wool industry strongly urges that the revised allocation of wool quota system be a first come first serve system based on current year market demand rather than on past year performance as occurs currently within the DTS. (For example quota allocation could be equivalent to the maximum industry capacity for end users, fixed once per year.)
- Quota allocation must be processed transparently and efficiently, placing no limitations on growth through excessive regulation.

### **2. Quotas and Tariffs**

- Greasy wool (HS+5101-5104) is included in WTO Agriculture negotiations, while wool tops (HS+5105-5113) are included in WTO Industrial negotiations. The Australian wool industry seeks clarification from China as to its interpretation of these definitions. Currently greasy wool and wool tops seem to be treated by China, as one harmonised system category, with a single set of trading rules applicable to both.
- As part of its WTO accession China has committed itself to removing all quotas on wool top by 1 January, 2005. The Australian wool industry calls on China to respect its obligations and remove the quota at the end of 2004 replacing it with the existing within quota tariff rate of 3%.
- Following the removal of quotas on wool top, as negotiated at the WTO, the Australian wool industry urges China to similarly abolish, within the proposed Free Trade Agreement, all quotas on raw wool. With the removal of TRQ the tariff on raw wool should continue at the existing within quota tariff rate of 1%.
- The Australian wool industry strongly urges China to abolish all tariffs on raw wool and tops.
- At a minimum the Australian wool industry calls on China to reduce the tariff on tops (3%) to the same level as raw wool (1%) as a matter of urgency.
- *Please see 7. Restrictions on Australian Tops.*

### **3. Favourable Quota Treatment to other Countries**

- The Australian wool industry requires assurance from China that all countries that import wool to China are treated equally, according to WTO rules.

### **4. Value Added Taxes**

- The Australian wool industry strongly urges China to reduce its VAT on tops (17%) to the same level as raw wool (13%).
- *Please see 7. Restrictions on Australian Tops.*

### **5. Chinese Quotas and Tariffs on Imported textiles**

- The Australian wool industry stands by the negotiated outcome of the WTO Agreement on Textiles and Clothing. It supports the reduction / abolishment of all tariffs and quotas on finished wool garments and as such rejects outright the position forwarded by the Istanbul Declaration.

### **6. Retesting of Australian Wool by China**

- The mandatory retesting of Australian wool exported to China creates unnecessary costs and delay. As a barrier to trade the Australian wool industry calls on China to phase out mandatory retesting as soon as possible.

### **7. Restrictions on Australian Tops**

- China is now the world's dominant wool processor, its competitive presence contributing to the rapid decline in Australia's processing ability. Over the last three years seven of the seventeen Australian Mills have closed down. Existing mills continue to struggle due to the differential tariff and VAT placed on top exports to China.
- The Australian wool industry calls on China to reduce these targeted measures against Australian mills and urges China to consider the importance of an existing Australian milling capacity to China's environmental and industrial longevity. (For example, should scouring processes be restricted in China, due to Government action against the use of environmentally polluting practises which negatively impact on water resources, alternative scouring facilities in Australia would be vital for the longevity of the wool / textiles processing industry in China.)
- The Australian wool industry calls on the Australian government to focus on this issue of differential Chinese tariffs and VAT on greasy wool and top, noting the profound impact it has had on the industry. The industry notes that should our top making capacity be lost completely to China, Australia's reliance on raw wool exports would be such that in the advent of a foot in mouth, or equivalent, quarantine crisis the entire wool industry in Australia would be devastated.

## **CURRENT AND PROPOSED ACTIVITIES BY THE AUSTRALIAN WOOL INDUSTRY**

The following section describes the work that is to be conducted by the Australian wool industry to support the Australia – China wool trade. Most of these proposals were formulated at the Australia – China JWG in April 2004.

### **1. Training for New Chinese Wool Buyers**

In conjunction with Chinese Industry AWI will organise and support the training of new Chinese buyers entering the market to facilitate their understanding of the range of Australian wools available and how to specify their requirements when buying.

### **2. Fit for Purpose issues with Australian Wool.**

AWI will establish a small research group that can look at the cause and impact of quality problems identified by the Chinese for a period of approximately three months. The group will have Chinese and Australian representatives of independence, high standing and detailed knowledge of wool trading. The group's objective will be to report on how the problems can be solved in future. It will need access to all the information on a confidential basis and provision for independent testing if required. The group would need the full support of the wool trade and could not be involved in any commercial arbitration.

Research will also continue on methods to reduce the level of dark and medullated fibre contamination of Australian wool.

### **3. Developing the Chinese Domestic Retail Market for Wool**

The high quality of Australian fine wool makes it ideal for a wide range of apparel. To encourage the use of more wool by Chinese garment makers for sale within China, the Australian wool industry is establishing research and development alliances with Chinese designers, garment makers and retailers. These arrangements should benefit Australian and Chinese wool producers.

## **BENEFITS TO CHINA OF CHINESE TARIFF REDUCTION**

1. Chinese businesses relying on wool will be more competitive with other fibres.
2. This will also help domestic Chinese wool producers.
3. Australian top makers will be more likely to survive commercially, thereby providing Chinese businesses with an alternative source of supply.
4. A vibrant Australian wool processing industry will support continued R&D into wool the results of which are directly applicable to China.

## **BENEFITS TO AUSTRALIA OF CHINESE TARIFF REDUCTION**

1. Reduced cost of wool garments to consumers, resulting in increased demand for wool and therefore enhanced profitability for Australian wool growers and processors.
2. Creates a level playing field throughout the wool pipeline, allowing Australian wool to remain competitive in the global market.

## **Acknowledgements**

The assistance of the following organisations in preparing this paper is acknowledged:

- The Woolmark Company
- The Australian Wool Industries Secretariat
- The Australian Wool Testing Authority Ltd
- The Australian Government Department of Agriculture, Fisheries and Forestry

- The Australian Government Department of Foreign Affairs and Trade

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## The China – Australia Wool Trade Situation Statement

### STATISTICS

#### 1. Total Australian Wool Exports to China

Wool is one of Australia's principal exports to China and China is Australia's largest customer, taking in the order of 40% of Australia's wool exports. The value totalled A\$1,319.8 million in 2001/02 and A\$1,308.8 million in 2002/03.

The 2002/03 figure represents 17% of Australia's total exports to China of A\$8.4 billion in that year.

**Table 1. Australia's Raw and Semi-Processed Wool Exports to China**

	2001/02					2002/03				
	mkg	%*	\$mill	%*	Rank	mkg	%*	\$mill	%*	Rank
<b>Greasy</b>	204.0	50.7	1,115.3	49.1	1	149.2	48.6	1,112.7	48.3	1
<b>Scoured</b>	5.6	10.7	39.3	9.6	6	5.9	15.1	52.5	13.0	2
<b>Carbonised</b>	6.7	24.5	44.3	24.8	2	6.5	28.3	48.7	28.6	2
<b>Tops</b>	9.3	19.7	119.3	23.3	3	6.6	19.9	94.3	23.2	3
<b>Other</b>	0.2	11.0	1.6	13.9	3	0.2	3.4	0.6	3.9	6
<b>Total</b>	<b>225.8</b>	<b>41.8</b>	<b>1,319.8</b>	<b>38.9</b>	<b>1</b>	<b>168.4</b>	<b>41.1</b>	<b>1,308.8</b>	<b>39.7</b>	<b>1</b>

Notes:

\* The % data is percentage of Australia's total wool exports for those categories.

