

China-Australia Free Trade Agreement

Regulation Impact Statement

23 March 2015

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INTRODUCTION

1. This Regulation Impact Statement (RIS) relates to the China-Australia Free Trade Agreement (ChAFTA). Negotiations on a free trade agreement (FTA) with China commenced in May 2005 after the conclusion in March that year of a joint government study on the feasibility of a bilateral FTA. Following 21 formal rounds of negotiations, Prime Minister Tony Abbott and President Xi Jinping announced the conclusion of negotiations on 17 November 2014.

PROBLEM IDENTIFICATION

2. Australia has an extensive, growing and highly complementary economic relationship with China. In 2013-14, two-way trade in goods and services reached \$159.7 billion, making China Australia's largest trading partner. China is both Australia's largest export market (\$107.6 billion or 32 per cent of total exports – goods exports worth \$100.1 billion and services exports worth \$7.5 billion) and largest source of imports (\$52.1 billion or 15 per cent of total imports). The bilateral trade relationship is also among the fastest growing: exports grew 27 per cent from 2012-13 to 2013-14, while five-year trend growth to 2013-14 reached 19 per cent.

3. At the end of 2013, Chinese investment in Australia was valued at \$31.9 billion and Australian investment in China was \$29.6 billion. While bilateral investment figures are modest compared to other trade and investment relationships, investment in both directions is growing rapidly: at the end of 2013, Australian investment in China was 39 per cent higher and Chinese investment in Australia was 41 per cent higher than the previous year.

4. Despite the strength of the bilateral trade and investment relationship, and the continued expansion of Australia's economic ties with China, the absence of a bilateral trade agreement:

- limits trade opportunities due to persisting high import tariffs, particularly in agriculture;
- exposes Australian goods and services exporters to erosion of competitiveness due to China's existing and future preferential agreements with other countries;
- constrains Australian businesses' ability to fully capitalise on the increasing orientation of the Chinese economy towards consumption and services;
- denies Australian exporters the benefit of increased certainty as to treatment of their goods and services and investments in the Chinese market;
- risks Australia becoming less attractive to Chinese investment;
- deprives us of a framework for Australia and China to deepen liberalisation and expand market access over the longer term.

High import tariffs limit trade opportunities, particularly in agriculture

5. China is Australia's largest goods export market, worth \$100.1 billion in 2013-14.

6. It is Australia's most important agricultural market, with exports already worth \$9 billion. There is considerable potential for growth. The Australian Bureau of Resource Economics and Sciences predicts China will account for 43 per cent of all growth world-wide in agricultural demand to 2050. Opportunities for Australia, with

our reputation for high-quality, safe and sustainable food production, will be significant.

7. China is also Australia's largest resources and energy market, with exports worth over \$88 billion in 2013-14, and a major export market for Australian manufactured products, with exports worth \$4.6 billion in 2013-14.

8. Australian exports currently face significant tariff barriers into China, including tariff peaks for key products. This has limited Australian businesses' ability to take full advantage of the growing Chinese market. China's imposition of high tariffs does not just constrain trade, it also reduces the efficiency and profitability of traded items by adding additional costs.

9. China's average applied tariff in 2013 was 9.9 per cent¹. Tariffs are particularly high for agricultural products, with an average tariff of 15.6 per cent. Tariffs on resource products are generally low, but given the volume of trade the overall cost can be significant. China applies tariffs of up to 47 per cent on some of Australia's manufactured exports, including pharmaceuticals, mining machinery, medical equipment, paper products, automotive parts, clothing and film.

10. ChAFTA will eliminate the vast majority of tariffs faced by Australian exports into China.

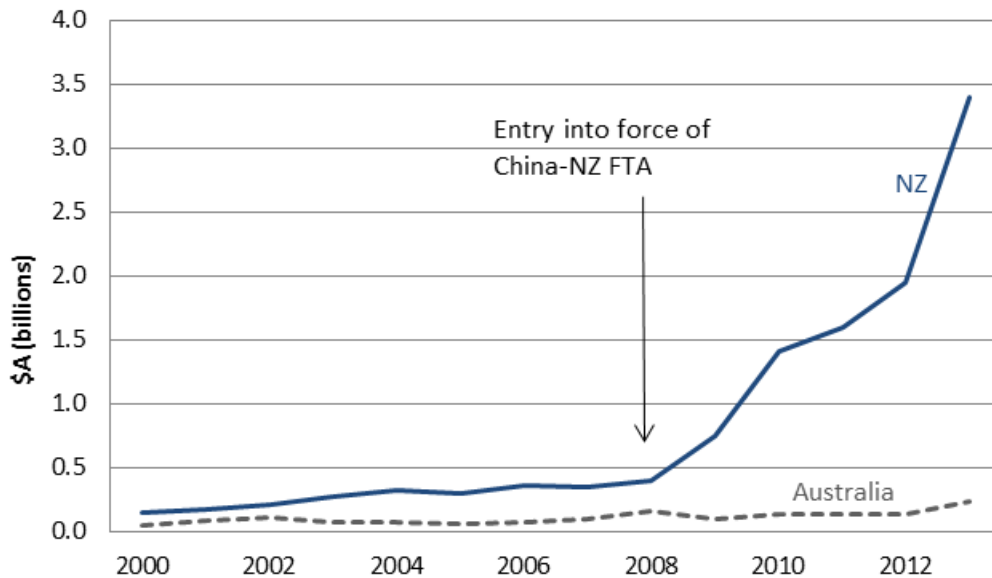
Australian goods exporters are losing market share because of preferential access secured by competitors through existing FTAs with China

11. China already has in place trade agreements with the Association of Southeast Asian Nations (ASEAN); Pakistan; Chile; New Zealand; Singapore; Peru; Costa Rica; Iceland; and Switzerland. These agreements have put Australian exporters at a competitive disadvantage. As a result of the high tariffs and market access barriers faced by Australia and the preferential access given to our competitors, without a bilateral FTA, the market share of Australian exports in China (of these products facing tariffs) could be expected to decline as they lose competitiveness.

12. Dairy is a good example. Since New Zealand's FTA with China entered into force in 2008, with preferential access for dairy products, its dairy exports to China have grown by 864 per cent. During the same period Australia's dairy exports have grown, but only by 152 per cent (Chart 1 refers).

¹ WTO, World Tariff Profiles 2014

Chart 1: Chinese dairy imports from New Zealand and Australia



Source: China Customs

13. Australia also needs to hedge against potential preferential access granted to competitors in future trade deals. China has recently concluded negotiations with Korea and is participating in the Regional Comprehensive Economic Partnership (RCEP) negotiations, which include key trading partners in the Asia-Pacific, and trilateral negotiations with Korea and Japan. China is negotiating with the Gulf Cooperation Council (GCC), conducting a feasibility study with India and is also considering launching FTA negotiations with the European Union (EU) and Canada.

14. As well as giving Australian exporters an immediate competitive advantage over countries that do not have trade deals with China, ChAFTA also includes a built-in agenda to allow for further market access and liberalisation to be negotiated in future.

Lack of certainty for Australian businesses

15. On some products China applies a tariff lower than the maximum permitted under its World Trade Organization (WTO) commitments, which means China has scope to raise tariffs for such products at any time. For example, in October 2014 China increased its tariff applied on anthracite and coking coal from zero to three per cent, and on non-coking coal/bituminous coal to six per cent, which was consistent with WTO rules, but nevertheless caused difficulties for Australian coal exporters. With these tariffs in place, Australian coal no longer competes on a level playing field with major supplier Indonesia, which continues to export coal to China duty free under the ASEAN-China FTA.

16. ChAFTA will eliminate most of China's import tariffs and lock in these reductions, providing greater certainty for Australian businesses.

Exposure to loss of competitiveness in services and investment

17. There is significant scope to expand bilateral services trade and investment to the benefit of both countries. China is Australia's largest services market, with exports worth \$7.5 billion in 2013-14 (13 per cent of Australia's services exports).

China is Australia's eighth largest source of foreign investment and the twelfth largest destination for Australian investment.

18. China's existing WTO commitments to Australia relating to services are limited. China's commitments in FTAs with New Zealand, Switzerland, Chile and Iceland build on its WTO commitments, including in relation to investment in services activities located in China. In the absence of an FTA there is a risk that Australian suppliers may receive less favourable treatment in China than suppliers from these countries, at a time when services are playing a more important role in the Australian economy.

19. Through ChAFTA, China will bind its regulatory regime in a much wider range of service sectors, providing greater certainty of treatment for Australian service providers and investors. In some areas, ChAFTA will provide new access for Australian companies in China, potentially providing preferential market access if the treatment is not extended to other countries. ChAFTA provides commitments on and forums for discussing market access interests as they emerge, and mechanisms to encourage mutually beneficial collaboration and cooperation in service sectors.

20. A 1988 bilateral treaty on the encouragement and protection of investments commits China and Australia to provide minimum standards of treatment in relation to each other's investors and investments and includes an investor-state dispute settlement (ISDS) mechanism. It does not include market access obligations. ChAFTA will offer increased certainty for investors of both countries. It will encourage further growth of Chinese investment into Australia, in particular by raising the screening threshold at which investments in non-sensitive sectors by private sector entities from China are considered by the Foreign Investment Review Board (FIRB) from \$252 million to \$1,094 million.

