CHINA-AUSTRALIA
FREE TRADE AGREEMENT

Factsheet: Agriculture and Processed Food

China is Australia’s largest agriculture, forestry and fisheries export market, worth an estimated $13.5 billion in 2017, up from $6.6 billion in 2011.

China’s demand for high-quality agriculture and food products is growing rapidly. The Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) predicts China will account for 43 per cent of global growth in agricultural demand by 2050.[1]

In the past, the absence of a bilateral FTA with China meant Australian producers and exporters faced significant tariffs on agricultural products, and were at a competitive disadvantage to countries that had an FTA with China – including New Zealand, Chile and ASEAN. The China-Australia Free Trade Agreement (ChAFTA) addresses this issue, and also gives Australia a significant advantage over other larger players, such as the US, EU and Canada.

ChAFTA, which entered into force on 20 December 2015, also provides a base for further liberalisation through a commitment to review outcomes three years after entry into force.

Key Outcomes

Beef

China’s demand for high-quality beef is growing rapidly, driven by a growing middle class.

In 2017, Australian beef exports to China totalled 116,603 tonnes, worth $832.5 million.

Australia – already one of China’s major imported beef suppliers with 21 per cent of the import market and with an outstanding reputation for quality – will be ideally placed to capitalise on this growing demand, with ChAFTA delivering a real competitive advantage over almost all other large beef exporters.

Key outcomes include:

- Elimination of tariffs on beef imports (ranging from 12-25 per cent) by 1 January 2024
- Elimination of the 12 per cent tariff on beef offal by 1 January 2022.

China has retained the right to apply a discretionary safeguard on beef (not including offal) if imports exceed a set annual “safeguard” trigger volume. In 2017, the trigger started at 170,000 tonnes – 10 per cent above Australia’s historic calendar year peak export levels to China – and grows over time. There is also a set review process to consider removal of the safeguard.

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[1] 4 March 2014, www.agriculture.gov.au/abares/Pages/media-releases/2014/china-tops-list.aspx

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More information on the China-Australia Free Trade Agreement
is available at www.dfat.gov.au/fta/chafta

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Dairy

China is Australia's largest market for dairy exports, worth $905 million in 2017. Australia's main competitors are New Zealand, the EU and the US.

ChAFTA is progressively closing the competitiveness gap with New Zealand; tariffs will be progressively eliminated across all Australian dairy products.

Crucially, New Zealand's FTA with China contains restrictive safeguard measures on a wide range of dairy products, including liquid milk, cheese, butter and all milk powders (where China raises the tariff back to the higher normal rate when New Zealand exports exceed a certain volume). By contrast, under ChAFTA, Australia only faces a discretionary safeguard on whole milk powders, with the safeguard trigger volume set well above current trade levels and indexed to grow annually. For all other dairy products, Australia will receive unlimited preferential access.

Key outcomes under ChAFTA include:

- Elimination of the 15 per cent tariff on infant formula by 1 January 2019
- Elimination of the 10 to 19 per cent tariff on ice cream, lactose, casein and milk albumins by 1 January 2019
- Elimination of the 15 per cent tariff on liquid milk by 1 January 2024
- Elimination of the 10 to 15 per cent tariff on cheese, butter and yogurt by 1 January 2024
- Elimination of the 10 per cent tariff on milk powders by 1 January 2026.

Sheep and goat meat

China is Australia's second-most important sheepmeat export destination, despite China imposing tariffs ranging from 12 to 23 per cent, with Australian exports to China worth $471 million (108,497 tonnes) in 2017.

With the progressive elimination of tariffs on sheepmeat, ChAFTA positions Australian farmers to compete better with New Zealand, further building trade and increasing profitability.

Key outcomes include:

- Elimination of the tariffs on sheepmeat (previously ranging from 12 to 23 per cent) by 1 January 2023
- Elimination of the 18 per cent tariff on frozen sheepmeat offal by 1 January 2022
- Elimination of the 20 per cent tariff on goat meat by 1 January 2023.

Wool

China accounts for 75 per cent of Australia's global wool exports. As a result, Australia is China's largest source of imported wool, with a 74 per cent market share, ahead of South Africa (8 per cent).

China already provides virtually duty-free access on wool, under a large WTO tariff rate quota of 287,000 tonnes. Tariffs within this quota are set at just 1 per cent. While China has the right to impose a 38 per cent tariff outside the quota, traditionally it has not done this, as wool is an important input into domestic manufacturing.

Under ChAFTA, in addition to the existing WTO quota, Australia received an exclusive duty-free Country Specific Quota of 33,075 tonnes of clean wool from 1 January 2018. This volume will grow by 5 per cent each year to 44,324 tonnes clean (approximately 63,500 tonnes greasy wool) by 2024, all at duty-free rates. This is the best outcome China has provided in any of its FTAs to date.

Pork

Tariffs of up to 20 per cent on pork will be eliminated by 1 January 2019.

Hides, skins and leather

Hides and skins are a crucial agricultural export to China, worth $722 million in 2017. This is more than ten times our next largest market (Thailand).

Under ChAFTA, previous tariffs of between 5 to 14 per cent on hides, skins and leather are being eliminated. Key outcomes include:

- Elimination of the 7 per cent tariff on sheep skins by 1 January 2019 – exports worth $347 million in 2017
- Elimination of the 5 to 8.4 per cent tariffs on cow hides and skins by 1 January 2022 – exports worth $350 million in 2017
- Elimination of the 9 per cent tariff on kangaroo hides and skins and the 14 per cent tariff on kangaroo leather by 1 January 2019
- Elimination of tariffs between 5 and 14 per cent on a range of other leather products, either immediately or by 1 January 2019.