The Rank is the relative importance among all export destinations for that category of wool.

A combination of lower production and sustained high prices, impacting on demand, has seen the total value of Australia's wool exports to China to the end of April were down 13% in 2003/04. Greasy and scoured exports in this ten month period were down 8.5% and 38% respectively, while carbonised wool exports were up 13.9%

#### 2. Chinese and Australian Wool Production

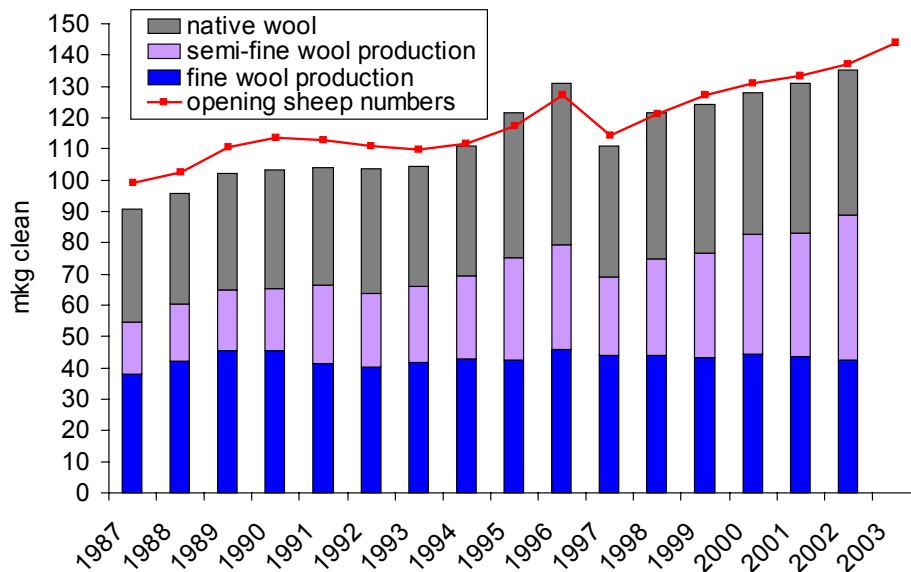
Table 2. Annual wool production, thousand tonnes - greasy

Country	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03e	2003/04f
Australia	655	682	655	641	620	602	555	499	450
China	298	255	278	283	293	298	308	310	313

Notes: Australian production is greasy shorn wool only (excludes fellmongered wool and wool on skins).

Chinese wool production is expected to increase marginally to a new record level in 2005. This is due to the better returns from wool and sheep meat over cashmere and goat meat in the pastoral zones where livestock numbers are subject to government controls to reduce land degradation.

## China's Sheep Numbers & Raw Wool Production



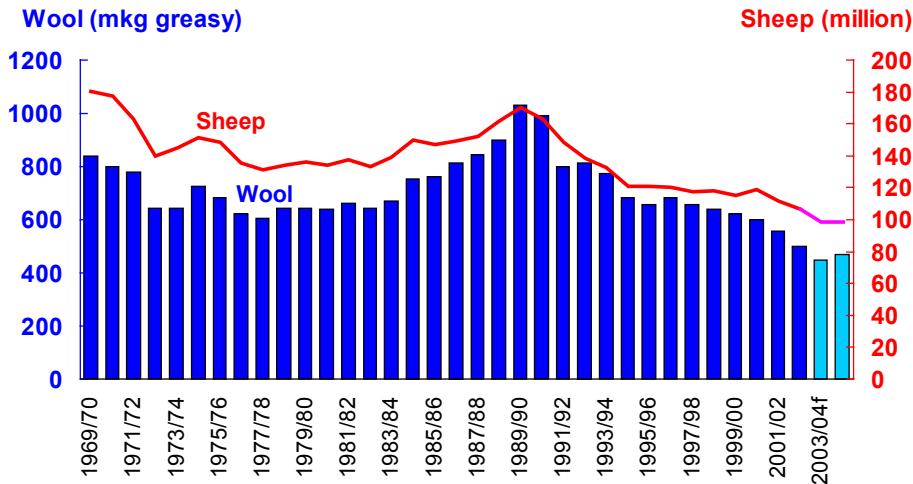
Source: China Statistical Year Book, The Woolmark Company  
 Fine wool is 24 microns and finer, semi-fine wool is 25-40 microns, approx.

### 3. Details of Australian Wool Production

The wool industry in Australia has experienced a major contraction in terms of wool production and sheep numbers over the last 14 years.

The decline in production has been most severe in the medium to broad merino wool types, and particularly 22-24 micron, which were heavily stockpiled at the start of the 1990s and then sold off at low prices during the second half of 1990's. The severe drought in eastern Australia, an increasing emphasis on lamb production and a sell-off of wethers and older ewes to take advantage of higher sheep meat prices further contributed to this decline in 2002/03 and 2003/04.

## Australian Sheep Numbers and Shorn Wool Production: 1969/70 to 2004/05f

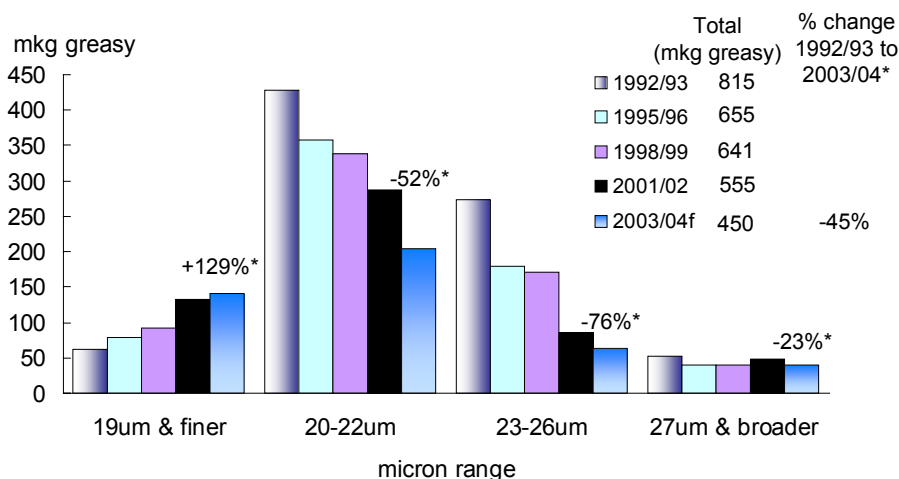


Source: Australian Wool Innovation Production Forecasting Committee, ABS, The Woolmark Company  
 Wool production is shorn wool; sheep numbers is opening sheep numbers.  
 Updated 15<sup>th</sup> March 2004



Not all sectors of Australian wool production have experienced this sharp decline. Production of fine and superfine wool (19.5 micron and finer) has increased significantly over the past decade or more as many specialist wool growers sought to breed finer wool clips in response to market demands and historic price premiums.