21. ChAFTA will also commit China to providing Australian investors with the most favourable treatment it gives to any other investment partner in the future. As China implements its bilateral investment treaty with Canada and progresses investment treaty negotiations with the United States (US) and EU, this commitment will help secure Australia's interests – that is, being able to invest in China on terms as good as those provided to any other country.

OBJECTIVES OF GOVERNMENT ACTION

22. The Government's objectives for concluding a high-quality bilateral free trade agreement as soon as practicable were to secure and improve Australia's competitiveness in a key market, through:

- . improved goods market access, including through the elimination of Chinese tariffs on a broad range of Australian agricultural, resources, energy and manufacturing goods over the shortest possible timeframe and a mechanism to address non-tariff measures;
- . improved or restored competitiveness for Australia's agricultural and services exports;
- . expanded access for Australian service suppliers in the large Chinese market;
- . increased certainty for Australian investors in the Chinese market;

- a commitment to negotiate a reciprocal agreement on government procurement after the completion of China's negotiations to join the WTO Government Procurement Agreement;
- commitments to enhance the use of electronic commerce in goods and services, including by ensuring that customs duties will not be introduced on electronic transmissions;
- retention of full access to WTO trade remedies, including anti-dumping and countervailing measures;
- commitments to ensure that the benefits of ChAFTA are not undermined by anti-competitive practices; and
- a framework for settling disputes under ChAFTA.

OPTIONS THAT MAY ACHIEVE THESE OBJECTIVES

23. While China's high growth rates of recent decades have moderated, the economic outlook remains comparatively strong: the IMF is forecasting 6.8 per cent growth in 2015, easing to 6.3 per cent by 2019. China is rebalancing from an investment, manufacturing and export-intensive model of growth, towards a more consumption and services-oriented economy as it looks to sustain economic growth over coming years. China continues to urbanise rapidly, building cities, infrastructure and amenities. The middle class continues to expand, with increasing demand for a variety of foods and high-value manufactures, as well as services. As China's economy develops and the consumption habits of its rising middle class begin to change, opportunities are opening up for a more diversified bilateral trade relationship, with a growing focus on premium agricultural exports and services such as finance, and health and aged care, as well as professional services.

24. As outlined in the 'Problem identification' section of this RIS, China maintains trade barriers on goods and services of interest to Australia. Without an arrangement to reduce these restrictions, Australian exporters will remain constrained in their ability to capitalise fully on the opportunities presented by China's large, growing and transitioning economy. Furthermore, it is in Australia's interest to ensure the competitiveness of its agricultural and manufacturing industries in China, particularly at a time when many of Australia's trade competitors have gained preferential access, or are negotiating preferential access, through bilateral FTAs. A bilateral FTA would also give Australian services exporters improved access to China's significant and growing services sector, which in 2014 accounted for 48 per cent of GDP.

25. The only realistic option available to the Government to achieve these objectives was the negotiation of a bilateral FTA with China. This section considers other options available to the Government.

No action

26. The absence of an FTA risks Australia losing competitiveness in the large and growing Chinese market. With no action, Chinese tariffs on Australian goods would continue to constrain Australian exporters' ability to capitalise fully on continued growth in the Chinese economy. Without an FTA, it would be difficult to restore the competitiveness of Australian industries against rival producers from other countries that already have FTAs in place with China (e.g. dairy, meat, seafood and wine in relation to New Zealand's FTA with China). As Australia's trade competitors

conclude FTAs with China into the future, Australia's export-focussed industries would be even further disadvantaged. The absence of an FTA would also deny Australian services providers a competitive advantage from gaining the best access China has ever provided any trading partner.

27. The opportunity costs would be significant: China's economy is transitioning from an export and investment-driven model toward greater consumption of goods and services while its middle class expands and its population steadily urbanises.

28. On the import side, under the status quo without an FTA, Australian demand for imports from China, which are dominated by textiles, clothing and footwear, electrical goods and home furnishings, could be expected to follow current trends (in 2013-14 China's exports to Australia grew by 12.7 per cent) subject to the growth of the Australian economy. The absence of an FTA would deny Australian consumers and businesses which rely on Chinese imports the more competitive prices on Chinese goods available through tariff elimination.

Regional trade negotiations

29. At present, the Regional Comprehensive Economic Partnership (RCEP) negotiations could be viewed as a possible alternative to a bilateral FTA with China.

30. RCEP negotiations provide an opportunity for Australia to pursue its trade and investment interests in China. However, RCEP may not deliver the objectives and specific outcomes sought in relation to China in a timely manner. RCEP negotiations include all 10 ASEAN Member States and ASEAN's six FTA partners – Australia, China, India, Japan, Korea and New Zealand. In 2012, Leaders agreed the Guiding Principles and Objectives for Negotiating the RCEP, which state that RCEP aims to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement. However, the plurilateral negotiating dynamics in RCEP may not deliver the preferential commitments from China on our priorities that are obtainable from a bilateral negotiation.

31. Key issues on the scope and level of market access for goods, services and investment are still under intense consideration in the RCEP negotiations. As RCEP negotiations are not scheduled to conclude before the end of 2015, ChAFTA provides certainty that market access outcomes will be delivered sooner.

Multilateral trade negotiations

32. The WTO Doha Round of trade negotiations was launched in 2001 and is a trade policy priority for the Government. However, the WTO's capacity to deliver significant market access through negotiations has been disappointingly low since the Uruguay Round, which concluded in the early 1990s. While securing outcomes through the Doha Round would advance Australia's trade interests with China, there is no certainty that the Doha Round would deliver outcomes that address Australia's priority interests with China as extensively, or in as timely a way, as is possible under ChAFTA.

Bilateral trade negotiations

33. A high-quality, WTO-consistent bilateral FTA with China is, therefore, the only realistic option to achieve the Government's objectives in a timely and comprehensive manner.

IMPACT ANALYSIS

Benefits to the Australian economy

34. Increased and more efficient bilateral trade with China will benefit the Australian economy. Improved market access for Australian exports and lower imported goods prices are likely to increase capital accumulation, raise productivity and improve utilisation of resources. Expanded liberalisation of trade is likely to stimulate economic activity in Australia, contributing to job creation. The Business Council of Australia welcomed the Agreement as providing Australia with a “huge global competitive advantage”, and a “historic opportunity to grow and diversify our economy over the next decade”².

35. The reduction or elimination of tariffs on Australian exports to China under ChAFTA is expected to increase demand in China for goods produced in Australia. Australian industries’ response to increased demand will differ across sectors and enterprises, based on commercial decisions, including developments in other markets, and any capacity issues. Nonetheless, it is expected Australian exporters would increase overall production capacity to meet the increased demand, especially in those industries where tariff elimination will be phased out over a period of years. For example, Meat and Livestock Australia has projected that once fully implemented ChAFTA has the potential to boost beef production by \$270 million annually.³

Goods market access outcomes of bilateral negotiations for Australia

36. ChAFTA is a high-quality and comprehensive agreement.

37. Over 85 per cent of the value (in 2013) of Australia’s goods exports to China will enter duty free upon entry into force of ChAFTA, rising to 93 per cent after four years and 95 per cent when ChAFTA is fully implemented. Significant barriers to Australian agricultural exports will be removed across a range of products including beef, dairy, lamb, wine, hides and skins, horticulture, barley and seafood. The agreement will deliver duty-free entry for nearly all (99.9 per cent) of Australia’s resources, energy and manufacturing exports within four years. The National Farmers’ Federation assessed that “based on our own growth and the New Zealand experience we could conceivably see a tripling in agricultural exports to China within the decade.”⁴

38. Table 1 summarises goods market access outcomes for Australia; Table 2 the outcomes for agriculture; and Table 3 refers to key outcomes for resources, energy and manufacturing products.

² Business Council of Australia, ‘China–Australia Free Trade Agreement a Historic Opportunity’, media release, 17 November 2014

³ Meat and Livestock Australia, ‘China-Australia Free Trade Agreement Announced’, media release, 17 November 2014.

⁴ National Farmers’ Federation, ‘Australia-China Free Trade Agreement defines future landscape for farmers’, media release, 17 November 2014.

