

# CHINA AUSTRALIA FREE TRADE AGREEMENT

## POST-IMPLEMENTATION REVIEW

The Department of Foreign Affairs and Trade (DFAT) are undertaking a five year Post-Implementation Review of the China-Australia Free Trade Agreement (ChAFTA).

DFAT are seeking input from businesses/industry on both the impacts of ChAFTA as well as whether ChAFTA has delivered a net benefit to the Australian community.

### Submissions

DFAT are seeking input into the Review via submissions. Dairy Australia and the Australian Dairy Industry Council (ADIC) will be providing a submission to this process. Dairy Australia seeks your input and hear your views on ChAFTA.

In addition to the Dairy Australia – ADIC submission, individual processors / businesses are also encouraged to provide their own submissions.

### Submissions are requested by 31 July 2020.

DFAT are seeking input on:

- how opportunities for Australian businesses may have changed under ChAFTA, such as the competitiveness of Australia's goods and services exports;
- whether the outcomes of ChAFTA have met business and other stakeholder expectations;
- whether there have been any unintended impacts of ChAFTA;
- the effect of ChAFTA on any administrative or regulatory costs on business, including:
  - those around compliance processes associated with certificates of origin for goods trade;
  - the extent to which any administrative or regulatory costs are considered reasonable, relative to benefits which they may accrue; and
- whether administrative or regulatory costs have met business and other stakeholder expectations.

### Background

The China-Australia Free Trade Agreement entered into force on 20 December 2015.

For dairy, ChAFTA agreement provides the staged removal of all dairy export tariffs faced by Australian dairy exports to China within 4–11 years (depending on the product).

### Global exports to China in 2019

- Rank at #1 in the global dairy market (by volume).
- Destination for 2,975.6 thousand tonnes of dairy product, worth US \$9,345.9 million
- Exports to China have increased by 48.3% over 5 years
- The biggest volume growth (product categories exceeding US\$20 million) has been in: Yogurt (621%), Cream (593%), Protein (350%), Buttermilk (190%) and Milk (138%).
- The biggest volume decline (product categories exceeding US\$20 million) has been in: Butter Oil (-11%) and Whey Powder (-7%).

### Australian market share in 2019

- Rank at #3 in the share of the China import volume.
- Destination for 209.6 thousand tonnes of Australian dairy product, worth US \$572.1 million
- Exports to China have increased by 95.1% over 5 years.
- The biggest volume growth (product categories exceeding US\$1 million) has been in: Protein (21437%), Condensed Milk (2016%), Infant Powder (278%), SMP (140%) and Milk (104%).
- The biggest volume decline (product categories exceeding US\$1 million) has been in: Lactose (-67%) and Ice Cream (-43%).

**Table 1** Australia's dairy exports to China:

**Measure:** Volume by Tonne 1000 Litres  
**Country Sold:** China  
**Account Name:** Dom Exports ABS

Volume Product Group	Calendar Year				
	2015	2016	2017	2018	2019
Butter	2,325	1,861	2,085	1,891	1,602
Butter Blend			4	6	
Butter Oil					34
Buttermilk Powder	70	50	39	22	1
Casein	37	11			
Cheese	15,821	19,689	22,032	20,589	16,948
Condensed Milk	1,035	3,949	9,016	6,473	13,633
Ice Cream	117	111	252	238	412
Infant Powder	7,123	16,882	22,701	14,464	8,035
Lactose	2,555	2,839	1,006	2,384	1,495
Milk	60,838	67,521	79,472	78,265	99,747
Mixtures	4,022	5,434	10,619	5,280	17,136
Protein	43	385	91	102	3,655
SMP	19,472	16,537	30,463	34,467	37,677
Whey Powder	5,644	7,567	6,697	6,188	6,886
WMP	4,706	11,162	13,601	19,689	19,173
Yogurt	148	143	181	204	351

## Market developments

China is the world's largest dairy importer and the Chinese marketplace is rapidly evolving. Over the five years to 2018–19 China's dairy imports increased by 48.3 per cent despite growth in the domestic Chinese dairy industry. China is Australia's largest export market worth US\$572 million.

Chinese consumers are increasingly enjoying Australian dairy products particularly due to some mistrust in domestically produced dairy goods and the growing appetite in China's middle class for upmarket Australian foods. Over the past five years, Chinese regulatory agencies have significantly changed their approach to food safety and regulations. This has been directed at both domestic and imported food production and has created a much greater focus on food safety, quality and security of supply by regulators and Chinese consumers alike.

## Consumption of dairy has been growing since the 1990s

The Chinese government, expanding middle class and growing health awareness are responsible for this. For example, in 2017, yoghurt sales overtook milk sales for the first time. Domestic yoghurt sales increased by 108.6 per cent from 2013 to 2017 compared to milk that grew by only 18 per cent over the same time.

Cheese consumption in China has traditionally been quite uncommon. However, retail sales of cheese are expected to grow by 13 per cent per annum until 2021. Approximately 47 per cent of cheese consumers are aged 20 to 29, with cheesecake being the preferred cheese based product ahead of sliced cheese. Additionally, cheese is being added to school lunch menus and many companies are targeting children for new cheese products. Notwithstanding overall growth, most cheese consumption still occurs in tier one cities where people have high incomes, are highly educated and more exposed to western foods. Much to Australia's advantage, Chinese consumers typically recognise products based on their country of origin and Australian goods are viewed favourably in terms of safety and quality.

In 2018, a trade war began between the US and China, when the US imposed tariffs on more than US\$250 billion worth of Chinese products. China retaliated by imposing tariffs of five–25 per cent on US\$110 billion of US goods, including dairy products. Consequentially, imports from the US in 2018–19 decreased by 23 per cent compared to the year prior. This has created uncertainty within global markets, and led to increased exports from other regions to China, such as from Australia.

In light of this trade dispute, China is seeking to become over 60 per cent self-sufficient in infant formula (a significant growth from the current 47 per cent). This is significant, given Australia's infant formula exports. Currently, six of the top ten brands in China are foreign owned and China is seeking to promote fairer competition between domestically produced infant formula and imported products. However, China may face difficulties in getting local consumers to purchase domestically produced product as their trust remains tarnished from contaminated formula back in 2008.

## Key international marketing programs and activities

Dairy Australia runs both inbound and in-market programs to strengthen relationships with key trading economies including Greater China. Last year marked the 20th anniversary of the Dairy Australia Greater China Scholarship program. Over the past two decades a total of 300 senior and middle managers from the key dairy manufacturers and trading companies in China Mainland, Hong Kong and Taiwan have participated in the two-week training program. Dairy Australia maintains strong relationships with these alumni who serve as influential local industry representatives in key export markets.

Dairy Australia conducts in-market visits annually into Greater China, delivering industry focussed workshops and seminars, meeting with key contacts and companies, and holding joint in-market activities with collaborating industries.