### Trends in Australian Shorn Wool Production by Micron 1992/93 to 2003/04f



Source: Australian Wool Testing Authority, Australian Wool Innovation Production Forecasting Committee  
 Based on AWTA test data applied to annual production levels and AWIPFC March 2004 forecasts



Fine and superfine wool of 19.5 micron and finer now accounts for 32% per cent of total Australian wool production (2003/04), up from just 9% in 1992/93. Part of this increased share has been due to drought-affected “hunger-fine” wool, which will move back to its

natural micron with the breaking of the drought. Even so, there has been a substantial and sustained lift in production of true fine and superfine wool.

There are signs that wool production in Australia is beginning to stabilise. The Australian Wool Innovation Production Forecasting Committee predicts a 4% increase in shorn wool production to 470million kg in 2004/05. The profile of the clip is also likely to reflect more usual seasonal conditions with less “hunger-fine” wool than in recent seasons. A further influence on the micron profile of the clip will be the degree to which woolgrowers shift their attention to prime lamb production. This shift may bring an increase in production of crossbred and wool from other breeds (25 micron and broader wool) in future years, perhaps at the further expense of merino wool in the 22-24 micron range. However, a recent survey in Western Australia indicated that matings of pure Merinos have increased.

#### 4. Australian Wool Prices, in A\$, US\$ and RMB.

Table 3. Annual wool prices, selected currencies – c/kg clean

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*
<b>Australian Cents</b>	670	673	739	554	631	769	846	1,050	828
<b>Chinese Renminbi</b>	42.36	43.74	41.61	28.76	32.78	34.18	36.64	50.62	49.01
<b>United States Cents</b>	510	527	502	348	396	413	443	612	591

Notes: \*2003/04 to 2nd April only.

Prices for medium and broader Australian wool (as measured by the average prices paid at auction) lifted to near record highs in 2002/03 as a result of the supply contraction. In a longer-term context, current wool prices in Australia are higher than the average prices realised in the 1990s and are returning to the levels of the mid-1980s when supply and demand was in better balance than has been seen in the past 15 years.

Prices in Australian dollars have been weaker in 2003/04 mostly due to the strength of the Australian dollar, but remain well above the historic levels of the 1990s, particularly for medium merino wool. Prices denominated in Chinese RMB and US dollars, to which the RMB is pegged, have been much more stable in 2003/04.

The volatility of wool prices is often discussed as a problem that limits the use of wool by textile makers. However, this volatility is a feature of any global commodity market that is free from restraints. A feature of the wool market is that there is little use of forward selling, hedging and other market derivatives to minimize the influence of the volatility in prices.

#### 5. Value of all Australian merchandise trade with China

According to figures for the 2003 calendar year, China is Australia's:

- 3rd largest trading partner (A\$23.2bn)
- 3rd largest export market (A\$9.1bn – 8.4% of total exports)
- 3rd largest source of imports (A\$14.2bn – 11% of total imports)

Wool exports comprised 10% of the value of total merchandise exports to China in calendar year 2003, down from a 17% share in 2002.

The value of Australian exports to China of wool, barley and oilseeds declined in calendar year 2003 as shown in Table 4.

Table 4. Decreased Australian Exports to China (A\$million)

Commodity	2002	2003	\$A change	% change
Wool	1420	938	-482	-34
Barley	351	141	-96	-59
Non-monetary gold	162	66	-96	-59
Oil seeds	158	1	-157	-99

However, most Australian exports to China grew, including total merchandise, as shown in Table 5.

Table 5. Increased Australian Exports to China (A\$million)

Commodity	2002	2003	\$A change	% change
Pistons	4	47	43	1075
Nickel	25	75	50	200
Liquid propane & butane	53	138	85	160
Crude petroleum	368	773	405	110
Pig iron	147	237	90	61
Copper	79	116	37	47
Cotton	48	69	21	43
Iron ore	1485	1723	238	16
<b>Total exports</b>	<b>8373</b>	<b>9077</b>	<b>704</b>	<b>8</b>

## 6. Chinese exports of wool yarn, garments, etc by country, including Australia.

Table 6. Yarn (woollen (5106) & worsted (5107)) mkg

Country	1996	1997	1998	1999	2000	2001	2002	2003
<b>Total</b>	39.653	54.925	44.833	43.663	51.726	60.252	56.098	51.760
Hong Kong	27.653	36.466	28.793	25.683	29.333	35.051	30.195	26.726
Japan	3.426	6.944	5.291	5.807	7.257	9.781	9.652	8.476
Macau	3.830	4.803	3.536	4.956	6.418	6.662	6.384	6.470
Germany	2.389	2.978	4.523	3.078	2.983	3.059	3.296	4.038
South Korea	0.792	1.206	0.340	1.018	1.852	2.211	3.152	1.840
Bangladesh			0.174	0.248	0.415	0.239	0.469	0.912
Thailand	0.037	0.086	0.454	0.639	0.797	0.869	0.844	0.663
Australia	0.216	0.262	0.211	0.430	0.437	0.510	0.441	0.563
Madagascar	0.051	0.075	0.087	0.138	0.252	0.343	0.065	0.196
Syria	0.100	0.005		0.111	0.084		0.080	0.195
Other	1.156	2.097	1.423	1.550	1.896	1.527	1.516	1.680

Table 7. Fabric (woollen (5111) &amp; worsted (5112)) million sqm

Country	1996	1997	1998	1999	2000	2001	2002	2003
<b>Total</b>	24.224	33.281	30.343	26.162	35.214	39.807	49.340	64.419
<b>South Korea</b>	1.782	1.456	0.811	2.380	5.710	5.866	9.088	11.290
<b>Hong Kong</b>	13.938	17.938	14.856	10.367	12.226	11.896	10.303	10.005
<b>Japan</b>	2.470	3.732	3.171	3.513	3.872	6.686	5.972	9.170
<b>Turkey</b>				0.0197	0.240	0.627	0.976	4.125
<b>Vietnam</b>	0.043	1.086	1.881	0.070	0.261	0.288	1.578	2.123
<b>Mexico</b>	0.014	0.022	0.267	0.458	0.230	0.513	0.799	2.069
<b>Syria</b>	0.068	0.101	0.224	0.103	0.371	0.788	1.239	2.002
<b>Fmr USSR</b>	0.056	0.039	0.163	0.330	0.553	0.561	0.925	1.561
<b>Canada</b>	0.518	0.695	0.723	0.690	0.851	1.046	1.297	1.340
<b>India</b>			0.067	0.164	0.200	0.316	0.740	1.302
<b>Australia</b>	1.134	0.865	1.190	0.755	0.587	0.457	0.455	0.546
<b>Other</b>	5.515	8.211	8.179	8.086	10.697	11.219	16.420	19.431

Table 8. Garments (Men's wear, Women's wear and knitwear) millions pieces

Country	1996	1997	1998	1999	2000	2001	2002	2003
<b>Total</b>	127.909	155.952	151.106	147.544	172.196	180.070	175.256	171.171
<b>Japan</b>	57.819	61.854	57.891	63.189	73.988	77.513	67.566	68.689
<b>Hong Kong</b>	42.198	59.842	59.479	49.041	60.360	59.697	64.901	56.567
<b>USA</b>	6.637	9.356	10.821	11.123	9.900	10.171	9.933	9.627
<b>Russia</b>	0.419	0.279	0.253	0.642	2.765	0.379	2.439	9.342
<b>South Korea</b>	4.307	4.221	1.115	1.519	3.496	6.486	9.523	7.535
<b>Macau</b>	6.153	6.075	6.901	5.687	4.175	5.574	4.094	3.381
<b>Australia</b>	1.918	2.579	2.314	2.574	2.915	3.706	2.107	2.364
<b>UK</b>	0.329	0.555	0.555	0.956	1.047	1.744	1.679	1.714
<b>Jamaica</b>		0.158	0.630	1.208	0.859	1.305	1.389	1.129
<b>Canada</b>	0.550	0.572	0.656	0.780	1.016	1.208	1.006	0.951
<b>Others</b>	7.117	10.081	10.148	10.139	8.578	11.859	8.141	0.418

## 7. Wool Imported to China.

China imported 86% of Australian wool in its greasy form in 2002/03 and 84% in 2003/04 (using a conversion factor of 67% for semi processed wool) . This compares with 54% and 56% for all other countries in 2002/03 and 2003/04 respectively.

