

HD HSBC-Australia signs **China** deal

WC 484 words

PD 24 November 2014

SN ENP Newswire

SC ENPNEW

LA English

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LP

Release date - 21112014

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The agreement lowers tariffs on Australian agricultural products.

After almost a decade of trade rounds, Australia has finally signed a free-trade agreement with **China**, its largest trading partner. Although Australia's trade ties to **China** are already strong, they mostly involve minerals and energy. The free-trade agreement should encourage exports of agricultural products and services to **China**'s rapidly growing middle classes.

The agreement lowers tariffs on Australian agricultural products and increases thresholds on **Chinese** private-**company** investment in Australia. More surprisingly, Australian services providers have been given priority access to the **Chinese** market. This includes allowing tourism operators to **buy** hotels and restaurants and insurers to access the third-party insurance market in **China**.

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Over time, up to 95 per cent of Australia's exports will enter **China** tariff-free as a result of the agreement, which could boost the Australian economy by AUD18 **billion** over 10 years (about USD16 **billion**) adding 1.1 per cent to GDP, according to some reports.

Australian **dairy** producers will have tariff-free access to the **Chinese** infant formula market (current tariffs are 15 per cent) by 2018, matching New Zealand's free-trade deal, with broader **dairy** tariffs to be phased out over nine years.

Tariffs on beef (currently 12 per cent to 25 per cent) will be phased out over nine years too while the 23 per cent sheep-meat tariff will go over eight years. Tariffs on Australian **wine** exports to **China** will also fall to zero (from 14 per cent to 30 per cent) by 2018 and other goods, including barley, seafood, leather and horticultural products, will also see tariffs eliminated.

Tariffs on alumina, zinc, nickel, copper and uranium are to be removed along with coal tariffs. **Chinese** workers may also gain greater access to the Australian labour market.

Chinese private companies will be able to invest up to AUD1.087 **billion** in Australia, up from AUD248 **million**, without approval from the Foreign Investment Review **Board**, although access for **Chinese** state-owned enterprises will not change.

Besides hotels, Australian services businesses will get greater access to **Chinese** private hospitals and nursing homes. Australian services exports to **China** are currently around AUD7 **billion** - 4 per cent of total exports to **China** - and there is significant scope for that to increase, given that the highly productive services sector accounts for the bulk of Australia's output.

The agreement on services is being billed by the Australian government as the best deal **China** has given on its free-trade agreements. It should help bolster Australia's already strong links to Asia and the ongoing 'rebalancing' of its growth towards non-mining sectors.

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AN Document ENPNEW0020141124eabo000n4