



**Submission to the Senate Foreign
Affairs, Defence and Trade
References Committee Inquiry into
*China-Australia Free Trade
Agreement***

27 August 2015



GrainGrowers is an independent and technically resourced, grain farmer representative organisation with 18,500 members across Australia. GrainGrowers' goal is a more efficient, sustainable and profitable grain production sector that benefits all Australia grain farmers and the wider grains industry. GrainGrowers has four divisions which work cooperatively to achieve improved grain industry outcomes:

- 1) Policy and Advocacy
- 2) Milling, Baking and Analytical Food Industry Technical Services
- 3) Industry Capacity Building
- 4) On-farm Information Services

Trade & Market Access is a key focus within Policy and Advocacy and GrainGrowers has the specific aim to:

Drive the development and implementation of positive international trade and market access outcomes for the Australian grains industry and its customers.

GrainGrowers makes this submission to the Senate Foreign Affairs, Defence and Trade References Committee (the *Committee*) inquiry into the China-Australia Free Trade Agreement (ChAFTA), in support of the Agreement. ChAFTA is not a free trade deal for Australian grains because no preferential access was afforded to our largest grain export, wheat, nor to Australian canola another of Australia's important grain crops.

However, the deal is extremely important to our industry because of the preferential tariff access achieved for other important Australian grain exports. The deal is also a critical step in underpinning the very important and mutually beneficial Australia - China trade relationship and because it provides the basis on which to enhance trade into the future. As such, we congratulate the Prime Minister and Minister for Trade and Investment, together with Australia's trade negotiators and officials, in reaching this agreement. There are important provisions in ChAFTA for our industry and a number of contingencies which will influence the extent to which benefits will accrue from the agreement. These are detailed in the following as they impact on Australia's:

- a. economy and trade;
- b. domestic labour market testing obligations and laws regarding wages, conditions and entitlements of Australian workers and temporary work visa holders;
- c. investment; and
- d. social, cultural and environmental policies.

GrainGrowers appreciates the opportunity to contribute to this inquiry. In summary, GrainGrowers support the ChAFTA agreement and encourages the Committee to recommend to Parliament its adoption. Further information on ChAFTA as it relates to the Australian grains industry can be provided on request.

Yours faithfully,



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A. Economy and Trade

Australian grain exports to China were worth \$2.4 billion (FOB) in 2013-14, representing 20 per cent of Australia's total grain exports by FOB value. The benefits from ChAFTA on our barley, sorghum, oat, pulse and specialty grains are potentially significant, simply on the basis of the additional value available in the market due to reduced tariffs. The potential benefits stand to be notably greater as buyers increase quantities purchased in response to the improved competitiveness of Australian origin grain, and as Chinese demand grows over time. The benefits by are detailed following.

Barley

Australian exports of barley to China have been growing on the back of an expanding Chinese alcoholic beverage sector, and more lately also expanded feed grain demand. China is currently Australia's largest barley market.

Last year, Australian exports of barley to China were valued at \$995 million. The value of removal of the 3 per cent barley tariff on this trade adds value in the order of \$30 million¹ annually. This is in static terms, not accounting for the potential for the trade to grow due to more favourable prices for Chinese buyers.

Sorghum

Sorghum is an increasingly important crop for our industry, especially in New South Wales and Queensland, with China currently the most important destination market. The Chinese sorghum market is highly competitive, with Australian and United States (domestically supported) sorghum accounting for the majority of the sorghum imported. At current prices of \$US270-280/tonne landed China, the value of the removal of the sorghum tariff of 2 per cent in the current market would provide a \$AUD7-8/tonne competitive advantage to our Australian grains industry. A \$AUD7-8/tonne margin is extremely significant in the very thin margin markets for commodities internationally. Current forecasts for Australian sorghum exports to China this year exceed 1.5 million tonnes, meaning the removal of the sorghum tariff in the current market would be worth \$AUD11-12 million² annually.