The extent of wool imports to China is shown in table 9.

Table 9. Wool Imports to China, IWS clean equivalent- metric tonnes.  
Raw wool and Top (Greasy, scoured, carbonised, carded wool, fragments and top)

Country	1996	1997	1998	1999	2000	2001	2002	2003
Australia	116,021	98,823	90,098	119,173	207,326	200,453	151,390	107,647
N.Z	47,384	30,143	41,855	27,841	33,173	43,570	32,185	30,821
Uruguay	13,138	15,030	5,056	15,923	21,841	22,699	13,779	10,315
Argentina	6,467	4,336	2,797	5,975	9,575	12,652	9,522	7,426
Mongolia	4,850	6,321	2,759	2,762	718	2,913	3,585	6,419
Kazakhstan	5,726	10,185	2,509	2,570	294	1,506	2,458	3,043
S.Africa	1,337	1,153	1,181	1,611	2,281	2,649	2,591	2,915
Ireland	341	825	1,197	2,336	3,883	2,231	2,891	2,263
Russia	2,786	3,028	864	145	39	73	954	1,179
UK	3,198	2,279	2,835	1,855	974	428	1,095	978
Kirghizia	2,514	2,402	689	40	268	115	380	141
Takzhilkistan	235	45	0	0	1	0	0	5
Hong Kong	160	159	77	0	0	0	4	0
Tuekmenistan	30	0	0	0	0	0	0	0
Ukraine	107	0	0	0	0	0	0	0
Uzbekestan	254	0	0	0	0	0	0	0
<b>Total</b>	<b>204,549</b>	<b>174,725</b>	<b>151,916</b>	<b>180,237</b>	<b>280,372</b>	<b>289,289</b>	<b>220,837</b>	<b>173,152</b>

Source: China Customs Bureau

### 8. Decline of Australian Wool Processing Capacity

A wide range of factors has contributed to the decline in wool processing capacity in Australia. The differential tariffs and VAT applied to tops versus greasy wool have contributed to this decline.

Over the last three years the following mills have closed:

- Warwick, Warwick, Qld (scouring & carbonising)
- Canobolas, Orange (top making)
- Lachlan Industries, Cowra (scouring & topmaking)
- Michell Australia, Adelaide (topmaking) ,
- Geelong Wool Combing (topmaking)
- Melbourne Scouring Company, Melbourne (scouring and carbonising)
- Port Phillip Wool Processing (scouring and topmaking)

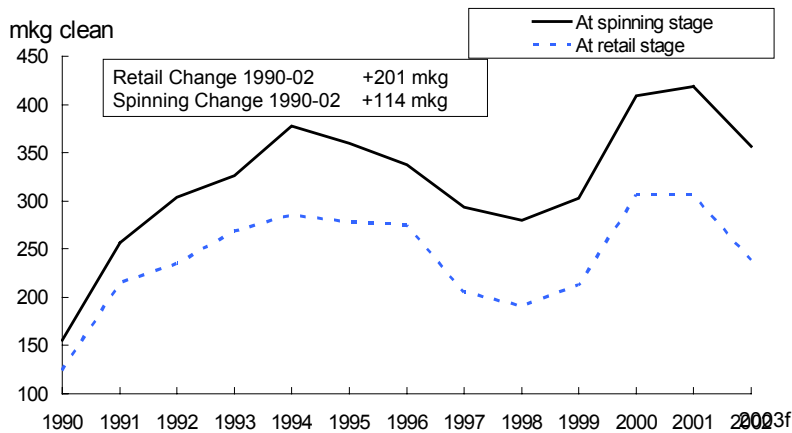
The following mills are still operating:

- Austop, Parkes (topmaking)
- Fletcher International, Dubbo (topmaking)
- Goulburn Wool Scour, Goulburn (scouring)
- Riverina Wool Combing, Wagga Wagga (topmaking)
- Victoria Wool Processor, Melbourne (scouring and topmaking)
- EP Robinson, Geelong (scouring and topmaking)
- Clyde, Geelong (scouring)
- Grampians, Hamilton (scouring)
- Michell Australia, Adelaide (scouring and carbonising)
- Jandakot Wool Washing, Jandakot (scouring)

## CONSUMER DATA

Since 1990, China has grown to become both the world's major wool processor and the number one market for wool textile (apparel and non-apparel) products at retail.

### China's consumption of wool at spinning and at retail



Source: The Woolmark Company



- Around 70% of the wool processed by China is consumed domestically, with the remaining 30% exported as wool textiles and apparel.
- China has a 18% share of the world's consumption of wool (apparel and non-apparel) at retail, and a
- 23% share of the world's apparel wool consumption.
- In China, the consumption of wool in apparel is split approximately 60% knitwear compared to 40% woven-wear in terms of volume.

The size of the Chinese domestic market for wool compared with other countries is shown in Table 13.

Table 13. Net Domestic Wool Availability up to Retail Stage: Apparel wool (mkg clean)

Country	1994	1998	2002	2003e
<b>Western Europe</b>	332.8	269.5	203.3	179.5
<b>CIS / Eastern Europe / Turkey</b>	79.3	58.1	73.0	67.9
<b>China / HK</b>	220.7	154.9	192.6	129.1
<b>Japan / Korea /Taiwan</b>	210.9	112.3	146.1	118.7
<b>N America</b>	102.0	108.7	89.1	84.8
<b>Indian Sub-Continent</b>	18.0	17.9	16.4	15.0
<b>Australia / NZ</b>	14.0	13.0	16.0	16.0
<b>Others*</b>	92.5	83.9	42.2	51.5
<b>Total</b>	1056.2	805.3	761.8	663.0

\* Latin America, Middle East, Africa, SE Asia



## Wool content in apparel

- The domestic Chinese knitwear market is mainly a blend market, and wool content varies from time to time depending on the wool price and fashion trends (with the raw material cost the key driver).
- For woven wear, wool trousers as separates are mainly a wool blend of 70% other fibres / 30% wool for easy care reasons. For men's suits, wool content is quite high and it is easy to find 100% suits in stores.

With the lift in raw wool prices in grower countries in 2002, and the weakness of the US\$ and the Remnimbi, mills have increased production of fabrics made from other fibres, and also lifted the amount of wool-blend fabric and yarn at the expense of pure wool fabric and yarn, particularly in the use of mid-micron wool. For example, some knitters are using as little as 20% wool in their blended yarns, with a similar trend in weaving. This intense competition from other fibres particularly on mid-micron wool is set to continue, as there is strong pressure on margins throughout the China textile industry.

