

Barton Deakin Brief: China - Australia Free Trade Agreement

17 November 2014

The Australian Government today finalised the terms of a comprehensive trade agreement with the People's Republic of China (**PRC**).

The implementation of the [China - Australia Free Trade Agreement \(ChAFTA\)](#), estimated to inject at least \$18 billion into the Australian economy over the next decade, is subject to ratification processes in both countries.

The ChAFTA will provide new opportunities for increased bilateral trade and investment in key sectors including agriculture, energy, professional services and manufacturing. Upon full implementation of the agreement over the next decade, 95 per cent of Australian exports to the Chinese market will not be subject to any tariffs.

The ChAFTA will lead to:

- China's gradual abolition of restrictive tariffs on the import of Australian dairy, beef, sheep meat, seafood, wine and processed food products;
- The elimination of 99.9 per cent of Chinese tariffs on the importation of Australian resources, energy and manufacturing products;
- Australian service firms gaining significantly expanded access to the Chinese market, particularly in the finance, banking, education, construction, tourism and health sectors.
- The establishment of a new official Renminbi clearing bank in Sydney, leading to open trading of China's currency in Australia for the first time;
- An increase to Australia's Foreign Investment Review Board [monetary threshold](#) for the notification of investments in non-sensitive areas by private Chinese businesses to \$1.078 billion.

China is Australia's most important economic partner, with bilateral trade reaching \$151 billion in 2013. Australian exports to China were worth \$96 billion last year, a 30 per cent on 2012 figures. This equates to 36 per cent of all Australian exports. Australia is China's largest sixth import market.

Since it was elected in September 2013, the Abbott Coalition Government has secured three comprehensive bilateral trade agreements with North Asia's largest economies: China, Japan and South Korea. These three nations account for 61 per cent of Australia's exports of goods.

Australia is the tenth nation to secure a broad bilateral FTA with China. A [New Zealand-China Free Trade Agreement](#) entered into force on 1 October 2008.

This Barton Deakin Brief details the key terms of the China - Australia Free Trade Agreement. The full text of the agreement is yet to be released.



FTA Timeline

Upon entry into force, 85 per cent of goods exported by Australia to China will not be subject to tariffs. This will increase to 93 per cent after four years, and reach 95 per cent upon the full implementation of the agreement in the next decade.

Implementation

Today the Minister for Trade and Investment, the Hon Andrew Robb AO MP, and the Chinese Minister for Commerce Mr Gao Hucheng signed a joint *Declaration of Intent* affirming a mutual bilateral commitment to give effect to ChAFTA.

The ChAFTA will enter into force after both Australia and China formally endorse and ratify the full agreement. The formal signature of the ChAFTA will be conducted once both sides complete a legal review and translation process. As part of this process, a National Interest Analysis and the full text of the agreement will be tabled in the Australian Parliament for 20 joint sitting days.

The CAFTA will also be examined by the Parliamentary [Joint Standing Committee on Treaties](#). Aspects of the agreement may need to be approved by both the House of Representatives and the Senate. Further information on this process can be accessed [here](#).

Review mechanism

Both nations will review the ChAFTA in three years. A point of disagreement in the negotiations related to Australia's requirement that any Chinese State-Owned Enterprise (SOE) investment be subject to Foreign Investment Review Board approval. This policy will also be discussed by both nations in three years.

Further review processes are available under the ChAFTA, ensuring that the agreement positions both nations for any future gains as the Chinese economy develops.

FTA provisions

Agriculture

Australia will eliminate remaining tariffs on Chinese agricultural and processed food imports. Some of these tariff reductions will be phased in over several years.

The Chinese market was worth \$9 billion to Australian agricultural exporters in 2013. China has reduced or eliminated tariffs on a wide range of Australian agricultural products:

(i) Beef

All tariffs on beef, currently set at 12 to 25 per cent, will be phased out over nine years. Australia already produces 57 per cent of China's beef import market. China will maintain a discretionary safeguard trigger on beef imports exceeding 170,000 tonnes annually.