Table 1: Elimination schedule for Chinese tariffs on imports of Australian goods

Staging Category [^]	Tariff Lines			China's imports from Australia by value (2013)		
	No.	% of total	Cumulative %	US\$000	% of total	Cumulative %
0 - Tariffs bound at zero on EIF	2,402	29.2	29.2	78,150,378	85.4	85.4
3 - Tariffs eliminated in 3 equal annual instalments	2	0.0	29.2	4,885,751	5.3	90.7
5 - Tariffs eliminated in 5 equal annual instalments	5,418	65.8	95.0	2,048,879	2.2	92.9
6 - Tariffs eliminated in 6 equal annual instalments	2	0.0	95.0	7,521	0.0	92.9
8 - Tariffs eliminated in 8 equal annual instalments	18	0.2	95.2	506,209	0.6	93.5
9 - Tariffs eliminated in 9 equal annual instalments	60	0.7	95.9	405,562	0.4	93.9
10 - Tariffs eliminated in 10 equal annual instalments	57	0.7	96.6	87,982	0.1	94.0
10* - Tariffs eliminated in 10 equal annual instalments and <i>safeguard</i>	6	0.1	96.7	720,876	0.8	94.8
12 - Tariffs eliminated in 12 equal annual instalments	3	0.0	96.7	57,407	0.1	94.9
12* - Tariffs eliminated in 12 equal annual instalments and <i>safeguard</i>	2	0.0	96.7	68,307	0.1	95.0
15 - Tariffs eliminated in 15 equal annual instalments	5	0.1	96.8	84	0.0	95.0
CSQ - Wool country-specific-quota	6	0.1	96.9	1,900,477	2.1	97.0
X – Excluded	257	3.1	100.0	2,718,758	3.0	100.0
Total	8,238	100	100.0	91,558,190	100	100.0

[^] Tariff phasings will occur in equal annual stages. For example, duties on originating goods classified under the tariff lines indicated with '5' shall be eliminated from the base rate to free in five equal annual instalments beginning on the date of entry into force of ChAFTA (i.e. within four years).
Source: ChAFTA and China Customs

Table 2: Key agricultural market access outcomes for Australia

Product	Australian exports to China (A\$ million, 2013)	China's MFN tariff	ChAFTA Outcome (years until tariff elimination)
Wool	1,900 (181,673 tonnes)	In-quota (global): 1% Out-of-quota: 38%	Duty-free country-specific quota of 30,000 tonnes growing at 5% annually to about 45,000 tonnes over 8 years
Hides and Skins (sheepskin, cowhides, kangaroo)	896	5-14%	2 - 7
Beef	750	12-25%	9*
Barley	548	3%	0
Sheep and goat meat	385	12-23%	8
Dairy	351	10-20%	4-11
· Liquid milk	22	15%	9
· Skim milk powder	72	10%	11
· Whole milk powder	140	10%	11*
· Butter	7	15%	9
· Cheese	54	12%	9
· Infant formula	25	15%	9
Wine	217	14-30%	4
Live Cattle	142	0-5%	0-4
Food preparations (doughs and mixes)	108	10-25%	4
Horticulture (fruit, vegetables and nuts)	83	10-30%	4 (Citrus: 8)
Leather	54	5-14%	0-4
Cotton seeds	47	15%	4
Processed foods			
· Juice	4	10-30%	4
· Sauces, soups and broths	9	15-32%	4
· Biscuits and cakes and chocolate	2	8-20%	4
Seafood (lobster, abalone, prawns, crabs, oysters, salmon, tuna etc.)	38	10-15%	4

Product	Australian exports to China (A\$ million, 2013)	China's MFN tariff	ChAFTA Outcome (years until tariff elimination)
Animal fats (tallow)	74	8%	4
Honey	3	15%	4
Pork, poultry and kangaroo meat	0.2	10-23%	4

* *Safeguard with review*

Source: ChAFTA and China Customs

Table 3: Key resources, energy and industrial market access outcomes for Australia

Product	Australian Exports to China (A\$m, 2013)	China's MFN Tariff	ChAFTA Outcome (years until tariff elimination)
Bituminous coal - coking (metallurgical coal for steel making)	5,950	3%	0
Bituminous coal - non-coking coal (thermal / steam coal for power generation)	3,112	6%	2
Refined copper & alloys (unwrought)	2,044	1-2%	0
Aluminium oxide (Alumina)	1,289*	8%	0
Nickel mattes and oxides	662*	3%	0
Pharmaceuticals and Vitamins	559	3-10%	0-4
Zinc (unwrought)	302	3%	0
Copper waste & scrap	295	1.5%	0
Aluminium (unwrought)	186	5-7%	0-4
Aluminium waste & scrap	186	1.5%	0
Unwrought Nickel	154*	3%	0
Uranium	165*	4-5.5%	0
Mineral substances	116	3-5%	0
Car engines	102	10%	4
Plastic Products	96	6.5-14%	4
Titanium dioxide (colouring)	90	6.5-10%	4
Precious Stones	45*	3-8%	0-4
Medical (Orthopaedic) Devices	37	4%	0
Aluminium Plates/Sheets	31	6-10%	4
Cosmetics & Hair Products	18	6.5-15%	4
Radiata Pine Products	0.5*	4-20%	0-4
Motor Vehicles	0.5	25%	4-9

* indicates China import data converted to AUD (used where data is unavailable or is treated as confidential by ABS)

39. Table 3 does not include resources and energy exports that already enter China duty free, including iron ore, gold, crude petroleum oils, and liquefied natural gas (LNG), or manufactured products already entering duty free, including wood chips, some electrical and communications equipment, and some paper-related products.

40. China did exclude a limited number of products from further liberalisation, representing around 3 per cent of current trade. These exclusions are discussed below.

Goods market access outcomes for China

41. Tables 4 and 5 summarise the goods market access outcomes that Australia will provide to China under ChAFTA. Consistent with Australia's other FTAs, Australia will remove all import tariffs on Chinese goods. Tariffs on 81.6 per cent of Australia's merchandise imports (by value in 2013) from China will be bound at zero on entry into force of ChAFTA, with the remaining tariffs on Australia's sensitive products phased out within four years.

Table 4: Elimination schedule for Australian tariffs on imports of Chinese goods

Staging Category	Tariff Lines			Australia's imports from China (2013)		
	No.	% of total	Cumulative (%)	A\$,000	% of total	Cumulative (%)
0 - Tariffs bound at zero on EIF	5,663	91.6	91.6	37,967,587	81.6	81.6
3 - Tariffs eliminated in 3 equal annual instalments	427	6.9	98.5	7,830,194	16.8	98.4
5 - Tariffs eliminated in 5 equal annual instalments	95	1.5	100.0	746,062	1.6	100.0
Total	6,185	100.0	100.0	46,543,843	100.0	100.0

Table 5: Key goods market access outcomes for China

Product	Australia's imports from China (\$million, 2013)	Australia's applied tariff for China (per cent)	Years until tariff elimination
Textiles, clothing, footwear and carpets	6,728.6	0, 4, 5 and 10 [^]	0, 2 and 4
Telecommunication equipment	4,224.1	0 and 5	0
Electrical machinery and equipment	3,549.8	0, 4 and 5	0, 2 and 4
Furniture and lighting*	2,644.6	0 and 5	0
Iron and steel products#	2,494.6	0, 4 and 5	0, 2 and 4
Audio/visual electrical products*	2,038.3	0 and 5	0
Vehicles and parts (including motor vehicles and trucks)	1,691.6	0, 4, 5 and 5 plus \$12,000 each (second-hand vehicles)	0 and 2
Toys, games and sporting equipment	1,622.7	0 and 5	0
Plastics products	1,580.7	0, 5 and 10 [^]	0, 2 and 4
Railway equipment	1,025.2	0 and 5	0 and 4

Material handling and earth-moving machinery and parts	924.5	0, 4 and 5	0
Printing machinery	796.0	0, 4 and 5	0
Travel goods	701.2	0, 4 and 5	0
Aluminium products	689.2	0, 4 and 5	0, 2 and 4
Paper and paperboard	633.4	0, 4 and 5	0, 2 and 4
Power tools, soldering & welding tools	356.1	0, 4 and 5	0
Taps, cocks and valves	296.0	0 and 5	0, 2 and 4
Refrigerators, freezers and heat pumps	272.6	5	0
Air-conditioners*	271.8	5	0
Copper products	152.4	0, 4 and 5	0 and 2

*Excludes parts relating to automobiles

^Note – As of 1 January 2015, the 10% tariff was reduced to 5%

#Data confidentiality issues

Impacts on Australian's major agricultural exporters

Beef

42. China's demand for high-quality beef is growing rapidly, driven by a growing middle class. The OECD assesses that beef will be the fastest-growing import sector in China. Australian beef exports to China set a new record in 2013-14 of 161,000 tonnes, worth \$787 million. This was up from 93,000 tonnes (worth \$409 million) the previous year – more than a 73 per cent increase in 12 months.

43. Australia is already China's dominant supplier, with 57 per cent of the import market and a deserved reputation for quality. ChAFTA will deliver a competitive advantage over other large beef exporters.

44. Key outcomes include:

- . elimination of tariffs on beef imports (currently ranging from 12-25 per cent) within nine years; and
- . elimination of the 12 per cent tariff on beef offal within four to seven years.

45. China will have the right to apply a discretionary safeguard on beef (not including offal) if imports exceed a set annual "safeguard" trigger volume. The trigger starts at 170,000 tonnes – 10 per cent above Australia's historic calendar year peak export levels to China – and grows. There is a set review process to consider removal of the safeguard.

46. The red meat industry has strongly welcomed ChAFTA with Meat and Livestock Australia modelling showing that once fully implemented the FTA has the potential to boost the gross value of beef production by \$270 million annually. Out to 2030, the total benefits for beef are expected to approach \$3.3 billion.⁵

⁵ Meat and Livestock Australia, 'China-Australia Free Trade Agreement announced', media release, 17 November 2014.