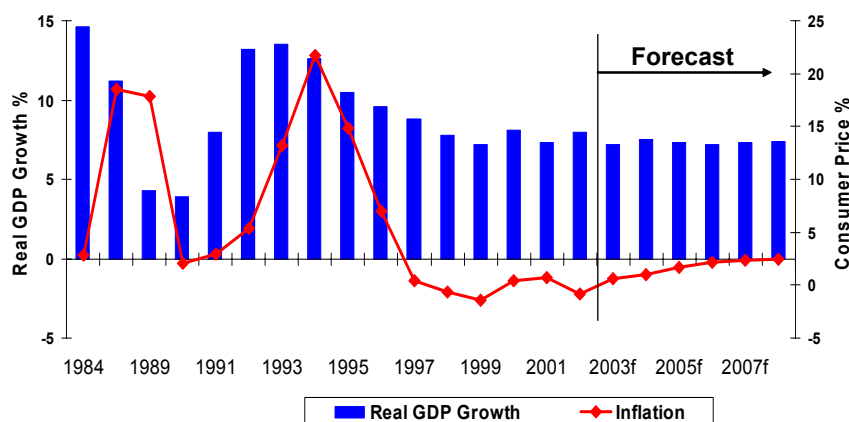
## Prospects for domestic demand growth

The key drivers of domestic retail demand for wool within China remain:

- economic conditions,
- consumer incomes and population growth
- and consumer preferences.

Current forecasts indicate that China's economy will continue to grow at a high rate of around 7.5% per year for the next six years. This will continue to drive personal incomes higher, expanding the number of affluent households and increasing the amount of discretionary income.

## Steady economic growth and low inflation projected for 2003-08



Source: China Statistical Year Book; EIU database, Consensus Forecasts (April 2003 and June 2003)



Currently the size of the China market is limited by low incomes. In a recent report, Asia Demographics Ltd concluded that assuming a conservative annual economic growth rate of just 6%, the number of “affluent” households in urban China would more than double between 2003 and 2007.

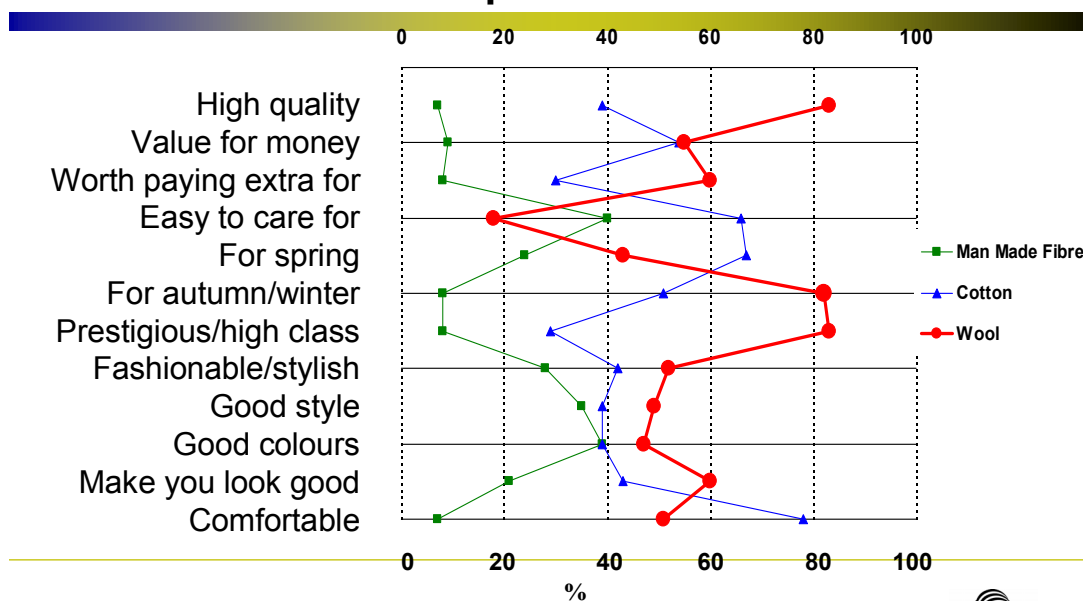
It forecast that the number of these “China affluent” households, earning annually RMB40,000 (US\$4,000) or more per household, would lift from an estimated 16 million households to nearly 34 million. If the economic growth rate was 8% per annum, then the number of households earning RMB40,000 or more would reach over 39 million by 2007. At the same time, the average household income in this affluent segment would rise from RMB60,119 in 2003 to RMB64,566 in 2007 (approximately US\$6,000 to US\$6,600).

Such a growth in both the number of locally “affluent” households and their average household income, if achieved, provides a very solid foundation for further demand growth in China for higher quality products, including in wool apparel. Demand for “western” luxury products such as fine and superfine wool clothing will also be supported by an associated rise in the incomes of higher earners.

Demand for wool apparel will further be supported by the more formal business dress standards in China, rather than the more casual business trends that have emerged in the western world. Chinese men in particular favour business suits, mainly pure wool and wool blends, which is likely to continue.

According to consumer research, Chinese consumers also generally prefer natural fibres, particularly wool, despite very strong competition from man-made fibres. However, wool needs to address important issues, including ease of care and trans-seasonal acceptance.

### Chinese consumer prefers wool



Source : NFO



## TRADE BACKGROUND INFORMATION

### Increased use of Objective Measurements in China

Through the 1990's, with assistance from Australia, a number of detailed programs were conducted to educate and assist the Chinese trade to better utilise objective measurements available of Australian wool, particularly Staple Length & Strength. Australian woolgrowers pay for these measurements that are available on the vast majority of wool sold in Australia.

While work still remains, importers and mills in China have become more sophisticated in the use of objective measurements both in purchasing specifications and in predicting and controlling production quality. The use of Staple Length & Strength, rare a decade ago, is now routine in China.

Problems may still exist, however, when the 'price/quality' trade-off is not well understood or communicated between buyer and seller. This has occasionally been the case with the use of Objectively Matched Lots (OMLs), where the range of additional measurements is not 'controlled' like the core test parameters. Problems can also exist for Bulk Class and Interlotted wool, where no range controls at all exist.

### The Standard (Model) Wool Contract

This contract template was developed by Chinese and Australian trade participants during the 1990's. While the document as a whole has seen limited use the specifications developed have been readily adopted and modified by individual companies as they increasingly trade directly.

The resolution of disputes between trading parties is still a problem at times. Although used by all other countries to resolve disputes, China does not routinely resolve trade disputes using the IWTO rules and regulations.

### Chinese quotas and tariffs on wool

As part of China's accession WTO commitments, China's key wool exporting countries agreed to implement a tariff rate quota (TRQ) system.

In 2004 China's quota for wool is 287mkg greasy for raw wool (greasy, scoured, carbonised and waste) and 80 mkg clean for top (carded and combed) and applies to imports from all sources, whether or not the exporting country is a WTO member.

As Table 10 shows, to date these quotas have not been restrictive, although the greasy wool quota in 2002 was almost filled.

Table 10. Wool Imports to China compared to quotas.