Wine and spirits

China's wine import market is growing dramatically, more than doubling in size since 2010 to be worth $3.6 billion in 2017.

China is Australia's largest export market for wine, worth $827 million in 2017. However, Australia competes with Chile which has preferential wine access under its FTA with China. China's wine imports from Chile have increased eleven-fold in size since its FTA with China entered into force in 2006.

- Under ChAFTA, tariffs of 14 to 20 per cent on Australian wine imports are being eliminated by 1 January 2019
- Tariffs of up to 65 per cent on other alcoholic beverages and spirits are being eliminated by 1 January 2019.

Horticulture

China is a rapidly growing market for Australian horticultural products, with exports worth $412 million in 2017 – up from $13 million in 2010. However, China applies some of its highest tariffs on horticultural products.

Under ChAFTA, all tariffs on horticultural products will be progressively eliminated. Key outcomes include:

- Elimination of the 10 to 25 per cent tariff on macadamia nuts, almonds, walnuts, pistachios and all other nuts by 1 January 2019
- Elimination of the 11 to 30 per cent tariff on oranges, mandarins, lemons and all other citrus fruits by 1 January 2023
- Elimination of the 10 to 30 per cent tariff on all other fruit by 1 January 2019
- Elimination of the 10 to 13 per cent tariff on all fresh vegetables by 1 January 2019.

Separate to the FTA negotiations, Australia already enjoys quarantine access protocols for export into China for many horticultural products, and will be able to take immediate advantage of tariff reductions for a range of products including citrus, grapes, almonds, macadamias, mangoes and some cherries.

There are no changes to Australia's domestic science and risk-based quarantine measures as a result of ChAFTA.

ChAFTA facilitates customs processing of perishable goods, including horticulture products.

Barley, sorghum and other grains

Australia's trade to China in barley and sorghum is significant and growing rapidly. In 2017, barley exports were worth $1.4 billion, up 392 per cent since 2010, while sorghum exports were worth $72 million. Key outcomes under ChAFTA include:

- Elimination of the 3 per cent tariff on barley and 2 per cent tariff on sorghum
- Elimination of the 15 per cent tariff on cotton seeds - exports worth $100 million in 2017 - by 1 January 2019
- Elimination of the 10 per cent tariff on malt and wheat gluten by 1 January 2019
- Elimination of the 2 per cent tariff on oats, buckwheat, millet and quinoa
- Elimination of tariffs of up to 7 per cent on pulses by 1 January 2019.

Seafood

Australian seafood exports to China totalled $356 million in 2017. Australian abalone and rock lobster (including some other sea crawfish) are the leading Australian premium seafood exports to China, with exports worth $61 million and $184 million, respectively, in 2017. Tariffs on all Australian seafood exports will be eliminated by 1 January 2019.

ChAFTA will create a huge opportunity for Australian seafood in the Chinese market. Since the China-New Zealand Free Trade Agreement came into force, China's imports of seafood from New Zealand have grown five-fold (to $525 million). Key outcomes under ChAFTA include:

- Elimination of the 10 to 14 per cent tariff on abalone by 1 January 2019
- Elimination of the 15 per cent tariff on rock lobster by 1 January 2019
- Elimination of the 12 per cent tariff on southern bluefin tuna, salmon, trout and swordfish by 1 January 2019
- Elimination of the 14 per cent tariff on crabs, oysters, scallops and mussels by 1 January 2019
- Elimination of the up-to-8 per cent tariffs on prawns by 1 January 2019.

Processed foods

Changing consumption habits and Australia's reputation for high-quality produce also provide great opportunities in the processed food sector. Key outcomes under ChAFTA include:

- Elimination of the 7.5 to 30 per cent tariff on orange juice by 1 January 2022, and elimination of tariffs of up to 30 per cent on other fruit juices by 1 January 2019
- Elimination of the 15 per cent tariff on natural honey, and the up-to-20 per cent tariff on honey-related products, by 1 January 2019
- Elimination of the 15 per cent tariff on pasta by 1 January 2019
- Elimination of the 8 to 10 per cent tariff on chocolate by 1 January 2019
- Elimination of the 15 to 25 per cent tariff on canned tomatoes, peaches, pears and apricots by 1 January 2019
- Elimination of the 15 to 20 per cent tariff on biscuits and cakes by 1 January 2019.

Live animals

China is Australia's third largest market for live animal exports, growing from $117 million in 2010 to $150 million in 2017. Dairy cattle currently dominate Australia's live animal exports to China, worth $67 million in 2017.

Key outcomes under ChAFTA include:

- Elimination of all tariffs on live animal exports by 1 January 2019, including the 10 per cent tariff on live cattle (pure-bred breeding cattle already enter China duty free).

China’s WTO quotas and related products

Under China’s WTO accession protocol, China applies quotas on imports of rice, wheat, maize, sugar and vegetable oils. These are open to all WTO members, including Australia. In-quota tariffs are set at only 1 per cent for wool, rice, wheat, cotton and maize; 8 to 10 per cent for vegetable oils and related products and 15 per cent for sugar. Imports of vegetable oils are no longer administered through a quota.

Australia’s exports of these products enter China under existing WTO arrangements. Arguing that these products are key staples and already enjoy virtually duty-free access, China has not further liberalised these products in any of its FTAs to date. Accordingly, China has not provided preferential access to Australia under ChAFTA.

However, China has agreed to a built-in review process three years after the agreement entered into force, including on market access.

China’s products into Australia

Consistent with all of Australia’s FTAs, Australia will eliminate remaining tariffs on agricultural and processed food imports from China. To allow adjustment by domestic industry, the elimination of some of these tariffs, in particular on a range of canned fruit products and peanuts, was phased in by 1 January 2017.