Dairy

47. China is Australia's largest market for dairy exports. This market is expanding rapidly with exports almost doubling in the last year to more than \$443 million in 2013-14.

48. Australia's main competitors are New Zealand, the EU and the United States. Currently, New Zealand's dairy produce receives a considerable tariff advantage under its bilateral FTA with China. ChAFTA will progressively close this gap; tariffs will be eliminated across all dairy products. The Australian Dairy Industry Council noted that ChAFTA will "strengthen Australia's dairy competitiveness by providing our industry with a significant advantage compared to other countries in the market that do not have a FTA with China."⁶

49. Crucially, New Zealand's FTA with China contains restrictive safeguard measures on a wide range of dairy products, including liquid milk, cheese, butter and all milk powders (where China raises the tariff back to the normal rate when imports from New Zealand exceed a certain volume). In contrast, under ChAFTA Australia will face a discretionary safeguard only on whole milk powders, with the safeguard trigger volume set well above current trade levels and indexed to grow annually. For all other dairy products Australia will receive unlimited preferential access.

50. Key outcomes under ChAFTA include:

- elimination of the 10 to 19 per cent tariff on infant formula, ice cream, lactose, casein and milk albumins within four years;
- elimination of the 15 per cent tariff on liquid milk within nine years;
- elimination of the 10 to 15 per cent tariff on cheese, butter and yoghurt within nine years; and
- elimination of the 10 per cent tariff on milk powders within 11 years.

51. The dairy industry has strongly welcomed these outcomes.

Sheepmeat

52. China's demand for sheepmeat is also growing rapidly. In 2013-14, total Chinese imports of sheepmeat reached a record 293,000 tonnes, up from 198,000 tonnes in 2012-13. New Zealand has traditionally been China's largest supplier and enjoys a competitive advantage over Australian exporters due to its FTA. New Zealand lamb now faces tariffs ranging from only 2.7-5.1 per cent and will be duty free in 2016.

53. In 2013-14, Australian exports to China were worth \$446 million (114,000 tonnes), up 83 per cent on 2012-13 exports at \$243 million. China is already Australia's most important sheepmeat market, despite China imposing tariffs ranging from 12-23 per cent.

54. Under ChAFTA, China will eliminate tariffs on sheepmeat within eight years.

⁶ Australian Dairy Industry Council, 'Australia Dairy celebrates FTA with the world's largest dairy import market', media release, 17 November 2014.

55. Meat and Livestock Australia (MLA) has modelled the potential benefits as more than \$150 million each year by 2024 – with the value over the next 16 years being in excess of \$1.8 billion.⁷

Hides and Skins / Other animal products

56. Australian exports of hides and skins (including sheepskin, cowhides, kangaroo hides and skins) totalled \$842 million in 2013-14. Under ChAFTA, tariffs of between 5 to 14 per cent on hides, skins and leather will be eliminated over two to seven years.

57. Exports of sheepskins were worth \$378 million in 2013-14. Under ChAFTA, tariffs of seven per cent on sheepskins will be eliminated within four years.

58. The value of Australian cowhides and skins exports to China reached \$388 million in 2013-14. Under ChAFTA, tariffs of 5 to 8.4 per cent on cowhides will be eliminated over two to seven years.

59. All tariffs on other leather products ranging from 5 to 14 per cent, worth \$54 million in exports, will be eliminated within four years, many immediately.

60. China is also an important market for animal fats, worth \$82 million in 2013-14. The tariff of 20 per cent on these products will be eliminated within four years.

Wool

61. China accounts for 71 per cent of Australia's wool exports (2013-14). Australia is China's largest source of wool, with a 67 per cent market share, ahead of New Zealand (12 per cent).

62. China already provides virtually duty-free access on wool, under a large WTO tariff rate quota (TRQ) of 287,000 tonnes. Tariffs within this quota are set at just one per cent. While China has the right to impose a 38 per cent tariff if imports exceed the quota volume under WTO rules, traditionally it has not done so as wool is an important input into domestic manufacturing.

63. Under ChAFTA, in addition to the existing WTO quota, Australia will receive an exclusive duty-free Country-Specific Quota of 30,000 tonnes clean wool (approximately 43,000 tonnes greasy wool). This will grow by 5 per cent each year to almost 45,000 tonnes clean (approximately 64,300 tonnes greasy) by 2024. This is the best outcome China has provided in any of its FTAs to date.

Barley and other grains

64. Australia's exports to China of barley and sorghum are significant and growing rapidly. In 2013-14, barley exports were worth more than \$1 billion, up more than 350 per cent since 2008-09, while sorghum exports were worth \$214 million.

65. Key outcomes under ChAFTA include:

- . elimination of the 3 per cent tariff on barley and 2 per cent tariff on sorghum on day one of the Agreement;
- . elimination over four years of the 15 per cent tariff on cotton seeds – exports worth \$75 million in 2012-13, and \$36 million in 2013-14;

⁷ Meat and Livestock Australia, 'China-Australia Free Trade Agreement announced', media release, 17 November 2014.

- elimination of the 10 per cent tariff on malt and wheat gluten in four years;
- elimination of the 2 per cent tariff on oats, buckwheat, millet and quinoa on day one; and
- elimination of tariffs of up to 7 per cent on pulses within four years.

Wine

66. China's wine import market is growing dramatically, doubling in size since 2010 to be worth over \$1.6 billion in 2013. France is China's largest supplier, followed by Australia and Chile.

67. China is already Australia's third-largest market for wine, worth \$217 million in 2013. Two key competitors - New Zealand and Chile - both have preferential wine access under their FTAs with China. Chile's wine exports to China have increased five-fold since its FTA with China entered into force in 2006 (from \$28 million in 2006 to \$155 million in 2013), while New Zealand exports have increased substantially (from \$1.4 million in 2006 to \$18 million in 2013). Over this period Australia's wine exports to China have also increased from \$37 million in 2006 to \$217 million in 2013, although Australia's market share has remained steady between 15 and 20 per cent. There are opportunities for far greater growth.

68. With the elimination of the 14-20 per cent tariffs within four years, ChAFTA positions Australian wine producers and exporters to further build trade and increase profitability. ChAFTA also provides for transshipment / repackaging of exports in a third country, which is important for the wine industry.

Horticulture

69. China is a rapidly growing market for Australian horticultural products, with exports worth \$66 million in 2013-14 – up from \$10 million in 2010-11. However, China applies some of its highest tariffs on horticultural products.

70. Under ChAFTA, all tariffs on horticultural products will be eliminated.

71. Key outcomes include:

- elimination of the 10 to 25 per cent tariff on macadamia nuts, almonds, walnuts, pistachios and all other nuts within four years;
- elimination of the 11 to 30 per cent tariff on oranges, mandarines, lemons and all other citrus fruit within eight years;
- elimination of the 10 to 30 per cent tariff on all other fruit within four years; and
- elimination of the 10 to 13 per cent tariff on all fresh vegetables within four years.

72. ChAFTA also facilitates customs processing of perishable goods, including horticulture products.

73. The horticulture industry has strongly supported the ChAFTA outcomes.

Seafood

74. Australian seafood exports to China totaled \$37 million in 2013-14. Australian abalone and rock lobster are the leading Australian premium seafood exports to China, with exports worth \$18.9 million and \$4.6 million respectively in 2013-14. Other exports include crabs, prawns, and oysters.

75. Under ChAFTA tariffs on all Australian seafood exports will be eliminated progressively over four years.

76. The current moderate level of trade in seafood hides the significant opportunities in the Chinese market. Since the China-New Zealand Free Trade Agreement came into force, China's imports of seafood from New Zealand have quadrupled (to \$356 million).

77. Key outcomes for seafood include:

- . elimination of the 10-14 per cent tariff on abalone within four years;
- . elimination of the 15 per cent tariff on rock lobster within four years;
- . elimination of the 12 per cent tariff on southern bluefin tuna, salmon, trout and swordfish within four years;
- . elimination of the 14 per cent tariff on crabs, oysters, scallops and mussels within four years; and
- . elimination of the up to 8 per cent tariff on prawns within four years.

Processed foods

78. ChAFTA positions Australian exporters well to take advantage of the growing demand from China's expanding middle class, particularly for processed food products.

79. Australia currently exports \$56 million worth of prepared doughs and mixtures of flour. The 10 to 25 per cent tariff on these products will be eliminated within four years.

80. China is Australia's fifth-largest market for juice. In 2013-14, Australian juice exports to China were worth \$4 million – up from \$0.5 million in 2008-09 – with grape juice accounting for over half. Tariffs on juice range from 7.5 per cent to 30 per cent. Under ChAFTA all tariffs on juice will be eliminated over four years.

81. The 15-32 per cent tariff on sauces and soups, with exports worth around \$8 million, will be eliminated over four years.

82. The 8-25 per cent tariff on chocolate, biscuits, cakes and pasta, with exports worth around \$3 million will be eliminated within four years.

