

HD **UPDATE 1-Australia says wins China coal tariff exemption in free trade pact**

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* **Coal** import tariffs stay in effect until trade deal is signed

* Australia **coal** industry expects pact to be signed in Nov

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* Nearly \$8 **billion** in **coal** exports at **stake** (Adds Treasurer, trade source, industry comments)

By Sonali Paul

MELBOURNE, Oct 22 (Reuters) - Australian **coal** will be exempt from controversial new import tariffs imposed by **China** when the two countries sign a free trade pact, Treasurer Joe Hockey said after a meeting in **China**, although the timing of a deal has yet to be finalised.

Australia and **China** are trying to seal a free trade agreement (FTA) before the end of this year after nearly 10 years of negotiations, in a bid to boost two-way trade already worth more than A\$150 **billion** (\$132 **billion**).

Amid the talks, Beijing stunned Australia this month by imposing a 3 percent tariff on **coal** used in steel mills and 6 percent tariff on **coal** used in power stations, hitting A\$9 **billion** (\$7.9 **billion**) worth of exports from Australian miners already reeling from a slump in prices.

"Once we have an FTA, it will be abolished. The quicker we get an FTA, the quicker the tariffs will go," Hockey said after meeting **Chinese** Finance Minister Lou Jiwei in Beijing on Tuesday.

"I think on both sides we are now more determined to get this done. I suspect it has caused some embarrassment to some people in **China** and it is a source of frustration for us, but there is a way through."

China took nearly a quarter of Australia's metallurgical **coal** exports in the year to June 2014, and about a fifth of its thermal **coal** exports, used in power stations.

The tariffs will put **coal** exports from Australia at a disadvantage to its biggest rival, Indonesia, which is exempt under **China's** free trade pact with the Association of Southeast Asian Nations.

"The immediate elimination of tariffs on Australian **coal** exports is a key objective for the sector and we understand the Minister for Trade Andrew Robb will be seeking to secure that outcome as negotiations come to a conclusion over the next month," the Minerals Council of Australia's **coal** director Greg Evans said in an emailed statement.

However, industry sources in **China** said Beijing may want to prolong free trade talks to keep the tariff in place in order to aid its domestic miners, who are struggling with weak prices in face of a big increase in exports from Indonesia and Australia.

"The question is when **China** and Australia can sign off on the FTA and I think there is more room for **China** to drag its feet," said a senior executive at a large Western trading house.

"There is a lot more production capacity coming onstream next year and demand is still going to be weak, so I think they will need to give local miners a bit more time and more wriggle room before allowing imports in again," he said.

Unions saw the sudden imposition of the tariffs as a bargaining tactic as Beijing presses Australia to lower foreign investment hurdles and ease limits on the number of **Chinese** who can be brought in to work on **Chinese**-owned projects.

"What do we get in return for all of this? A commitment from **China** to drop a tariff they had no intention of keeping in the first place," Michael O'Connor, national secretary of the Construction, Forestry, **Mining** and **Energy** Union, said in a statement.

Trade talks have been hampered by Beijing's concerns over opening its markets to Australian food and its worries about Australia's tough approval process for foreign investment by **China**'s state-owned enterprises.

Canberra wants its biggest trading partner to give Australian businesses access to key industries in which foreign investment is currently restricted.

Robb is likely to seek to set the same thresholds for **China** on private investment and agricultural investment as it has established in free trade deals with Japan and South Korea, a trade official with knowledge of the talks said.

That would imply investments of up to A\$1 **billion** would not be subject to review by Australia's foreign investments watchdog and investments of up to A\$15 **million** in farm land and A\$53 **million** in agri-businesses would not face scrutiny.

"We're taking an approach where in terms of investment, we don't favour discriminatory trade policy," the Australian trade official told Reuters earlier this month.

(1 US dollar = 1.1390 Australian dollar) (Additional reporting by Lincoln Feast and Matt Siegel in SYDNEY and Faye Wong in SHANGHAI; Editing by Richard Pullin)

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