Oats

In 2014, Australia exported 97,000 tonnes of oats to China, primarily in container. The immediate removal of the 2 per cent tariff on Australian oats is important to this market which has achieved a 26% compounded average rate of growth in volume over the last 10 years, to be worth \$AUD42 million in 2014. The removal of the tariff stands to deliver close to an additional \$AUD1 million² per annum of additional value to the trade, and provide a competitive edge for Australian exporters to continue to grow this market.

¹ Shared between buyers and sellers.

Pulses

The elimination of tariffs on Australian pulse imports over 4 years is welcomed as it may form the basis for the development of new alternative markets for Australian pulses².

Given the iterative reduction of tariffs on pulses over 4 years, the entry into force of ChAFTA by the end of 2015, would enable the export of Australian pulses to China be at a 2.8 per cent tariff advantage over pulses from other origins, including Canada the current largest exporter of pulses to China, by January 2016. At current prices for a pulse such as chickpeas, this would provide a per tonne competitive advantage of \$AUD25-35 next year, increasing to a \$AUD60 per tonne advantage following full elimination of the tariff on Australian chickpeas⁴.

Currently, pulse exports to China have been limited to minor volumes of containerised mung beans, in the absence of phytosanitary protocols to allow entry of Australian pulses more broadly. The concessions on Australian pulses in ChAFTA, have the potential to be very beneficial to our industry, if commercially meaningful phytosanitary protocols can be developed.

Specialty grains

We also recognise and support the immediate removal of the tariffs on a range of speciality grains such as millet, quinoa and triticale. These grains represent a small proportion of our industry's grain production, yet with a more competitive position into China, these crops could provide increased flexibility in production and more options to develop niche marketing channels.

Processed grain products

Removal of tariffs on some processed grain products such as rolled and flaked oats and barley immediately and on wheat gluten and starches over 4 years are welcomed by GrainGrowers. Our industry is benefited by any measures which enable more competitive trade of grain products processed in Australia. It is also worth noting that the greater the capacity of our domestic processors to be competitive on the world stage and in key markets like China, the greater the benefit to domestic consumers who will be able to access cheaper locally processed grain products.

Wheat

While wheat was not among the grain exports to achieve tariff concessions under ChAFTA, the agreement remains important for wheat exports.

Australian wheat exports to China are subject to regularly negotiated protocol conditions. The enhanced trade relationship between China and Australia stands to underpin the level of cooperation between the two countries in the development of trade protocols and therefore the future of this very important export market for Australian grain farmers. Barley and canola exports are also subject to such negotiated protocols.

² Which is important given Australia's current exposure to the often volatile Indian pulse market.

⁴ *ceteris parabis*

SPS Chapter

Sanitary and phytosanitary (SPS) concerns held by importing countries are increasingly prevalent. That ChAFTA includes the establishment of an SPS Measures Committee with a commitment to regular review is fundamental to the value that will be delivered by the agreement and a significant measure in the agreement for our industry. It is crucial that Government Departments charged with ensuring full benefit of these provisions are appropriately and adequately resourced.

Review clauses

GrainGrowers had hoped to achieve specific review of grains concessions, in particular the wheat tariff. Despite ChAFTA not including this, it does include a general agreement review, including on market access, three years after the agreement comes into force. This is a key element of the agreement that GrainGrowers hopes is a meaningful basis on which ChAFTA may become an increasingly beneficial agreement to both China and Australia, over time.

Red meat and dairy concessions

The Australian grains industry's single most important market is the domestic feed grain industry. As such, concessions on beef, dairy, lamb and other livestock industries are welcomed by our industry. Enhanced market access to China for Australian livestock products will contribute to enhanced demand for grain within Australia.

Rural Economies

Increased international competitiveness for Australian grains, and Australian agriculture more broadly, is fundamental to the future strength of rural economies across Australia. Increased profitability leads to greater expenditure, generation of jobs and investment in rural communities.

It is not only important for Agricultural but for the wider community. As a range of manufacturing industries undertake their final stages of liberalisation, it is crucial that the long liberalised Agricultural industries are given every opportunity to gain increased international competitiveness so that agricultural businesses may provide the jobs of the future.

B. Domestic labour market testing obligations and laws regarding wages, conditions and entitlements of Australian workers and temporary visa holders

Access to appropriately skilled and efficiently priced labour is essential to ensure that Australian grains are produced with a competitive cost base and to meet the quality and safety requirements of our customers.