(ii) Dairy

Chinese tariffs on Australian dairy products will be phased out in four to nine years. Australian dairy exporters will be awarded the level of access to the Chinese market equivalent to those gained by New Zealand in its 2008 bilateral FTA with China. Furthermore, many Australian dairy products will not be subject to restrictive safeguards triggers that are stipulated in the New Zealand-China FTA.

(iii) Sheep

Chinese tariffs on Australian exports of sheep meat to China will be removed over eight years. Current tariffs are set as high as 23 per cent. The 18 per cent Chinese tariff on frozen sheep meat offal will be eliminated in seven years. This is a growing market, with Australian sheep meat exports to China doubled between 2012 and 2013.

(iv) Wool

China imposes a 38 per cent tariff on wool imports that exceed the annual WTO 287,000 tonne quota. Australia has successfully negotiated to expand the clean wool quota by an additional 30,000 tonnes, a figure that will increase by five per cent annually. Australia is the first nation to secure a Country Specific Quota in relation to wool imports into China. Currently, China represents 75 per cent of Australian wool exports and Australia is the source of 69 per cent of Chinese wool imports.

(v) Seafood

Chinese tariffs on a range of imported Australian seafood will cease in four years. Abalone, rock lobster, crabs, oysters, prawns, scallops and southern bluefin tuna are among the products that will be awarded duty-free access to China under this deal.

(vi) Wine

Tariff restrictions on Australian wine imports into China of up to 20 per cent will be abolished by 2019. China's wine market doubled between 2010 and 2013, with Chilean wine exports to China increasing by seven times since both nations entered into a bilateral FTA in 2006.

(vii) Horticulture

Tariffs for some horticulture products are as high as 30 per cent. Under the ChAFTA, tariffs on a wide range of nuts, fruits and fresh vegetables will be removed within four years. Tariffs on citrus fruits will be eliminated over eight years.

(viii) Other products

- A 10 per cent Chinese tariff on Australian **live animal exports** will be removed in four years.
- The 15 to 20 per cent Chinese tariff on Australian **pork** will be eliminated within four years.
- The three per cent Chinese tariff on Australian **barley** imports will be immediately removed.
- Five to 14 per cent tariffs on Australian **hides, skins and leather** exports to China will be eliminated from two to seven years.
- Chinese tariffs on a range of **processed foods** will be eliminated within four to five years, including fruit juice, natural honey, pasta, chocolate, canned fruit, biscuits and cake.



China will not remove or reduce import barriers on Australian rice, sugar, wheat and cotton exports. These goods are subject to quotas and tariffs set by China upon its entry to the World Trade Organisation (**WTO**) in 2001.

Australia will not alter its quarantine and Biosecurity regime as a result of the ChAFTA.

An overview of the key ChAFTA outcomes in the agriculture sector can be read [here](#).

Industrial products, energy and mineral resources

Australian tariffs for Chinese imports in the resources, energy and manufacturing sectors will be immediately removed. However, the impact of increased imports of Chinese goods in sensitive areas will be mitigated by phasing out tariffs over several years.

(i) Energy and mineral resources

99.9 per cent of Australian resources and energy exports to China will not be subject to tariffs upon the full implementation of the treaty. Specifically:

- A recently introduced three per cent Chinese tariff on **coking coal** imports will be immediately removed. Tariffs on **non-coking coal** will be removed in two years;
- Chinese tariffs on a wide range of **transformed resources** will be removed upon the entry into force, including aluminium oxide, refined copper and alloys. The removal of the tariff on aluminium oxide in particular will reduce costs by \$1.3 billion.
- The ChAFTA formalised and locks in zero tariffs on **iron ore, gold, crude petroleum oils and liquefied natural gas**.

(ii) Manufactured goods

99.9 per cent of Chinese tariffs on the importation of Australian manufacturing goods will be abolished over four years. Goods covered in this agreement include:

- Pharmaceuticals;
- Vitamin and health products;
- Car engines;
- Plastic products;
- Diamonds;
- Pearls;
- Aluminium plates;
- Make-up and hair products; and
- Centrifuges.

An overview of changes in the resources, energy and manufacturing sectors can be read [here](#).



