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Submission to Australia-China Joint FTA Feasibility Study

Introduction

Since the mid-1990's China has been the largest primary export market for Australian greasy and semi-processed wool, importing approximately 40% of the Australian wool clip in recent years. In addition, China has also recently become the largest consumer market for finished Australian wool products, complementing its position as the world's largest exporter of textiles and clothing products to other consumer markets.

However, with a positive outlook both for global economic growth and for the Chinese domestic economy, which in turn will generate increasing levels of disposable income, China has the potential to become an even bigger importer, processor, consumer and exporter of Australian wool and wool products. This outlook will be enhanced by the final implementation of the WTO Agreement on Textiles and Clothing from the beginning of 2005. In short, the future profitability and sustainability of the Australian wool industry is expected to be even more dependent on the corresponding situation with the Chinese wool textile industry than it has been in the last eight to ten years.

Australia should therefore use the opportunity provided by the Joint FTA Feasibility Study to address those remaining market access and trade issues that are preventing the Australia-China wool trade from realising its full potential for the benefit of both countries.

China's Accession to the WTO in 2001

In wool's case, some of the issues that one might normally expect to see featured in any FTA study, such as tariffs and quotas, were addressed during the lengthy negotiations which preceded China's accession to the WTO in 2001. As a consequence, China introduced two global tariff rate quota systems – one for raw wool and another for wool tops – which reduced “in quota” tariff levels quite significantly. In addition, China agreed to eliminate its designated trader system by the end of 2004.

Presumably, any further negotiations to, for example, have the remaining “in quota” tariffs for raw wool and tops completely eliminated or at least have the rate applied to wool tops (currently 3%) reduced to the same level as for raw wool (currently 1%), must remain within the WTO ambit. Similarly, it is understood that the present global TRQ system provisions are due for review at the end of 2004. To ensure that all trade and market access issues affecting the Australia-China wool trade are being addressed at the appropriate level (WTO or bilateral), it would be useful to have confirmation from DFAT that those wool related matters that were part of China's WTO accession negotiations and commitments are still being progressed. These include:

- Details as to how the global TRQ system will operate beyond 2004. This would include “in quota” and “out of quota” tariff rates; having a single TRQ system instead of the present two; arrangements for quota allocation; and the future of the “first come, first served at point of contract” system for recording global quota utilisation; and

- Ensuring that the designated trader system is completely eliminated by the end of 2004. This will finally remove the trading restriction which previously limited the number of organisations that could actually import wool into China

China has made good progress to date on meeting its WTO accession commitments so far as wool is concerned but it is important to know that the issues mentioned above are being progressed at that level and that we do not need to find some way of raising them again in the context of this FTA Feasibility Study.

FTA Issues for Australian Wool

1. Mandatory Inspection

In the Australia-China Trade & Economic Framework signed last October, there are various references to "communication and consultation in relation to existing discrimination in inspection and quarantine matters". In this regard, one issue that was not able to be resolved during the WTO accession negotiations was China's long standing requirement to subject Australian wool imports to mandatory inspection and retesting procedures.

Contracts for Australian wool being imported into China require IWTO test certificates to be provided. However, China's State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ) still refuses to recognise the internationally accredited status of these certificates and subjects all Australian wool imports to this mandatory inspection and retesting regime. AQSIQ officials claim that their local testing procedures are as good, if not better, than those of IWTO but continually ignore the fact that it is physically impossible for their technicians to obtain representative samples for testing from dumped wool bales. IWTO procedures make provision for any suspect test results to be queried but AQSIQ refuses to recognise IWTO certificates and China's membership of IWTO.

Interestingly, there are a number of references inserted by China in the Trade & Economic Framework to WTO training for China's quarantine and inspection personnel but in the case of mandatory testing of wool imports, China must first demonstrate that it has a genuine willingness to change past practices and conform with internationally accredited testing and certification procedures. In addition, there have been some reports in China that AQSIQ might try to justify ongoing mandatory testing of wool imports on quarantine grounds. However, it should be noted that all Australian wool imports into China are accompanied by health certificates issued under Australian government protocols.

In 2001, DFAT, in consultation with the wool industry, drafted a Memorandum of Understanding to cover the "Conformity Assessment Procedures for Imports into China of Australian Wool and Wool Tops". At that time, a MOU was seen by DFAT and Agriculture, Fisheries and Forestry as an alternative after efforts to resolve this issue during the China WTO accession negotiations were not successful. The draft MOU was discussed at a meeting of Australian and Chinese Government officials in Beijing in September/October 2001 and it is understood that little progress was made. The current status of this draft MOU is not known and would need to be reviewed in consultation with industry to determine if and how this mandatory inspection and retesting issue might best be raised in the context of the FTA Feasibility Study.

2. Customs Procedures

There is a proposal by China in the section on Customs Cooperation in the Trade & Economic Framework to simplify Customs procedures. Such a development would assist Australian wool exporters and their Chinese customers as, from time to time, clearances of wool imports are delayed

as a result of different interpretations and applications of current procedures in different ports by local Customs officials.

3. Model Wool Contract

China has also made reference in the Trade & Economic Framework to full use being made of the Sino-Australian-New Zealand Model Wool Contract as a means of guaranteeing the quality of imported wool. Many of these “quality” issues arise from the use of outdated procedures by Chinese importers and mills when specifying their raw material requirements in contracts. I am not clear as to how easy or otherwise it might be to have what is essentially a commercial matter included in any FTA document but if it is possible to promote and encourage greater use of this Model Wool Contract by both Australian sellers and Chinese buyers in the proposed FTA, this would significantly assist in overcoming the never ending debate that takes place over the quality of Australian wool deliveries.

4. Textiles, Clothing and Footwear (TCF)

China has included a section on TCF in the Trade & Economic Framework which contains two references which, it should be noted, will be opposed by local Australian wool processors and garment manufacturers, even though both initiatives would be in the best long term interests of the global wool textile industry and consumers as a whole. Firstly, China is seeking strengthened cooperation in pre-processing of wool and related activities such as waste water treatment. It is already a matter of great concern to Australian early stage processors that China currently takes the bulk of its purchases in greasy form, thereby significantly reducing the amount of wool available for processing in Australia prior to export. Helping China to improve the efficiency and quality of its local early stage processing will assist Chinese mills to comply with increasingly tighter environmental regulations that will undoubtedly be introduced by Chinese government authorities. Without such assistance, Australian processors would be hoping that environmental pressures would force Chinese mills to import more semi-processed wool from Australia.

Secondly, China states that it looks forward to further downward adjustment of Australian textile and clothing import tariffs post 2005. Legislated reductions in these import tariffs will come into effect in 2005 but the Australian Government has also announced its response to the recommendations arising from the Productivity Commission’s review conducted in 2003 of post 2005 assistance for the Australian textiles, clothing and footwear sectors. This is a delicate issue as China, Australian woolgrowers and Australian consumers would all benefit from further reductions in, and eventually the removal of, the remaining import tariffs on Chinese TCF products, whereas our local TCF firms, including early and later stage wool processors and manufacturers, will continue to lobby strongly for ongoing packages of tariff protection and financial assistance, like the SIP scheme, to remain in place for as long as possible.

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