Exclusions

83. China excluded several agricultural products from further liberalisation under ChAFTA.

84. As part of joining the WTO in 2001, China provided to WTO members access to its most sensitive agricultural markets (rice, wheat, cotton, maize and sugar) via large tariff rate quotas (TRQs) with low in-quota tariffs (one per cent for rice, wheat, cotton and maize, 15 per cent for sugar). Australian exporters have full access to these TRQs (notwithstanding, Australia does not yet have technical quarantine market access for rice).

85. China has not provided further liberalisation of these products in any of its FTAs, on the basis that they are significantly sensitive staples. Australia's exports of these products enter China under existing WTO arrangements and will continue to have access to these TRQs once ChAFTA enters into force.

86. China has also not granted Australia further liberalisation for rapeseed and all vegetable oils, on the basis that these are also sensitive staples. Arguing it was substitutable with other vegetable oils, China also did not provide further liberalisation for olive oil.

87. However, China has agreed to a built-in review process three years after entry into force to review the Agreement, including market access.

Impacts on Australian resources, energy and manufactured goods exports

88. China is by far Australia's biggest export market for resources, energy and manufactured goods. Australia exported over \$90 billion worth of these products to China in 2013-14, which represented around 33 per cent of Australia's merchandise exports.

89. On entry into force of ChAFTA, 92.9 per cent of China's imports of resources, energy and manufacturing products from Australia (by value in 2013) will enter China duty free, with most remaining tariffs eliminated within four years. On full implementation of ChAFTA, after 15 years, 99.9 per cent of Australia's current resources, energy and manufacturing exports will enter duty free.

Resources and Energy

90. China is Australia's largest resources and energy market, with exports worth over \$88 billion in 2013-14. ChAFTA provides greater certainty for our exporters by locking in zero tariffs on major resources and energy products, including iron ore, gold, crude petroleum oils, and liquefied natural gas (LNG). For other major resources and energy products - worth over \$14 billion - tariffs of up to 10 per cent will be eliminated within four years, with most eliminated on entry into force of the Agreement, including for coking coal (metallurgical coal for steel making), non-coking coal (thermal/steam coal for power generation), aluminium oxide (alumina), copper, nickel, zinc and aluminium-related products. These outcomes will improve the price competitiveness of Australian products and help to level the playing field against other suppliers which benefit from existing FTAs with China.

91. Within the mineral and energy sector, there is strong support for ChAFTA. The Minerals Council of Australia (MCA) has welcomed ChAFTA, describing the Agreement as a "watershed achievement in Australia's relationship with China". The MCA said it was pleased tariffs would be eliminated on coal (coking and non-coking), as well as a range of other products including alumina, zinc, nickel, copper and uranium, which added nearly \$590 million in costs to the bilateral minerals and energy trade.⁸

92. *Coal (coking and non-coking)*: China reinstated a 3 per cent tariff on coking coal (metallurgical coal for steel making) and a 6 per cent tariff on non-coking coal (thermal/steam coal for power generation) on 15 October 2014, which ended temporary duty-free access. While Australia is China's largest source of coal (imports worth \$11 billion in 2013-14), Indonesia is the second largest source of coal (imports worth \$4.9 billion in 2013-14) and has benefited from duty-free access under the China-ASEAN FTA since 2009. ChAFTA will restore Australia's competitive position by eliminating the 3 per cent tariff on coking coal upon entry into force of the agreement and the 6 per cent tariff on non-coking coal within two years.

⁸ Minerals Council of Australia, 'The Minerals Sector and the Australia China Free Trade Agreement', media release, 17 November 2014

93. *Unwrought refined copper and alloys*: China's tariffs of 1 and 2 per cent will be eliminated on day one of the Agreement. Australia is China's third largest source of refined copper and alloys, with exports worth around \$2.1 billion (2013-14).
94. *Aluminium oxide (alumina)*: China's 8 per cent tariff will be eliminated on day one of the Agreement. Australia is China's largest source of alumina, with imports worth around \$1.4 billion (2013-14).
95. *Nickel mattes and oxides*: China's 3 per cent tariff will be eliminated on day one of the Agreement. These exports to China are worth \$597 million (2013-14).
96. *Unwrought zinc*: China's 3 per cent tariff will be eliminated on day one of the Agreement. China is Australia's largest market for unwrought zinc, with exports worth over \$274 million (2013-14).
97. *Copper waste and scrap*: China's 1.5 per cent tariff will be eliminated on day one of the Agreement. These exports to China are worth \$250 million (2013-14).
98. *Unwrought aluminium*: China's 5 and 7 per cent tariffs will be eliminated within four years. These exports to China are worth \$233 million (2013-14).
99. *Aluminium waste and scrap*: elimination of the 1.5 per cent tariff will occur on day one. China is Australia's largest market for aluminium waste and scrap, with exports worth over \$187 million (2013-14).
100. *Unwrought nickel*: elimination of the 3 per cent tariff will occur on day one with Australian exports to China worth \$95 million (2013-14).
101. *Titanium white and titanium dioxide*: elimination of the 6.5 and 10 per cent tariffs will occur within four years. Australian exports to China are worth \$97 million (2013-14).

Forestry

102. The vast majority of Australia's forestry industry exports to China comprise wood chips (imports into China worth \$402 million) and sawlogs (imports into China worth \$344 million) – which already enter duty free. ChAFTA will provide greater certainty by locking in zero tariffs on these products. Chinese tariffs on Australian exports of products such as radiata pine items (4 per cent tariff) will be eliminated on day one of the Agreement coming into force. However, China has excluded from tariff reductions some other wood and wood-related products. China has long considered these products as sensitive, including during its accession to the WTO. Generally these products have been excluded from China's other preferential trade agreements, including the China-New Zealand FTA.

Manufactured products

103. China is a major export market for Australian manufactured products, with exports worth \$4.6 billion in 2013-14. ChAFTA creates new opportunities for Australian manufacturers, including those seeking to supply goods to China's rapidly expanding middle class. China currently applies tariffs of up to 47 per cent on some of Australia's manufactured products, including pharmaceuticals, mining machinery, medical equipment, paper products, automotive parts, clothing and film.

104. ChAFTA provides greater certainty by locking in zero tariffs on a range of other manufactured products, including some electrical and communications equipment, and some paper-related products. A small number of products which China regards as highly sensitive are excluded from tariff concessions, including

wool tops, some fertilisers, paper and paper products. These products are excluded in China's other FTAs, and accounted for less than 0.1 per cent of China's imports of resources, energy and manufactured products from Australia in 2013-14.

105. *Pharmaceutical products*: there will be elimination of 3 to 10 per cent tariffs, including for vitamins and health products, either on entry into force or phased out within four years. China is Australia's second largest market for pharmaceuticals, with exports worth \$379 million in 2013-14.

106. *Car engines*: China's elimination of the 10 per cent tariff on car engines will occur within four years. China is an important market for Australian car engines, with exports worth over \$100 million in 2013-14.

107. *Plastic products*: under ChAFTA, tariffs ranging from 6.5 per cent to 14 per cent will be eliminated within four years. China is Australia's second-largest market for plastic products, with exports of nearly \$100 million in 2013-14.

108. *Precious stones*: elimination of the 3 per cent and 8 per cent tariffs will occur within four years. China's imports from Australia were worth around \$50 million in 2013-14.

109. *Orthopaedic appliances*: there will be immediate elimination of the 4 per cent tariff with exports worth \$56 million in 2013-14.

110. *Aluminium plates and sheets*: ChAFTA will eliminate the 6 and 10 per cent tariffs within four years with exports worth around \$32 million in 2013-14.

111. *Make-up and hair products*: China's 6.5 to 15 per cent tariff on make-up and hair products will be eliminated within four years. Exports of these products are worth over \$18 million in 2013-14.

112. *Centrifuges*: elimination of the 10 per cent tariff on centrifuges will occur within four years, accounting for exports worth over \$14 million in 2013-14.

113. *Pearls*: the 21 per cent tariff on pearls will be eliminated within four years. China's imports from Australia in this area total around \$3 million in 2013-14.

Impact on domestic manufacturing

114. The implications of ChAFTA for domestic manufacturing will be mixed. Australian manufacturing businesses that use goods and materials produced in China will enjoy lower input costs as tariffs are eliminated or phased down, while industries that compete with products produced in China will face additional competitive pressure. Greater competition provides incentives for domestic producers to innovate and lift their productivity, and is consistent with the Government's Industry Innovation and Competitiveness Agenda.

115. For most Chinese goods subject to tariffs, the current general duty rate applied by Australia is 5 per cent, but some Chinese products qualify for developing country preferences and enter under lower or zero tariffs. Of particular significance, a 5 per cent duty is applied to a range of Chinese textile, clothing and footwear (TCF) imports worth around \$6 billion in 2013-14.

116. To allow a period to adjust, tariffs on some of Australia's most sensitive products will be phased out over periods of up to four years. These include products in the following sectors: automotive, steel, aluminium, copper, plastics, paper and paper-related products, chemicals, processed food (canned fruits and peanuts), carpets, textiles, clothing and footwear. The Australian Industry Group welcomed the

phase-in periods for some products in these sectors as allowing “much needed time for these domestic businesses to adjust to more intense competition”, while expressing concern that similar phase-in periods “may not have been secured for a range of other manufactured goods”.⁹

117. The elimination of Australia’s 5 per cent tariff on automotive parts will increase competitive pressure on the domestic Australian parts industry. Unlike Japan and Korea, vehicles imported from China accounted for less than one per cent¹⁰ of new Australian vehicle sales in 2014 and will therefore have negligible impact on existing domestic vehicle manufacturers.