Services

China is Australia's largest services exports market, valued at \$7 billion in 2013. The ChAFTA provides for a significant expansion of access for Australian services firms seeking to operate in China.

The Australian Government notes that the ChAFTA contains China's most generous commitments relating to access to the Chinese services market. Furthermore, there will be increased mutual recognition of services qualifications in both China and Australia.

The following services sectors are subject to changed rules in the ChAFTA.

(i) Financial

Australian financial firms will be given increased access to the Chinese market. A financial services committee will be established to facilitate engagement between China and Australia's financial regulators.

The ChAFTA will see China commit to increased transparency and streamlining of financial services licence applications.

- Banking - A Renminbi (**RMB**) Clearing Bank will be established in Sydney, facilitating trade in China's currency in Australia. Furthermore, the waiting period for Australian banks to engage in RMB business in China will be reduced from three years to one. China will also remove the minimum RMB100 million working capital requirements for the branches of Australian banks operating as subsidiaries in China.
- Insurance - Australian insurance providers will be given access to China's statutory third-party liability motor vehicle insurance market;
- Securities and futures - Australian service providers will be able to establish joint futures companies in China with up to 49 per cent Australian ownership;
- Funds management - China will allow Australian securities brokerage and advisory firms to provide cross border securities trading accounts.
- Taxation arrangements - Both nations will review bilateral taxation arrangements to prevent duplication and to facilitate increased investment in conjunction under the ChAFTA.

Further information is available [here](#).

(ii) Legal

Australian law firms will be permitted to establish and form commercial associations with Chinese law firms based in the Shanghai Free Trade Zone (**SFTZ**). This will allow Australian law firms to service clients from anywhere in China. Furthermore, the increased mobility of Australian and Chinese lawyers will be improved by facilitating cooperation between major firms and legal professional bodies.

(iii) Health

Under the ChAFTA, Australian owned hospitals and aged care institutions will be permitted to establish healthcare facilities in China. No other trade agreements that China has entered into have included these generous provisions.



(iv) Education

China will list every Australian higher education institution on the [Commonwealth Register of Institutions and Courses for Overseas Students \(CRICOS\)](#) on the official PRC Ministry of Education website. This will add a further 77 institutions to the existing list of 105 Australian institutions on this website, exposing prospective Chinese students to educational opportunities in Australia.

Chinese students inject \$4 billion into the Australian economy each year. Further bilateral student and teacher exchange programs will be facilitated under the ChAFTA.

(v) Tourism

Australian service suppliers will be given access to the Chinese tourism market. The ChAFTA allows wholly-owned Australian businesses to construct and operate hotels in China and to run tours for domestic and international tourists.

(vi) Telecommunications

Australian companies investing in value added telecommunications services within the SFTZ will be eligible for improved foreign equity limits, facilitating increased access to China's domestic telecommunications market.

(vii) Construction

Australian companies established in the SFTZ will be permitted to undertake joint construction projects with Chinese partners in Shanghai. Business scope restrictions will not apply to these arrangements, allowing for a wider range of potential projects.

(viii) Architecture and urban planning

China will consider the experience of Australian architecture and planning firms in the assessment of business licences and permits for high-end projects throughout China.

(ix) Transport

Australian maritime transport service suppliers will be permitted to establish wholly-owned subsidiaries in the SFTZ. Furthermore, cooperation in air transport services will be enhanced.

(x) Mining Services

Australian mining services suppliers will be permitted to provide technical consulting advice in the development of coal bed methane and shale gas extraction projects.

(xi) Other

Australian software, research and development, cleaning, packaging, translation, real estate and environmental services firms will be permitted to establish wholly-owned subsidiaries in China.

A summary of increased Australian access to China's services market can be accessed [here](#).



Investment

An overview of the investment policy outcomes in the ChAFTA is available [here](#).

(i) Foreign investment

Australia will increase the screening threshold at which the Foreign Investment Review Board (**FIRB**) reviews investment by private Chinese firms in non-sensitive Australian sectors. The threshold figure will increase from \$248 million to \$1.078 billion, an exemption Australia has also offered to the United States, New Zealand, Japan and South Korea.