ChAFTA underpins expanded and more competitive market positioning for Australian grains, and therefore provides the opportunity for some 22,000 grain farming businesses across Australia to grow, along with the required supply chain partners. Growing small businesses create more jobs for young Australians and the opportunity to upskill existing staff for the future. Higher farm gate returns mean more money for staff, for new technology, and for training.

C. Investment

GrainGrowers understand and appreciate the role of increased investment, including foreign investment in the future of our industry. Notwithstanding this, our view is that the retention of key investment items in ChAFTA is important to provide the basis for future consideration and review of elements in ChAFTA.

As such, GrainGrowers supports:

- Liberalisation of the screening threshold at which private Chinese investments in non-sensitive sectors are considered by Australia's Foreign Investment Review Board (FIRB) from \$252 million to \$1,094 million;
- Retention of the ability to screen investments at lower thresholds of \$15 million for agricultural land and \$53 million for agribusiness enterprise; and
- Continued FIRB screening of investment by Chinese state-owned enterprises (consistent with other international state-owned enterprises), regardless of the transaction size.

However, it is crucial that Government Departments charged with managing these provisions are appropriately and adequately resourced in a way that does not hinder beneficial investment.

D. Social, Cultural and Environmental Policies

GrainGrowers is supportive of Australian outward bound investment being safeguarded by Investor State Dispute Settlement (ISDS) provisions. Under the provisions, Australian investors in China will be able to use the ISDS mechanism to protect their investments from discriminatory treatment. Without such provisions, the avenues to extend Australian export supply chains into China may be undermined by real or perceived risk.

GrainGrowers recognize the concern that may be held in relation to ISDS on inward bound Chinese investment. However given the explicit safeguards negotiated and on the basis that the Government Departments charged with ensuring the integrity of these safeguards are appropriately and adequately resourced, GrainGrowers support the ISDS provisions in ChAFTA. In particular, GrainGrowers support provisions for:

- the exclusion of government measures that are non-discriminatory and for the legitimate public welfare objectives of **public health, safety, the environment, public morals or public order**;
- general exceptions, including for measures to protect human health and the environment;
- schedules of 'reservations' which allow Australia to maintain existing measures and reserve policy space to maintain or adopt new measures in sensitive areas including with respect to security, human health and creative arts; and
- procedural safeguards built into the ISDS mechanism, such as an expedited procedure to promptly dismiss frivolous claims.

Overview

While ChAFTA does not represent a free trade agreement for our industry, the expanded opportunities and competitive position it affords has the potential to deliver significant benefits to our industry. The potential for these significant benefits will be heightened if:

- **ChAFTA comes into force sufficiently ahead of other trade agreements with China**, to ensure that the market advantage is capitalised upon ChAFTA must come into force before December 2015 to ensure the delivery of benefits to our industry;
- **Technical barriers/SPS measures do not replace tariffs as alternative trade barriers**. While reduction of a tariff, or removal of a quota is hugely beneficial, if you do not have technical access for products, then the liberalisation measure is moot. As tariffs and quotas fall, technical barriers to trade are becoming a greater and greater issue in world trade – this impacts Australian industries to a greater extent than competitors due to the Government support their industries receive. Assuring technical access to the Chinese market has become increasingly difficult, protracted and expensive to the Australian industry in recent years. Implementation of, and genuine commitment, to the SPS Chapter provisions, by China is key to the benefits gained from ChAFTA.
- **Chinese domestic grain policies (both in trade and production), reflect consistency with ChAFTA, WTO and the principles of free trade;** and
- **Our industry coordinates to deliver in market commodity promotion and technical support**. For Australian grains, the value of a 3% tariff advantage can easily be undermined by the education, resources and support provided by competitor providers of grains such as US Wheat Associates and the Canadian International Grains Institute. GrainGrowers is strongly of the view that our industry requires a coordinated supply chain approach to commodity promotion and technical support to maximise the benefits of enhanced trade access, and indeed the ongoing competitiveness of our industry on the international stage.