HD **China becomes Australia's most open country: snapshot of the FTA**

BY Anthony Latimer

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Introduction

China is Australia's number one trading partner, with two-way flow of goods and services exceeding $150 billion last year. Australia and China came to a Free Trade Agreement (FTA) this week, which will ensure that 85% of all Australian exports will enter China tariff-free, such figure rising to 93% within four years, and to 95% when the FTA is in full force in the next decade. Australia is expected to benefit from the FTA to the amount of $18 billion over the next 10 years.

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FTAThe is an ambitious and bold document. However, Australian businesses will need to position themselves to look at and understand how the details of the FTA will be applied in practice. Notwithstanding this, the importance of the FTA is less in its detailed provisions and more in the signal that it sends that both China and Australia are prepared to break down barriers for business. China will become, in terms of tariff barriers, the most open market that Australia exports to. Australia, for its part, has stepped back from its negative approach to Chinese investment. It has raised the thresholds for private investors so that they are the same as those that apply to the US, and has relaxed restrictions upon senior Chinese workers. Invariably a key area that will disappoint will be around the liberalisation of services.

It is unlikely that Australia will be given a "leg up" over other countries as many commentators seem to imagine. Many of the concessions in the FTA around services are those that are already available to other foreign investors. Those that are not will probably be toned back so that they are consistent with the current liberalisation, or further liberalisations will be pushed through by China over the next year. Notwithstanding this, the fact remains that this is the most far reaching free trade agreement that China has signed with any country. Of itself, the signing of the FTA should signal a new era of engagement between Australia and China. Further, Australia has secured from China a "most favoured nation" status, which means that any future trade concessions granted by China to other countries will also be granted to Australia, but this will not apply to commodities that are not covered by the FTA (see below for a list of commodities that are not covered).

Snapshot of the FTA

We set out below the key takeaway points in relation to each of the key industry sectors affected by the FTA.

Agriculture

All tariffs on dairy products areremoved within 4 to 11 years. Tariff on infant milk formula isreduced from 15% to 0% over 4 years. Tariff on liquid milk is reduced from15% to 0% over 9 years. Tariffs on ice cream, lactose, caseinand milk albumins are reduced from 10-19% to 0% over 4 years. Tariffs on cheese, butter and yogurtare reduced from 10-15% to 0% over 9 years. Tariff on milk powders is reduced over11 years.

The benefits for the Australian dairy sector are expected toreflect the increased dairy exports for New Zealand after their FTAwith China. In line with New Zealand but withoutthe quotas.
Beef NRF Takeaway
Tariffs on beef are reduced from 12-25%to 0% over 9 years. Tariff on beef offal is reduced from12% to 0% over 4 to 7 years.
Beef exports to China are currently worth AU$722 million. Although the reduced tariff is important to our beef industry, thetest will be in its implementation. China has a largedomestic beef industry that it wants to protect (although herdshave been depleted) and as a result we assume that in Chinanon-tariff barriers will replace tariff barriers. In addition, Australian beef is almost double the cost of Chinese beef. Asa result query whether there will be a significant increase inimports resulting from the FTA. Sheep and goat meat exports to Chinaare currently worth AU385 million. Live cattle exports to China arecurrently worth AU$136 million. Exports to China of skins, hides andleather are currently worth AU$896 million. Taken together, the changes to theseindustries are expected to boost the sector by AU$11 billion. Sheep and goat
meat
Tariffs on sheep meat and goat meat arereduced from 12-23% to 0% over 8 years. Tariff on frozen sheep offal is reducedfrom 18% to 0% over 7 years. Live animal
exports
Tariff on live cattle is reduced from10% to 0% over 4 years. More generally, all tariffs on liveanimal exports to be reduced from 10% to 0% over 4 years. Skins, hides and
leather
Tariff on sheep skins is reduced from7% to 0% over 4 years. Tariffs on cow hides and skins arereduced from 5-8.4% to 0% over 2 to 7 years. Tariffs on kangaroo hides and skins arereduced from 14% to 0% over 4 years. Tariffs on other leather products arereduced from 5-14% over 4 years. Barley and sorghum
NRF Takeaway
Tariff on barley is reduced from 3% to0% immediately. Tariff on sorghum is reduced from 2% to0% immediately.
Barley and sorghum exports to China are currently worth almostAU$500 million, and this change is expected to give a real boost tothis industry. Horticulture
NRF Takeaway
All tariffs reduced from up to 30% to0% within 4 years. Tariffs on macadamia nuts, almonds, walnuts, pistachios and all other nuts are reduced from 10-25% over4 years. Tariffs on various fruits are reducedfrom 10-30% over 4 years. Tariffs on all fresh vegetables arereduced from 10-13% over 4 years.