This increased investment review threshold will not apply to sectors deemed to be sensitive by the Australian Government. Lower thresholds apply for Chinese investments in the media, telecommunications and defence sectors. Any investment in agribusiness will be assessed if it exceeds \$53 million, and this threshold is set at \$15 million for any proposed purchase of Australian agricultural land.

The FIRB will continue to screen and review all proposed investments in Australia from Chinese State-Owned Enterprises (**SOE**).

(ii) Investor-State Dispute Settlement (ISDS)

Investment obligations in the ChAFTA will be enforced through a formal ISDS mechanism, allowing both the Chinese and Australian Governments to make laws in the public interests of their respective countries.

(iii) Labour

Labour mobility and improved mutual temporary entry access for workers is included in the ChAFTA.

Australia will grant 5,000 Chinese workers and tourist visas under a new Work and Holiday Arrangement. This will support the development of Australia's tourism sector.

The Australian Government will introduce Investment Facilitation Arrangements within the existing visa framework. This new program will facilitate the increased involvement of foreign workers in major Australian projects valued over \$150 million.

(iv) Other

Within the ChAFTA, both Australia and China have:

- Reaffirmed their obligations to existing international intellectual property rules;
- Sought to improve coordination between relevant competition policy agencies;
- Pledged to conduct future negotiations with the aim of giving Australian firms access to Chinese government procurement projects; and
- Promised to streamline and review customs processes.



Background

Negotiations on the China-Australia Free Trade Agreement commenced on 18 April 2005 under the former Howard Coalition Government. 21 rounds of formal negotiations have taken place over nine years.

China has secured bilateral Free Trade Agreements with the following nations:

- **Chile** (entered into force - 2006)
- **Pakistan** (2007)
- **New Zealand** (2008)
- **Singapore** (2009)
- **Peru** (2009)
- **Costa Rica** (2011)
- **Iceland** (2014)
- **Switzerland** (2014)

The terms of a China - South Korea FTA covering 17 core areas were concluded on the sidelines of the Brisbane G20 Leaders' Summit on 15 November 2014.

Beijing is also currently engaged in bilateral trade negotiations with Norway and Sri Lanka, a trilateral FTA between Japan and Korea and is pursuing further liberalised trade arrangements with the [Gulf Corporation Council \(GCC\)](#) members and the Association of South East Asian Nations (**ASEAN**).

An initial framework for economic cooperation between China and the ASEAN nations was established in 2002, leading to subsequent agreements on the trade of goods (2005), services (2007) and investment (2009).

China has also entered into economic partnership and cooperation arrangements with Taiwan and its Special Administrative Regions, Hong Kong and Macau.

A summary of Australia's free trade agreements is available [here](#).

Further information

A media release from the Prime Minister, the Hon Tony Abbott MP, welcoming the conclusion of negotiations can be read [here](#).

The transcript of a joint press conference held today by the President of the PRC, His Excellency Mr Xi Jinping, and Prime Minister Abbott can be read [here](#).

The Australian Trade Commission (**Austrade**) provides detailed guidance for Australian businesses interested in engaging with the Chinese market. Its China database can be accessed [here](#).

Upon the commencement of FTA negotiations in 2005, the Australian Department of Foreign Affairs and Trade and the Chinese Ministry of Commerce published a joint feasibility study into a potential trade deal. It can be read [here](#).



Barton Deakin has released summaries of the Abbott Government's key trade agreements:

- [Japan-Australia Economic Partnership Agreement](#)
- [Korea-Australia Free Trade Agreement](#)

In April 2014, the Prime Minister and State and Territory leaders led an 'Australia Week in China' promoting increased bilateral trade and cooperation across a range of sectors. Barton Deakin's Brief on this event can be read [here](#).

Australia's Department of Foreign Affairs and Trade (**DFAT**) has published a large database of resources relating to the ChAFTA. This information can be accessed [here](#).

DFAT has published updated 'fact sheets' providing a succinct overview of Australia's trade relationships. Data on the Australia-China relationship can be accessed [here](#).

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