118. It is worth considering the scale of tariff impacts in relative terms. The impact of tariff elimination on Australia’s competitiveness is lower than other factors facing the Australian manufacturing sector generally, including higher labour costs and currency exchange rate movements. Over the past ten years, the fluctuation in the average annual exchange rate between the Chinese yuan (CNY) and the Australian dollar (AUD) has been around 6.4 per cent each year. While the exchange rate movements have been in both directions, over the three years to 2014, CNY-denominated imports became, on average, 5.9 per cent more expensive due to currency movements each year, relieving pressure on import-competing sectors. Although elimination of up to 5 percent import tariffs creates a permanent change in competitive conditions for some businesses, these will not be disproportionate in magnitude to the currency fluctuations businesses already face.

119. While ChAFTA will increase competitive pressure for some Australian manufacturers, the elimination of China’s tariffs of up to 47 per cent on Australian industrial exports will create opportunities for Australian manufacturers. Current levels of manufacturing exports to China are relatively small but can be expected to grow after ChAFTA’s entry into force. In particular, there are improved export opportunities for pharmaceuticals, mining machinery, medical equipment, automotive parts, pearls and precious stones, certain base metals, titanium dioxide and processed foods. Australia is regarded as a competitive and high-quality manufacturer in these specialised product categories.

Non-tariff barriers

120. ChAFTA improves the transparency of Non-Tariff Measures (NTMs) and ensures such measures do not create unnecessary obstacles to trade. A specific mechanism to review and address NTMs on any good on a case-by-case basis will be established under the Trade in Goods Chapter of ChAFTA.

Australian trade remedies

121. The Trade Remedies Chapter of ChAFTA reaffirms that Australian producers will continue to have full access to trade remedies available under the WTO including anti-dumping and countervailing measures. In addition, ChAFTA includes a temporary bilateral safeguard measure which may be applied if either an Australian or Chinese domestic industry faces “serious injury” due to a surge in imports following a reduction in tariffs under the Agreement.

⁹ Willox, Innes, ‘Ai Group Welcomes the China-Australia Free Trade Agreement’, CEO Statement, Australian Industry Group, 18 November 2014

¹⁰ VFACTS Report, Federal Chamber of Automotive Industries, December 2014

Rules of origin: implications for exporters

122. ChAFTA benefits Australian businesses trading with China by removing or reducing import tariffs. Taking advantage of such benefits may require some adjustments to existing business processes. Business as usual practices will continue to apply for goods exporters that may not wish to access the preferential arrangements under ChAFTA.

123. Generally, a statement as to the origin of the goods in the form of a certificate of origin (COO) issued by an authorised body is required to receive preferential tariff treatment under ChAFTA. However, a Declaration of Origin can be made by the exporter or producer providing that an advance ruling from the importing customs authority has been issued for the goods.

124. The Product Specific Rules (PSRs) in ChAFTA assist exporters in determining whether their goods meet origin requirements and therefore qualify for preferential tariff treatment. The PSRs are based primarily on change in tariff classification (CTC), a simple means of determining whether goods have undergone substantial transformation in the production process in the partner country, and therefore meet origin requirements for the purposes of preferential tariff treatment. Industry supports CTC rules because they do not require burdensome cost calculations or extensive records. CTC rules are already in use under Australia's FTAs and trade agreements with the United States, Thailand, Chile, New Zealand, Korea and Japan. The CTC rules in ChAFTA are supplemented for certain items by a regional value content rule.

125. Both countries have committed to review origin documentary requirements within three years following entry into force, with a particular view to establishing electronic means of data exchange.

Impact on Australian service providers

126. China maintains restrictions affecting market access in a wide range of commercially relevant sectors for Australian services providers, which constrain opportunities for further growth. These restrictions take a variety of forms, including restrictions on commercial presence, cross-border supply, licensing requirements, and limitations on foreign equity holdings and majority ownership.

127. ChAFTA will address many of these restrictions and will deliver to Australia China's best ever services commitments in any of its FTAs (other than China's agreements with Hong Kong and Macau). This includes new or significantly improved market access 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.

128. ChAFTA includes a framework to advance mutual recognition of services qualifications, and to support mutual recognition initiatives by professional bodies in Australia and China. Australia and China have also agreed to a future work program to progressively liberalise measures affecting trade in services, ensuring that both sides continue to work to improve market access over time.

129. Services sector stakeholders have been strongly supportive of services outcomes in ChAFTA and the expected impacts it will have on their businesses. The

Australian Services Roundtable described ChAFTA as “an outstanding agreement for services.”¹¹

130. Australia will provide China with treatment in trade in services equivalent to Australia’s other key FTA partners, including market access outcomes broadly equivalent to Australia’s FTAs with Japan and Korea. In addition, Australia has made specific assurances concerning areas of interest to China, including cooperation on the development of Traditional Chinese Medicine (TCM) services in Australia, and cooperation on regulatory frameworks for financial services (such as payment systems and securities) to manage risks, improve transparency and achieve other mutually beneficial outcomes.

Legal Services

131. In addition to guaranteeing existing access for Australian law firms in China, ChAFTA will ensure that, for the first time, Australian law firms will be allowed to establish commercial associations with Chinese law firms in the Shanghai Free Trade Zone (SFTZ). The association will be able to offer Australian, Chinese and international legal services, without restrictions on where clients are located. China and Australia have also agreed to promote increased mobility for Australian and Chinese lawyers, including the facilitation of professional secondments between law firms in Australia and China, and through cooperation between the peak legal professional bodies in each country. Legal sector companies have publicly expressed support for these outcomes. The Law Council of Australia said ChAFTA “includes strong outcomes on legal services and improved opportunities for Australian lawyers through increased bilateral trade and investment.”¹²

Education services

132. China is already Australia’s largest education services export market, worth \$4.1 billion in 2013-14. Australian higher education providers will benefit from improved recognition by prospective Chinese students and employers, enabling them greater access to China’s higher education market. Within one year of ChAFTA entering into force, China has committed to list on a Ministry of Education website 77 Australian private higher education institutions registered on the Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS). This commitment meets a key request of Australia’s education industry. The Ministry of Education website provides Chinese students and employers with quality and fraud assurance for assessing educational qualifications. The vast majority (88 per cent in 2013) of Chinese higher education students studying in Australia choose to study at institutions listed on the website. China’s commitment will add to the existing 105 Australian institutions on the website. China has also agreed to ongoing discussions to list additional Australian institutions on the website. Universities Australia said ChAFTA “will further broaden and deepen an already close relationship on higher education and research between our two countries.”¹³

133. The Chinese and Australian governments have also agreed that Australia’s Department of Education and China’s Ministry of Education will continue to discuss

¹¹ Australian Services Roundtable, ‘China Australia Free Trade Agreement paves the way for Australian services export boom’, media release, 17 November 2014.

¹² Law Council of Australia, ‘Law Council welcomes the China-Australia Free Trade Agreement’, media release, 18 November 2014.

¹³ Universities Australia, ‘China-Australia FTA will further strengthen higher education ties’, media release, 17 November 2014.

options to facilitate student and teacher exchanges between both countries and increase marketing and recruitment opportunities for Australian education providers in China.

Telecommunications services

134. Under ChAFTA, China will guarantee new market access for Australian companies investing in specified value-added telecommunications services in the Shanghai Free Trade Zone (SFTZ). These commitments provide greater certainty and improved foreign equity limits for Australian telecommunications companies investing in the SFTZ. Australian telecommunications providers will be able to provide domestic multi-party communication (DMPC) services, application store services, store and forward services, and call centre services without the need for a Chinese partner. Australian companies will also have guaranteed access to participate in joint ventures in the SFTZ to supply online data and transaction processing services, with increased equity participation of up to 55 per cent. China agreed, for the first time in an FTA, to include commitments addressing behind the border issues – such as licensing and transparency – relevant to telecommunications providers, and a commitment to consult with Australian industry participants in China. Australian telecommunications sector stakeholders have welcomed these outcomes.

Financial services

135. ABS data shows Australian financial services exports to China were valued at \$149 million in 2013-14. This includes services provided by Australian resident enterprises to Chinese residents, but does not include services supplied by Australian financial companies through a commercial presence in China. Australian financial services companies are active in China and there is capacity for further growth in revenues and for expanded commercial presence. China has committed to deliver new market access to Australian financial services providers in the banking, securities and futures sectors. China will guarantee improved access above and beyond its WTO commitments for Australia in insurance, funds management and securitisation services. Stakeholders such as the Financial Services Council have been supportive of these outcomes, describing the Agreement as building the “architecture Australia needs to export financial services in the Asian Century”.¹⁴

136. For banking services, China has agreed to reduce the waiting period for Australian financial service providers to engage in local currency (RMB) business from three years to one year. China will also remove the two-year profit-making requirement as a precondition to provision of local currency services. Where a branch established in China by an Australian bank already has permission to engage in local currency banking business, other branches established by the same bank will be eligible for streamlined approvals to conduct RMB business. China will remove the minimum RMB100 million working capital requirements for branches of Australian banks operating as subsidiaries in China, facilitating faster growth and new business opportunities. And Australian bank subsidiaries in China will be the first foreign banks in China eligible to engage in credit asset securitisation business provided for under China’s Financial Institution Credit Asset Securitization Pilot Program.

