

CHINA- AUSTRALIA

FREE TRADE AGREEMENT



Outcomes at a Glance

China is Australia's largest trading partner. Trade and investment with China is central to Australia's future prosperity. In 2016, China bought \$93.5 billion of Australian exports, more than a quarter of Australia's total exports to the world; China is our top overseas market for agriculture, resources and services. Chinese investment in Australia has been growing strongly in recent years, reaching \$87.2 billion by the end of 2016.

The China-Australia Free Trade Agreement (ChAFTA), which entered into force on 20 December 2015, has built on Australia's large and successful commercial relationship with China, by securing markets and providing Australians with even better access to China across a range of our key business interests, including goods, services and investment.

For Australian goods exporters

More than 85 per cent of Australia's goods exports to China (by value in 2015-16) now enter duty-free or at preferential rates thanks to ChAFTA, and this percentage will rise to almost 93 per cent by 1 January 2019 and 97.9 per cent when ChAFTA is fully implemented (1 January 2029).

China buys more of Australia's **agricultural produce** than any other country. In 2016, this market was worth around \$10 billion to Australian farmers and the broader agricultural sector. ChAFTA provides Australia with an advantage over our major agricultural competitors, including the United States, Canada and the European Union. It also counters the advantages Chile and New Zealand currently enjoy through their FTAs with China.

In **agriculture**, ChAFTA completely eliminated remaining tariffs on Australian barley and sorghum on 20 December 2015, and will see a rapid tariff reduction on other agriculture exports, including seafood, sheepmeat and a variety of horticulture. Other key agriculture outcomes include:

- **Dairy:** tariffs up to 20 per cent are being eliminated by 1 January 2026
- **Beef:** tariffs of 12 to 25 per cent are being eliminated by 1 January 2024
- **Wine:** tariffs of 14 to 20 per cent are being eliminated by 1 January 2019
- **Wool:** a new Australia-only duty-free quota (which commenced on 1 January 2016), in addition to continued access to China's WTO wool quota.

China is by far Australia's largest market for resources and energy products. In 2016, Australia exported around \$74 billion worth of **resources, energy and manufactured products** to China. Since 20 December 2015, 92.8 per cent of China's imports of these products from Australia entered duty-free, with most remaining tariffs to be removed by 1 January 2019. On full implementation of ChAFTA (1 January 2029), 99.9 per cent of Australia's **resources, energy and manufacturing** exports will enjoy duty-free entry into China.



Key outcomes include:

- **Iron ore, gold, crude petroleum oils and liquefied natural gas:** ChAFTA locked-in existing zero tariffs on these major exports, providing greater certainty for Australian exporters
- **Coking coal:** tariff of 3 per cent completely eliminated on 20 December 2015
- **Thermal coal:** tariff of 6 per cent completely eliminated on 1 January 2017
- **Refined copper and alloys (unwrought), aluminium oxide (alumina), unwrought zinc, unwrought aluminium, unwrought nickel and titanium dioxide:** tariffs of up to 10 per cent eliminated, many immediately on 20 December 2015
- **Pharmaceuticals, including vitamins and health products:** elimination of tariffs up to 10 per cent, either on 20 December 2015 or progressively by 1 January 2019
- **Car parts and engines, plastic products, opals and other precious stones:** elimination of tariffs on these and other manufactured products by 1 January 2019.

For Australian services suppliers

China is Australia's largest services market, with exports in services valued at \$11.3 billion in 2016.

In ChAFTA, China offers Australia its best-ever services commitments in an FTA (other than China's agreements with Hong Kong and Macau). Most valuably, this includes new or significantly improved market access commitments for Australian banks, insurers, securities and futures companies, law firms and professional services suppliers, education services exporters, as well as health, aged care, construction, manufacturing and telecommunications services businesses in China.

The agreement also includes a Most-Favoured Nation (MFN) clause, under which Australia's competitive position in services into the future will be protected if China extends any more beneficial treatment to other trade partners in ten specific sectors: education, tourism and travel-related services, construction, engineering, securities, environmental services, services relating to forestry, computer and related services, and certain scientific and consulting services.