	Quota (tonnes)	Imports (tonnes)	% Fulfilled
<b>Raw Wool</b>			
2002	264,500	262,403	99.2%
2003	275,750	218,127	79.1%
2004	287,000	N/a	N/a
<b>Tops</b>			
2002	72,500	45,064	62.2%
2003	76,250	27,816	36.5%

2004	80,000	N/a	N/a
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The within quota tariff rate is:

- 3% for tops
- 1% for greasy, scoured and carbonised wool.

The out of quota tariff rate for both raw wool and top is 38%.

### **VAT and Rebates**

The Chinese government applies a VAT to enterprises engaged in imports/exports, production, distribution or retailing activities. The following VAT is paid by wool importers:

- 17% on tops
- 13% on greasy, scoured and carbonised wool.

Chinese companies that re export wool products processed in China receive a VAT rebate of 5% on greasy wool, 13% on raw wool (scoured, carbonised, and top), and 13% for yarn, fabric and garments .

### **The Chinese Designated Wool Trader System**

Wool and wool tops are commodities subject to designated trading system applied by Chinese government, which only allows a limited number of designated Chinese traders and enterprises to import wool from Australia. The system has prevented many Chinese end-users from buying wool directly from Australian suppliers, has added costs to end users and has limited the understanding of wool specification to traders with vested interests.

In addition to wool and wool tops, designated trading systems also apply to rubber, plywood, acrylic and steel. The regulations governing the system include 'Administration measures on designated trading for import of goods' (Moftec 2001), 'List of goods for import under designated trading administration' (Moftec 2001) and 'List of designated trading companies for import' (Moftec 2001).

Currently, there are about 300 designated traders that can import wool and wool tops, including about 100 in 'processing zones', which automatically gain the trading rights for processing and re-export. Since China joined the WTO in 2001 this system has been gradually relaxed, but it still causes many distortions in the wool trade.

Under the quota system, a policy is in place for quota application on the basis of first-come-first-served at point of contract, but importers' share of the quota is limited to a fixed level set by the Chinese government each year. For example, importers with actual wool imports exceeding 300 tons in the year of 2003 will receive a 2004 quota equivalent to their actual imports recorded in 2003. An importer with a quota of 300 tonnes in 2003, but with actual wool imports of less than 300 tons in 2003 will receive a lower quota in 2004. Importers who require additional quota to supply customers can only apply after 30 September each year for any quota unused by other companies.

This has led to all sorts of distortions of the market, and there is also evidence of favourable treatment for various companies in the allocation of quota. The relevant regulation is MOFCOM's 'Implementation measures on 2004 TRQ allocation for wool and wool tops', which stipulates in article 9 the rules for importers' share of quota.

It was believed by many that this system would be dismantled at the end of 2004 to coincide with the elimination of the WTO Textile and Clothing Agreement. However, there is no documentation to support this view and MOFCOM officials report that it will continue post-2004.

### **Chinese tariffs on imported finished goods**

China also applies tariffs to imported finished textiles. Under the WTO these tariffs are progressively declining as shown in Table 11.

Table 11 Chinese tariffs on imported finished textiles

<b>Product</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Worsted Yarn</b> <b>HS5107.1</b>	14%	11%	8%	5%
<b>Worsted Fabric</b> <b>HS5112.11</b>	23.3%	20%	16.7%	13%
<b>Men's Suits</b> <b>HS6203.11</b>	25.00%	23.10%	21.30%	19.40%
<b>Men's Trousers</b> <b>HS6203.41</b>	25.00%	22.80%	20.50%	18.30%
<b>Women's Jackets</b> <b>HS6204.31</b>	25.00%	22.80%	20.50%	16.80%
<b>Women's Trousers</b> <b>HS6204.61</b>	25.00%	22.80%	20.50%	18.30%
<b>Jumpers, Jerseys</b> <b>HS6110.1</b>	25.00%	22.30%	19.50%	16.80%

### **Australian Tariffs on Imported Textiles**

Australia has been quota-free since 1993.

The Australian Government announced this year that it will implement a gradual ten year program of tariff reduction, as shown in Table 12.

Table 12 Schedule of Australian Tariffs on Some Imported Textiles

<b>Item</b>	<b>Current</b>	<b>2005 - 10</b>	<b>2010 -15</b>	<b>Post 2015</b>
<b>Clothing and finished Textiles</b>	25.0%	17.5%	10.0%	5.0%
<b>Carpet</b>	15.0%	10.0%	5.0%	5.0%

### **Wool Testing by the Australian Wool Testing Authority (AWTA) Ltd**

AWTA Ltd follows the rules and regulations for testing that are defined internationally by IWTO. AWTA is independently audited and inspected by NATA both for quality systems (ISO9000) plus technical performance (ISO 17025). AWTA is licensed to issue IWTO Certificates by IWTO. AWTA is also part of the Independent Laboratories Round Trial (along with NZWTA and South Africa WTB) that reports its testing performance twice yearly to the IWTO Meetings.

AWTA Ltd test certificates are recognised and used worldwide. They are used by banks as trading documents to open Letters of Credit (including to China). In short, the worldwide wool industry accepts and uses AWTA Ltd Test Certificates without the need for retesting, except in China.

### **Wool Testing in China**

China has a mandatory inspection law for a number of commodities, including wool. This law is enforced by AQSIQ, also known as CIQ at the regional level. CIQ have their own Chinese national standards for wool testing, which now closely parallel those of IWTO. The biggest issue facing CIQ is that of sampling. Most bales that arrive in China are compressed by dumping. To sample the wool properly, the bands have to be broken, the bales 'relaxed' and a sample taken through the entire bale. Also, CIQ sampling may only be 1 bale in 5 per consignment (ie 20%) whereas AWTA sampling is 100%.

### **Dark and Medullated Fibre Contamination**

Australia is presently conducting a world-wide survey of contamination of wool with dark and medullated fibres. There are many differing opinions on the importance of this problem and the survey is designed to determine the exact situation. In addition Australia is about to commence a system of certifying wool for freedom from DMF.

The Australian wool industry has also:

- developed a highly accurate, precise and reliable instrument to identify and measure dark and medullated fibres in raw wool.
- prepared a risk scheme to allow growers to declare the risk of DMF to the trade (due July 1).
- funded three organisations to develop a rapid and cost effective DMF test for use prior to sale.

### **World Trade Organisation**

Wool is exported from Australia in a range of raw and semi processed forms. This has the unfortunate consequence that wool is considered by the WTO under two separate WTO groupings.

Raw wool, including greasy, scoured, carbonised and noils is considered under the WTO Agriculture negotiations.

Finished wool garments, fabric, yarn and wool tops from the later stages of processing (carding and combing) are considered under the WTO rules for textiles.

#### *WTO Agriculture Negotiations*

While the WTO Doha round set a schedule for achieving agreement on agricultural trade issues, the breakdown of the Cancun talks means that as yet there is no agreement. Consequently trade in agricultural goods is subject to a wide range of varying bilateral and multilateral arrangements. It is presumed that any future discussions between Australia and China in relation to wool trading would need to occur in the context of re-started WTO Agriculture negotiations, or a bilateral agreement.

#### *The Uruguay Round Agreement on Textiles & Clothing*

Under the Uruguay Round Agreement on Textiles & Clothing, established in 1995, WTO members have agreed to abolish all import quotas on textiles and clothing on 31<sup>st</sup>

December 2004. This only applies to imports from other WTO members – quotas will be retained for any country that is not a WTO member. The US and the EU are the two main countries that have textiles and clothing import quotas. Japan does not have quotas but retained the right to impose quotas if they chose.