The change is expected to give a real boost to this industry.
Seafood NRF Takeaway
All tariffs, including tariffs of 15%and 10-14% respectively on rock lobster and abalone are reduced to0% over 4 years
The change is expected to give a real boost to this industry.
Wine exports NRF Takeaway
Tariffs on wine are reduced from 14-20%to 0% within 4 years

Wine exports to China are currently worth $217 million, and thechange is expected to give a boost to this local industry. Wool
An Australia-only duty free quota forwool, in addition to continued access to China's WTO woolquota. The duty free quota will grow by 5%each year to 2024.

Resources

Immediate removal of 3% coking coal(i.e. metallurgical coal for steel making) tariff. Thermal/steam coal tariff is reducedfrom 6% to 0% within 2 years. Tariffs on non-coking coal are reducedfrom 6% to 0% over 2 years.
In relation to the resources and energy sector as a whole, uponfull implementation of the FTA, almost all of Australia'scurrent resources and energy exports will benefit from duty-freeentry into China. The FTA will

provide greater certainty forAustralian exporters by locking in zero tariffs on major exportssuch as **gold**, crude petroleum oils and liquefied natural gas. This will cement the **mining** and **energy** sector relationship that isthe cornerstone of trade between **China** and Australia. Transformed resources and **energy** products

Tariffs removed on minerals commodities(many immediately), including refined **copper** and alloys (unwrought)(currently 1-2%), aluminium oxide (**alumina**) (currently 8%), nickelmattes and oxides (currently 3%), unwrought zinc (currently 3%), **copper** waste and scrap (currently 1.5%), unwrought aluminium(currently 5-7%), aluminium waste and scrap (currently 1.5%), unwrought nickel (currently 3%), other mineral substances(currently 3-5%) and titanium dioxide (currently 6.5-10%).

Manufacturing Exports

Removal of all tariffs across a rangeof processed foods, including fruit juice and honey.

The manufacturing sector as a whole, upon full implementation ofthe FTA, will receive a real boost as almost all of Australia'smanufactured products exported to

China will benefit from duty-freeentry into **China**. Pharmaceuticals

Tariffs on pharmaceutical products arereduced from 3-10% to 0% either immediately or within 4 years, including vitamins and health products. Other manufactured

products

Tariffs are removed on variousmanufactured products within 4 years, including car engines(currently 10%), plastic products (6.5-14%), diamonds and otherprecious stones (currently 3-8%), orthopaedic appliances (currently4%), aluminium plates and sheets (currently 6-10%), make-up andhair products (currently 6.5-15%), centrifuges (currently 10%) andpearls (currently 21%).

Financial Services

Australian financial service providerswill be given unprecedented access to the

Chinese market and willbe able to do **business** in **China** more easily. This willprovide a significant boost to Australia's financial servicesexports. Some specific examples of the changesto the financial services sector include the following:

These concessions to the Australian financial services sector aresignificant in that it should give Australia access to **China**'sfinancial markets. Some of the concessions in the FTA alreadyexist, whereas some are new and not already available. In particular, these concessions willprovide opportunities for the Australian funds managementindustry. Combined with the Renminbi QualifiedInstitutional Investor scheme, the FTA delivers a new level ofaccess to the **Chinese** market for Australian funds managers.

Worker Mobility

The FTA will reduce barriers to labourmobility between the Australian and **Chinese** labour markets, andwill improve temporary access within the framework of eachcountry's existing immigration and employment safeguards. **Chinese** companies will be permitted tobring management level individuals (i.e. skilled service providers, investors and **business** visitors) to Australia. Further, new Investment FacilitationArrangements, which will operate within the framework ofAustralia's existing visa system and which will be available tolarge infrastructure projects worth more than $150 **million**, willprovide more flexibility for companies to respond to economic andlabour market challenges These changes are important for their symbolism and are not asextensive as was agreed between **China** and the USA. The current procedures for **Chineseworkers** to enter Australia are extremely convoluted to the pointwhere projects are often delayed because project terms oftenprevent foreign workers from entering the Australian labour market. These changes will mainly apply to senior management individualswho are currently not able to get into Australia. It is expected that these changes willstrengthen investment in large infrastructure projects, leading tothe creation of new jobs and increased economic activity inAustralia.