137. For securities and futures services, China has agreed for the first time in an FTA to permit Australian financial service providers to establish joint venture futures companies with up to 49 per cent Australian ownership (foreign participation was not

¹⁴ Financial Services Council, “FTA with China will give Australian fund managers direct access to China”, media release, 17 November 2014.

previously permitted), and to extend national treatment to Australian financial institutions for approved securitisation business in China. Australian securities firms in China will benefit from new commitments raising foreign equity limits to 49 per cent (above China's WTO commitment of 33 per cent) for participation in underwriting of domestic 'A' and 'B' shares as well as H shares (listed in Hong Kong) and guaranteeing the ability to conduct domestic securities funds management business.

138. For insurance services, China has committed for the first time in an FTA to allow Australian insurance providers access to China's lucrative statutory third-party liability motor vehicle insurance market without form of establishment or equity restrictions. For funds management services, China will allow Australian securities brokerage and advisory firms to provide cross-border securities trading accounts, custody, advice and portfolio management services to Chinese Qualified Domestic Institutional Investors (i.e. Chinese investors allowed to invest offshore).

139. China has, for the first time, undertaken comprehensive treaty-level commitments on financial services, including agreement to provisions on transparency, regulatory decision-making and streamlining of financial services licence applications. China has also committed to a future work program to deliver ongoing market access in the financial services sector as it pushes ahead with economic reform and liberalisation. A financial services committee will be established under the FTA providing for regular engagement between Chinese and Australian financial regulators on issues of mutual interest and allowing issues arising in the bilateral financial services relationship to be addressed quickly and efficiently.

Other services

140. Other best-ever commitments from China to Australia under ChAFTA are in health and aged care, construction and engineering, manufacturing, mining and extractive industries, architecture and urban planning, and transport services.

141. For health and aged care services, China will permit Australian medical service suppliers to establish wholly Australian-owned hospitals and profit-making aged care institutions in China.

142. For construction and engineering, China will, for the first time, provide new market access to Australian companies established in the SFTZ and undertaking joint construction projects with Chinese counterparts in Shanghai. Australian companies will be exempted from business scope restrictions, allowing them to undertake a wider range of commercially meaningful projects.

143. For manufacturing, China has made its first ever FTA commitment on manufacturing services, guaranteeing access for wholly Australian-owned subsidiaries to provide contract manufacturing services covering a wide range of manufactured products. This will ensure certainty for Australian investors in China's manufacturing sector and ensure the competitiveness of Australian companies providing manufacturing services as part of emerging global value chains.

144. For mining and extractive industries, China will allow Australian services suppliers to provide technical consulting and field services in coal bed methane and shale gas extraction.

145. For architecture and urban planning services, China will take into account Australian experience in assessing applications for higher-level qualifications,

allowing Australian architectural and urban planning firms established in China to obtain more expansive business licences to undertake higher-value projects in China.

146. For transport services, China will permit Australian maritime transport service suppliers to establish wholly Australian-owned ship management enterprises in the SFTZ. China's commitments on air transport services are better than in any previous FTA.

Impact on bilateral investment

147. A bilateral FTA offers increased certainty for investors of both countries. It will facilitate private Chinese investment by raising the Foreign Investment Review Board (FIRB) screening threshold, enhancing Australia's attractiveness as an investment destination. It also commits China to providing Australian investors the most favourable treatment it gives to any other investment partner in future.

Impact on Australian investors in China

148. The key obligation under the Investment Chapter of benefit to Australian investors is China's undertaking to extend the most favourable treatment it gives to any other investment partner in a subsequent agreement, to Australian investors.

149. ChAFTA will also commit both sides to negotiate a comprehensive investment chapter after a review conducted no later than three years after entry into force of the FTA. These outcomes offer the opportunity to improve access and conditions for investors and have the potential to increase Australian investment in China over time. The extent of any increase is, however, difficult to quantify given the range of economic and commercial factors which influence investment decisions.

Impact on Chinese investors in Australia

150. ChAFTA enhances Australia's attractiveness to Chinese investors. Australia will raise the monetary threshold at which private investments from China in non-sensitive sectors are considered by the Foreign Investment Review Board (FIRB) from \$252 million to \$1,094 million, consistent with the threshold provided currently to the US, New Zealand, Korea, Japan and Chile. This will facilitate Chinese investment into Australia and create greater certainty for Chinese investors. This has the potential to increase Chinese investment into Australia. The extent of any increase is, however, difficult to quantify given the range of economic and commercial factors which influence investment decisions.

151. Australia will retain the ability to screen private Chinese investments at lower levels for sensitive sectors, including media, telecommunications and defence related industries. It has also reserved policy space to screen proposals for foreign investment in agricultural land at \$15 million and in agribusinesses at \$53 million. For Chinese government investment, including state-owned enterprises, Australia retains the ability to screen all investment proposals, regardless of the transaction size, consistent with the policy that applies to all foreign government investment.

Implications of investor-state dispute settlement provisions

152. The investor-state dispute settlement (ISDS) mechanism in ChAFTA is limited in scope and includes appropriate protections to safeguard key Australian policy settings. ISDS will be available only for claims of discrimination in relation to established investments, protecting government decisions on investment proposals (e.g. following Foreign Investment Review Board review) from challenge. The ISDS mechanism includes safeguards to protect each government's ability to regulate in the

public interest and pursue legitimate public welfare objectives such as public health, safety and the environment.

Movement of natural persons

153. The Movement of Natural Persons Chapter provides for coverage of temporary entry of service suppliers and investors. Commitments on movement of natural persons will support increased trade and investment between the two countries, reduce barriers to labour mobility and improve temporary entry access within the context of each country's immigration and employment frameworks.

154. ChAFTA will provide improved access for a range of Australian and Chinese skilled service providers, investors and business visitors, thereby providing business with certainty, building on the respective commitments made by both countries to the WTO.

155. China will provide guaranteed access to Australian citizens and permanent residents for the following categories:

- . intra-corporate transferees for up to three years (including executives, managers and specialists);
- . contractual service suppliers, in certain sectors, for one year, or longer if stipulated under the relevant contract;
- . installers and maintainers for up to 180 days; and
- . business visitors for up to 180 days.

156. Furthermore, for the first time in any FTA, China will guarantee equivalent entry and stay for dependants and spouses of Australians granted entry as intra-corporate transferees or contractual service suppliers for longer than 12 months.

157. Australia will provide guaranteed access to Chinese citizens for the following categories:

- . intra-corporate transferees and independent executives for up to four years (including executives, managers and specialists);
- . contractual service suppliers for up to four years; including guaranteed access for up to a combined total of 1,800 per year in four occupations: Chinese chefs, WuShu martial arts coaches, TCM practitioners and Mandarin language tutors (subject to meeting standard immigration requirements);
- . installers and servicers for up to 3 months; and
- . business visitors for up to 90 days, or 6 months for business visitors who are service sellers.

158. Australia will also provide entry and stay for dependants and spouses of Chinese citizens that have been granted entry, in accordance with ChAFTA, for a period of longer than one year.

159. China and Australia have also committed to process expeditiously applications for immigration formalities, provide timely information on visa application progress, and ensure transparent procedures and requirements relating to the movement of natural persons of the other party.

160. Both sides have made a commitment not to apply labour market testing to the categories where they have made specific commitments (i.e. paragraphs 155 and 157 above).

161. In addition to these outcomes under ChAFTA, separate memoranda of understanding on investment facilitation and working and holiday arrangements will facilitate improved outcomes for tourism industries and for streamlining approvals associated with large investment projects.

Government procurement

162. ChAFTA's General Provisions and Exceptions Chapter includes a commitment to negotiate a reciprocal agreement on government procurement after the completion of China's negotiations to join the WTO Government Procurement Agreement.

Intellectual property

163. ChAFTA's Intellectual Property Chapter reaffirms the parties' existing international obligations and includes provisions on various issues, including national treatment, enforcement, border measures, geographical indications and cooperation.

Competition policy

164. ChAFTA's General Provisions and Exceptions Chapter includes provisions to promote cooperation between Australian and Chinese competition authorities through the exchange of information, consultation and the notification and coordination of enforcement activities. Such cooperation will assist in addressing any anti-competitive activities which could undermine the trade and investment liberalisation achieved through the Agreement.

Electronic commerce

165. The Electronic Commerce Chapter will assist Australian business in harnessing the efficiencies of electronic commerce, while ensuring the protection of consumers engaging online. Key commitments include:

- *customs duties*: To maintain the practice of not imposing customs duties on electronic transmissions between the two countries, subject to the WTO Work Programme on Electronic Commerce;
- *online consumer protection*: To protect consumers engaged in electronic commerce, in a manner at least equivalent to protections for consumers engaged in other forms of commerce; and
- *cooperation*: To share information and experiences in relation to online consumer protection and measures used to regulate unsolicited spam.