Twenty six industry organisations from USA, Turkey, Mexico, Europe and Africa have called for an emergency session of the WTO to extend the 2005 deadline to at least 2007.

The Australian Wool Industry supports the abolition of the textiles and clothing quotas.

While quotas are abolished, tariffs are not. The import duties were separately agreed in the Uruguay Round, with some countries agreeing to reduce the bound tariffs over a certain period (eg the US). The tariffs agreed at the WTO are BOUND tariffs (the highest level a country is permitted to have). The tariffs a country actually imposes may be lower than the BOUND rates, and are called APPLIED tariffs, and this is at each country's discretion.

#### *Textile Safeguards*

As part of China's accession agreement into the WTO a 'safeguard' provision was allowed, this measure allows a WTO member country to impose restrictions if its domestic industry is threatened by rising imports from China. The USA administration has recently implemented this measure on imports of bras, gloves, knitwear (mainly cotton and man-made fibres). The USA has decided to cap imports of these products to an annual growth rate of 7.5%. These safeguards will apply for eight years after accession, and in the case of wool products (if they are ever imposed), China will be expected to limit the annual growth rate to 6%. The lower growth rate for wool products is because wool and wool product imports, particularly from Asia, have been a sensitive issue especially with the US, which maintains a relative highly protected industry.

Euratex (European Apparel and Textile Organisation) backs the USA on its stance and believes that it should follow suit. A relatively new EU regulation states that should China's exports of textiles and clothing threaten to impede "orderly development" of textiles and apparel trade, such imports may, at any time before 31 December 2008, become subject to restrictions.

#### **Australia-China Trade and Economic Framework**

This document was signed on 24 October 2003 when the President of the People's Republic of China, Mr Hu Jintao, visited Australia. As part of the Framework the two countries have agreed to undertake a joint free trade agreement feasibility study, to be completed by 31 October 2005. Among other things, the text of the Framework emphasises the high importance of liberalising the textile trade and it specifically mentions "deeper bilateral cooperation in pre-processing of wool..."

#### **The China-Australia Joint Working Group on Wool**

This JWG was established under a Joint Ministerial Economic Mission in 1985. During the 1990's a number of assistance programs operated that were funded by AusAID and ACIAR. After a break of more than five years the JWG reconvened with a meeting of industry and government personnel from both countries on 23 April 2004. A separate

detailed report is available on this meeting, however, all of the significant outcomes and actions are included in this paper.

**Asia Pacific Textiles and Clothing Industry Forum**

This Forum is composed of 19 Asia Pacific countries, including China and Australia (as well as the US and Japan). Its purpose is for all textile industries to exchange views on trade and related issues. The next meeting is scheduled to be held in Vietnam.



## **AUSTRALIAN INVESTMENT IN THE CHINESE WOOL INDUSTRY**

### **AWI Activities in China**

AWI has an office in Beijing managed by Mr Jeff Zhu. The office is responsible for all trade and research activities conducted by AWI in China.

An AWI technical team, based in Australia, regularly visits Chinese wool mills. Over the past eighteen months the team has worked with seventeen companies representing 27% of the Australian wool processed in China. The work involves transferring the results of R&D conducted over the past decade and reviewing the operations of mills to increase efficiency and quality of output. AWI is currently conducting research with the following companies: Xinao, Nanshan, Sanli, Sunshine and Nijiaxing.

AWI also funds the China-Australia Wool Innovation Network (CAWIN) managed by Deakin University in Australia which aims to train Chinese textile students in wool textile technology. This five year program involves five Chinese universities and more than 150 students.

### **The AWTA TEAM3 Project**

The original Trials Evaluating Additional Measurements, known as the TEAM-1 and TEAM-2 projects were conducted in the 1980's. They showed that measurements of Staple Length & Strength could be used to predict the processing performance of wool, and in particular the Mean Hauteur of wool top. Prediction formulae, known as the TEAM Formulae, were published in 1988 and have been increasingly used by the industry since then.

AWTA Ltd has recently committed \$0.5 million to initiate the TEAM-3 project to update these predictive formulae, especially given that:

- new measurements of CVD, curvature, etc now exist;
- significant advances in early stage processing has occurred; and
- much of the early stage processing has relocated to China since TEAM1 and TEAM 2 were undertaken.

Over 30 mills from around the world participated in the TEAM3 project, which has recently concluded. The final report will be presented at the IWTO Evian Congress in May 2004.

A large number of Chinese mills participated in this project and there will be a need for an extensive communication campaign amongst the trade in China to ensure that processors understand and use this latest information in the most effective way. The Australian wool industry is the only wool industry that can provide this information to its customers – a continuing point of differentiation.

### **Australian Joint Ventures in China,**

Apart from the well known joint venture by Macquarie Textiles and the joint carbonising operation run by Montgomery Wools, it has been difficult to obtain any hard information of the extent of investment in China by the Australian wool industry.

**The Woolmark Company**

The Woolmark Company has three offices in China (Beijing, Shanghai and Guangzhou) and an office in Hong Kong. The manager is Li Shaoping, who is based in Beijing, and there are a total of 16 staff employed by The Woolmark Company in China, with a further 9 in Hong Kong. The Woolmark Company offices in China provide access for China-based companies to the full range of services of the global operations of The Woolmark Company. These services include Woolmark licensing, wool technologies, commercial testing of wool fabrics, machinery and equipment sales, fibre and fabric sales, and wool business intelligence services. There are over 540 Woolmark licensees in China and Hong Kong, which are serviced and supported by the China/Hong Kong offices of The Woolmark Company.

# **AUSTRALIA–CHINA FTA FEASIBILITY STUDY And WTO AGRICULTURE NEGOTIATIONS**

## **ISSUES FOR CONSIDERATION**

### **INTRODUCTION**

The Australian wool industry strongly supports the China-Australia Trade and Economic Framework signed in October 2003 and will work with the Australian and Chinese governments towards establishment of a free trade agreement. The Australian wool industry also supports all attempts to establish a WTO Agriculture Agreement.

As the world's largest supplier of fine wool, Australia has strong interest in maintaining the position of wool in the apparel market. China is the world's dominant maker of textiles and apparel, which means that Australia aims to have a special relationship with China to ensure that the Chinese industry is satisfied with Australian wool. However, the price of wool is greater than competitor fibres. This is due to the cost and seasonality of wool production, the complexity of wool processing and the length of the supply pipeline.

Therefore, the goal of the Australian industry is to work with its Chinese counterpart to eliminate additional and unnecessary cost in all stages of the wool pipeline. This will be to the mutual long term benefit of both countries.

Furthermore, as China is the third largest wool producer in the world (after Australia and New Zealand), there is significant mutual interest for Australia and China to work together in developing new products and reducing costs.

The Australian wool industry acknowledges the way in which China has implemented many changes as a result of its accession to the WTO. This includes tariff reduction, the implementation of the "first come first serve" approach to quota allocation and cessation of the process of splitting wool import quota allocation between domestic trade and the re-exporting trade.