Services

China will permit Australian maritimetransport service suppliers to establish wholly Australian-ownedship management enterprises in the Shanghai Free Trade Zone().
These concessions are generally already available to foreigninvestors.
Legal NRF Takeaway
Australian law firms will be able toestablish commercial associations with Chinese law firms in theSFTZ. Within such commercial associations, foreign lawyers qualified in foreign countries will be able topractice relevant foreign countries' law international law; Chinese qualified lawyers will be able to practice Chinese law andinternational law without suspension of their Chinese practicingcertificates.
This will allow for the provision of international legal serviceswithout restrictions on the geographic location of clients. We willneed to see the detail to understand whether this expands upon whatis already open to foreign law firms in the SFTZ. Education NRF Takeaway
Within 1 year, China will list on anofficial Ministry of Education website all Australian privatehigher education institutions registered on the CommonwealthRegister of Institutions and Courses for Overseas Students.
This will add 77 institutions to the existing 105 Australianinstitutions on the website. Chinese students currently make up 29%of Australia's international student market, contributing AU$4billion into the Australian economy. This will add 77 institutionsto the existing 105 Australian institutions on the website, providing a trusted source of information to potential Chinesestudents. Telecommunications NRF Takeaway
China will guarantee new access forAustralian companies investing in value-added telecommunicationsservices in the SFTZ with improved foreign equity limits.
This will enable wholly Australian-owned companies to supplydomestic multi-party communication services, application storeservices, store and forward services and call-center services tothe Chinese market. We need to see the detail on thisconcession to understand whether it is a new concession. However, based on the information provided, it would appear to bean important concession for Australian companies. Tourism NRF Takeaway
Tourism operators will be able toconstruct, renovate and operate wholly Australian-owned hotels andrestaurants in China, and Australian travel agencies and touroperators will be able to establish wholly-owned subsidiaries inChina.
These changes are important for their symbolism. The construction and operation ofhigh-ranking hotels fall with the restricted sector of the currentversion of Catalogue for the Guidance of Foreign InvestmentIndustries. Healthcare NRF Takeaway
Health care operators will now be ableto establish wholly Australian-owned hospitals and aged careinstitutions in China.
This should be a significant relaxation for the construction andoperation of hospitals. Currently, foreign investors are onlypermitted to establish hospitals in seven cities. This shouldallow Australian investors to move beyond those seven cities. It is less significant for theconstruction and operation of aged care institutions. This should greatly expand theAustralian private health sector's ability to providehealthcare services throughout China. However, the thought isthat China may be slow in implementing the domestic regulationsnecessary to implement the concession. Manufacturing NRF Takeaway
Wholly Australian-owned companies willbe able to provide contract manufacturing services in Chinacovering a range of manufactured products.
This is a unique concession, as it marks China's first everfree trade commitment to manufacturing.

Chinese Investment into Australia

Threshold for screening by the ForeignInvestment Review Board () increased fromAU$248 million to AU$1.078 billion for private Chinese companiesbuying in Australia in non-sensitive sectors. For agricultural land, FIRB scrutinythreshold lowered to AU$15 million for farm land, and AU$53 millionfor buying an Australian agribusiness. The Australian government has retainedthe ability to screen Chinese investments at lower thresholds forsensitive sectors, such as media, telecommunications anddefence-related industries. FIRB will continue to screen allinvestments by Chinese State-Owned Enterprises

It is expected that, due to the increase in the FIRB threshold, bilateral investment between China and Australia will increaseconsiderably. The Chinese government estimates an increase inoutbound investment of $1.44 trillion over the next 10 years. However, on the new lower thresholdsfor agriculture, uncertainty will exist as to the effect of thechanges and on properly understanding the differences between farmland and agribusiness.

These changes are important for their symbolism. China hasviewed FIRB as discriminating against Chinese companies. Accordingly, this change is important for China. And the result ofthis change means that Australia should be more attractive forChinese investors than Canada and the US, but still behind theUK. However, the changes do not apply toChinese State-Owned Enterprises (i.e. government enterprises). Tax NRF Takeaway

China and Australia have agreed toreview bilateral taxation arrangements, including relief fromdouble-taxation.

This will greatly benefit parties doing business between China andAustralia.

Industries that miss out

Australian rice, sugar, wheat, oil seeds and cotton industries will miss out on benefits at this time, so if China agrees anything with the USA or Europe in respect of these industries, Australia will be at a disadvantage. However, the FTA is subject to review in 3 years. There will be no changes to Australia's risk-based quarantine measures as a result of the FTA.

Mr Anthony Latimer

Norton Rose Fulbright Australia

Level 18

Grosvenor Place

225 George St

Sydney

2000

AUSTRALIA

Tel: 29330 8000

Fax: 293308000

E-mail: Alex.boxsell@nortonrosefulbright.com

URL: www.nortonrosefulbright.com/

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