Key outcomes include:

- **Legal services:** Guaranteed market access for Australian law firms to establish commercial associations with Chinese law firms in the Shanghai Free Trade Zone (SFTZ)
- **Education services:** China has listed 68 additional Australian private higher education institutions registered on the Commonwealth Register of Institutions and Courses for Overseas Students on a key Chinese Ministry of Education overseas study website
- **Telecommunications services:** Guaranteed market access for Australian companies investing in specified value-added telecommunications services in the SFTZ, providing greater certainty for Australian telecommunications investments in the SFTZ
- **Financial services:** China committed to deliver new or improved market access to Australian financial services providers in the banking, insurance, funds management, securities, securitisation and futures sectors
- **Tourism and travel-related services:** Guaranteed market access for Australian services suppliers to be able to construct, renovate and operate wholly Australian-owned hotels and restaurants in China
- **Health and aged care services:** Australian service suppliers can establish profit-making aged care institutions throughout China, and wholly Australian-owned hospitals in certain provinces, enabling Australian private health sector's offerings of medical services through East Asia to expand.

For investors

ChAFTA improves opportunities for investors in both countries. China's commitments on investment in ChAFTA protect the competitive position of Australian businesses in China into the future. Increasing numbers of Australian businesses are entering the Chinese market with great success, with banking and wealth management the leading sector of Australian direct investment in China. At the end of 2016, Australia's stock of investment in China totaled \$87.9 billion.

The investment obligations in ChAFTA can be enforced directly by Australian and Chinese investors through an Investor-State Dispute Settlement (ISDS) mechanism. The ISDS mechanism includes safeguards to protect governments' ability to regulate in the public interest and pursue legitimate public welfare objectives such as public health, safety and the environment.

Chinese investment in Australia has been growing strongly in recent years - up from \$4 billion 10 years ago, to around \$87 billion at the end of 2016. ChAFTA promotes further growth of Chinese investment into Australia, in particular by liberalising the Foreign Investment Review Board (FIRB) screening threshold for private Chinese investors in non-sensitive sectors from \$252 million to \$1,094 million. The Government will continue to screen Chinese investments at lower thresholds for agricultural land and agribusiness, and in sensitive sectors, including media, telecommunications and defence-related industries.

Moreover, FIRB also continues to screen all direct investments, new business proposals and acquisitions of interests in land (including agricultural land), by Chinese state-owned enterprises, regardless of transaction size. ChAFTA does not change these arrangements in any way, consistent with the Government's practice in other FTAs.

For Australian consumers and businesses

Consistent with Australia's other bilateral trade agreements, remaining Australian tariffs on Chinese imports will be eliminated progressively. This includes removal of the five per cent tariff on Chinese manufacturing exports, electronics and white goods, with consumers and businesses to benefit from downward pressure on prices and greater availability of Chinese products.

Business and skilled worker mobility

ChAFTA supports increased trade and investment between Australia and China by reducing barriers to labour mobility and improving temporary entry access within the context of each country's existing immigration and employment frameworks and safeguards.

ChAFTA provides improved access for a range of Australian and Chinese skilled service providers, investors and business visitors, supporting investment and providing business with greater certainty. Innovative new Investment Facilitation Arrangements (IFAs), which will operate within the framework of Australia's existing visa system, will also provide greater flexibilities for companies to respond to unique economic and labour market challenges. IFAs will be available for large infrastructure projects above \$150 million, strengthening investment in this key area and leading to the creation of jobs and increased economic prosperity for all Australians.

Other outcomes

ChAFTA includes additional commitments which:

- Provide a framework for the growth of electronic commerce between Australia and China
- Reaffirm existing international intellectual property obligations and provide a framework for future cooperation
- Promote cooperation and coordination between relevant agencies on competition policy
- Provide for future negotiations on access to China's government procurement market
- Facilitate trade through streamlined customs processes.

Work and Holiday Arrangement

Alongside ChAFTA, Australia and China have also implemented a Work and Holiday Arrangement (WHA) under which Australia will grant visas for up to 5,000 Chinese work and holiday makers annually. The WHA will increase demand for tourism services and support the development of Australia's tourism sector, particularly in rural Australia.