The Australian wool industry also endorses the gradual reduction in China's Designated Trader system for wool buyers in China. As a result, there are more buyers in China who can deal directly with Australian wool suppliers and the quality of Chinese wool products made from Australian wool will increase. The Australian industry would like to facilitate further improvements in this process.

With the recent resumption of the Chinese-Australia Joint Working Group on Wool, we anticipate fruitful discussions concerning the improvement of trading conditions between China and Australia.

The Australian wool industry is adamant that the Chinese and Australian governments stand firm on the 31 December 2004 date for elimination of quotas on textiles. The countries that are a party to the "Istanbul Declaration" should not be permitted to weaken this important plank of the Uruguay Round Agreement.

Similarly, Australia should support China in resisting any temporary quotas imposed by the USA and/or the EU from 2005 on.

### **CURRENT AND PROPOSED ACTIVITIES BY THE AUSTRALIAN WOOL INDUSTRY**

The following section describes the work that is to be conducted by the Australian wool industry to support the Australia – China wool trade. Most of these proposals were formulated at the Australia – China JWG in April 2004.

#### **Training for New Chinese Wool Buyers**

New Chinese buyers entering the market need information about how to buy Australian wool to the specifications they require. They also need to understand the range of Australian wools available and how to specify their requirements in the first place. This should assist in ensuring they understand the trade-off against quality when purchasing low priced wool.

There is some training of Chinese wool buyers by Australian companies underway already. It was generally agreed that joint CWTA – AWI supported training would be well received. It would also help address complaints about the quality of Australian wool – see below.

#### **Fit for purpose issues with Australian Wool.**

It is clear that China has no intention of ceasing the retesting of Australian wool and this will result in continuation of claims by the Chinese that some wool lots are not within their designated specification. This issue has been on the table for years and it is time to look again at it if we are to make progress on other issues.

In statements by Chinese authorities there appears to be no distinction between serious quality problems, which presumably are the subject of a commercial dispute between buyer and seller, and less serious problems that cause background aggravation. There is also a gap between the Chinese testing authority and Chinese industry

The problem is complex and has many facets. However, the solution might be to move the argument from one primarily about disparity of testing results to a discussion about fitness of the wool for its final use by the purchaser.

AWI is currently considering providing funds to establish a small research group that can look at the cause and impact of quality problems identified by the Chinese for a period of approximately three months. The group will have Chinese and Australian representatives of independence, high standing and detailed knowledge of wool trading. The group's objective will only be to report on how the problems can be solved in future. It will need access to all the information on a confidential basis and provision for independent testing if required. The group would need the full support of the wool trade and could not be involved in any commercial arbitration.

Research will also continue on methods to reduce the level of dark and medullated fibre contamination of Australian wool.

### **Developing the Chinese Domestic Retail Market for Wool**

The high quality of Australian fine wool makes it ideal for a wide range of apparel. To encourage the use of more wool by Chinese garment makers for sale within China, the Australian wool industry would like to discuss possible establishment of research and development alliances with Chinese designers, garment makers and retailers. These arrangements should benefit Australian and Chinese wool producers.

### **Wool Trading Systems**

As the Australia – China wool trade grows and restrictions are removed there will be opportunities to introduce new methods of trading wool. These changes will be driven by commercial interests, however there may be opportunities for industry and government bodies to invest in research and development which would address the issue of volatility assisting buyers and sellers to reduce the risk involved in the wool auction system and the handling of wool stocks.

### **ACTIONS THE AUSTRALIAN WOOL INDUSTRY REQUESTS FROM THE AUSTRALIAN GOVERNMENT**

As part of ongoing WTO Agricultural Negotiations and/or the feasibility study into a China/Australia FTA, the Australian wool industry has formulated the following requests of the Australian government negotiators.

#### **Clarification of China's interpretation of WTO rules on greasy wool and tops.**

Wool tops are included in the WTO Textile and Clothing Agreement, which stipulates that all quotas are removed on 31 December 2004. If China accepts this arrangement then the designated trader agreement (see below) should not apply to tops.

However, greasy, scoured and carbonised wool are included in the agriculture negotiations, for which there is no WTO agreement. At present China's total wool quota is larger than its total wool imports but it is the allocation of quota to buyers that may limit trade.

Formal government to government clarification of the different approach to tops and raw wool would be very helpful in future negotiations

#### **The Designated Trader System**

This system distorts trade and prevents a free market economy developing in the wool trade. At the Australia- China JWG in April 2004, the Chinese representatives agreed to receive a submission from Australia on how the system should be modified. This submission, has been prepared by AWI for DFAT.

#### **Quotas and Tariffs**

- The Australian wool industry would like the quotas on raw wool and tops abolished. (This will require DFAT sections dealing with Textile and Agriculture to liaise with each other).
- The Australian wool industry would like the tariffs on raw wool and tops abolished.
- In particular, the Australian wool industry would like the tariff on tops reduced to same level as raw wool as a matter of urgency. The effect of this differential tariff is much greater than 2% as shown in the box below.

### **Example Showing the Impact of Top Tariff on Wool Processing Margins**

Assume cost of wool in a finished top to be exported to China is \$13.25/kg.  
 Assume cost of combing is \$1.75/kg.  
 Final invoice price is \$15.00/kg  
 Additional 2% tariff on \$15 is 30 cents/kg  
 Therefore the “effective” tariff is  $30/175 = 17\%$ .

### **Favourable Quota Treatment to other Countries**

Australia would like assurance from China that all countries that import wool to China are treated equally, according to WTO rules.

### **Value Added Taxes**

- Australia would like the VAT on tops reduced to the same level as raw wool.

It is noteworthy that China applies a 17% VAT to foreign semiconductors, while domestic products are effectively taxed only 3% through a rebate. The USA has launched on 19 March a formal WTO dispute settlement case against China to resolve this.

### **Chinese Quotas and Tariffs on Imported textiles**

Consistent with the WTO objectives of free trade, the Australian wool industry supports the reduction of all tariffs and quotas on finished wool garments.

### **Retesting of Australian Wool by China**

All lots of Australian wool are extensively tested by AWTA before sale. This testing is conducted according to IWTO standards and the data is available to all Chinese buyers. Retesting of a product already tested according to international standards is against WTO principles and this practice should therefore be ceased. The retesting of Australian wool on arrival in China also imposes a needless expense on the industry.

1. The Australian wool industry recommends that retesting of Australian wool on arrival in China be phased out.
2. The Australian wool industry wishes to cooperate in establishing a system of quality feedback from China to Australian exporters and wool growers, so that problems experienced with Australian wool can be resolved quickly and efficiently.

### **BENEFITS TO CHINA OF CHINESE TARIFF REDUCTION**

1. Chinese businesses relying on wool will be more competitive with other fibres.
2. This will also help domestic Chinese wool producers.
3. Australian top makers will be more likely to survive commercially, thereby providing Chinese businesses with an alternative source of supply.
4. A vibrant Australian wool processing industry will support continued R&D into wool the results of which are directly applicable to China.

## **BENEFITS TO AUSTRALIA OF CHINESE TARIFF REDUCTION**

1. Reduced cost of wool garments to consumers, resulting in increased demand for wool and therefore enhanced profitability for Australian wool growers and processors.
2. Creates a level playing field throughout the wool pipeline, allowing Australian wool to remain competitive in the global market.

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## **APPENDIX**

The AWTA Ltd Coretest procedure