Impacts on small business

166. The overall impact of ChAFTA on Australian small business will be positive. In addition to gaining better access into the lucrative Chinese market, Australian small businesses are also likely to benefit from more competitively priced inputs imported from China and will be better placed to source and offer an increased choice of goods resulting from a reduction in trade and investment barriers. Small businesses that compete with Chinese imports may face increased competitive pressure.

Australian consumers

167. The elimination of Australian tariffs currently imposed on Chinese imports, particularly on clothing, footwear, furniture and bedding, electronics, white goods and car parts, may have a positive impact on Australian consumers, through lower prices or greater availability of Chinese products, or both. Consumer benefit in particular product categories would depend on suppliers' and importers' commercial decisions to pass on tariff reductions through lower prices or through improvements in quality or product offerings.

State and Territory Governments

168. During negotiations, State and Territory Governments raised issues of interest to industries residing in their respective jurisdictions, their regulatory responsibilities and the administrative implications of ChAFTA.

169. ChAFTA will have an impact on the States and Territories. The obligations in Chapter 8 (Trade in Services) and Chapter 9 (Investment) apply to State and Territory measures. Where States and Territories wish to maintain measures that are inconsistent with these obligations, they must list them in the annexes of non-conforming measures to these chapters. Australia has included several non-conforming measures relating to regional government in its annexes.

Impact on government revenue

170. The removal of tariffs on merchandise imports will lead to reductions in tariff revenue, and thereby affect the Government's fiscal position. Treasury estimates that tariff revenue would decline by an additional cumulative amount of \$4,150 million over the forward estimates. This figure does not include the unmodelled second-round effects on government revenue from increased economic activity, which are expected to be positive.

Dispute settlement

171. ChAFTA includes a binding state-to-state dispute settlement mechanism modelled on previous free trade agreements and the WTO system. Most of Australia's substantive obligations in ChAFTA will be subject to this mechanism, except those found in the chapters concerning: electronic commerce; sanitary and phytosanitary measures; technical barriers to trade; and some aspects of movement of natural persons.

TRADE IMPACT ASSESSMENT

172. ChAFTA will strengthen and deepen Australia's substantial and highly complementary economic relationship with China, leading to significant opportunities for Australia in the world's second largest economy. Improved market access in both China and Australia will increase the price competitiveness of each other's products, contributing to greater trade. New access for Australian service providers to China's large and growing services market will facilitate more Australian services exports across a broad range of services. Australian businesses will gain new access to the Chinese economy as it transitions toward a consumption-based model. Enhanced protections and certainty for bilateral investments will attract additional Chinese investment to Australia, as well as Australian investment to China, in a more diverse range of sectors.

173. China is Australia's largest trading partner and export market. Australian and Chinese two-way trade in goods and services was \$159.7 billion in 2013-14, accounting for 24 per cent of Australia's total trade. Australian exports to China were valued at \$107.6 billion, or 32 per cent of all Australian exports. Total goods exports in 2013-14 were valued at \$100.1 billion, with iron ores and concentrates (\$57.0 billion) the largest export category, followed by coal (\$9.3 billion) and gold (\$8.1 billion). In 2013-14, China was Australia's largest services export market, at \$7.5 billion or 13 per cent of total services exports. Services exports to China were dominated by education-related travel services of \$4.1 billion in 2013-14.

174. Australia imported goods and services worth \$52.1 billion from China in 2013-14. In 2013-14, goods imports accounted for \$50.1 billion and comprised a diverse range of products, including telecommunications equipment and parts (\$4.9 billion), computers (\$4.8 billion) and furniture, mattresses and cushions (\$2.2 billion). Services imports were valued at \$2.1 billion in 2013-14, with travel services accounting for \$1.2 billion.

175. The elimination of tariffs under ChAFTA is expected to increase the volume and value of Australia's bilateral trade with China, particularly in product categories that will be most liberalised. Improved market access for Australian agricultural products will likely result in increased Australian exports of these products. Likewise, elimination of Australian tariffs on imported telecommunications equipment and parts, computers, furniture and other consumer goods from China will increase the competitiveness of Chinese-made products, potentially leading to greater import volumes of these goods from China.

176. In addition to the benefits associated with increased bilateral trade, the preferential access for Australian products under ChAFTA will restore Australian producers' competitive position against producers from countries that already have FTAs with China.

177. At the end of 2013, Chinese investment in Australia was valued at \$31.9 billion, with direct investments accounting for \$20.8 billion. Australian investment in China was \$29.6 billion, with direct investment accounting for \$6.4 billion. While China is still a relatively modest source of foreign investment, Chinese investment into Australia is growing rapidly. ChAFTA will encourage greater and more diverse Chinese investment into Australia by raising the thresholds at which private Chinese investment in non-sensitive sectors are subject to screening by the Foreign Investment Review Board.

178. The main affected stakeholders in Australia are:

- producers and exporters, particularly in agriculture, whose products become more competitive in the Chinese market as import restrictions are reduced or eliminated;
- consumers, who will have access to cheaper imports and broader choice of Chinese-made products under ChAFTA;
- importers, who will have improved access to cheaper inputs from China and will be able to source and offer an increased choice of goods;
- manufacturers, who will face increased competition from Chinese-made goods,
- service providers, who will gain new access to the significant and growing Chinese market across a broad range of services industries; and

- . the broader community, including businesses, which will benefit from attracting greater Chinese investment for projects and ventures in Australia.

179. ChAFTA is consistent with Australia's trade policy objectives as it is a high-quality trade agreement that substantially liberalises Australia's trade with a major economy and it complements multilateral and regional trade liberalisation. ChAFTA is consistent with Australia's existing international commitments, including those under the WTO Agreement.

CONSULTATION

Business, industry and civil society

180. DFAT commenced stakeholder consultations in 2004, with a call for public submissions as part of a feasibility study into the benefits and costs of an FTA between Australia and China. Following the launch of negotiations in 2005 and throughout the negotiating period, DFAT received over 260 submissions from individuals, NGOs, companies and peak industry groups on issues relevant to the negotiations.

181. In addition to seeking submissions from interested parties, DFAT, in conjunction with relevant Commonwealth agencies, conducted an extensive program of direct consultations and discussions with more than 700 stakeholders in Canberra, around Australia and in China since 2004 to ensure that their views informed development of the Government's negotiating strategy. DFAT officials had ongoing consultations with NGOs and industry, including through a large number of one-to-one and small group meetings and industry roundtables. There were also a number of large roundtable meetings held with peak organisations representing industry, professional bodies and other interested groups. These consultations helped identify commercially significant impediments to increasing Australia's exports to, and investment in, China. Following each negotiating round, DFAT provided stakeholder updates on the progress of the negotiations and sought further views ahead of the next round. Submissions were accepted throughout the course of negotiations.

182. Consultations revealed broad support for a bilateral trade agreement with China. Most businesses and industry groups, as well as State and Territory governments, argued a trade agreement would help achieve better access to the Chinese market for Australia. Some industries, particularly in agriculture, mining, finance and investment, viewed a trade agreement as an important element in securing Australia's competitiveness in China. They expressed a strong desire that a bilateral trade agreement both enable existing trade to grow and also create new export opportunities.

183. Australian agricultural stakeholders were consulted extensively throughout the course of the negotiations, including through close communication with peak industry bodies, particularly in the closing stages of the negotiations. Agricultural stakeholders reinforced the need for an agreement that would enable them to take full advantage of the potential of the Chinese market.

184. Australian Government officials engaged frequently with, among others, the National Farmers' Federation, Meat and Livestock Australia, Dairy Australia, the Office of Horticultural Market Access, Seafood Trade Advisory Group, Australian Wool Innovation, the Grains Market Access Forum, Grain Growers, Ricegrowers' Association of Australia, Canegrowers, Australian Pork Limited, the Australian Nut

Industry Council, Australian Horticulture Exporters Association, the Australian Wine and Grape Authority, and the Australian Food and Grocery Council.

185. Many peak bodies and individual businesses have expressed their support for ChAFTA, including Dairy Australia, Meat and Livestock Australia, the Nut Industry Council, the Office of Horticultural Market Access, the Australian Food and Grocery Council and the Australian Grape and Wine Authority.

186. Some agriculture industry bodies and companies have expressed disappointment with elements of the outcome, particularly where their products have been excluded from further concessions. The sugar industry is disappointed China did not provide liberalisation of the raw sugar trade. Rice and grain industry bodies have expressed disappointment concerning the products excluded from the FTA but acknowledged that Australia already faced low tariffs on rice and grains through WTO tariff rate quotas. Industry bodies have acknowledged the importance of the future work program agreed under ChAFTA to consider further improvements on market access.

187. The resources sector expressed strong support for an FTA with China. The Minerals Council of Australia (MCA) and the NSW Minerals Council considered that an FTA would strengthen the bilateral minerals and energy trade and eliminate tariffs which impose costs for traders in both countries. The MCA considered an FTA would be an important contributor to Australian prosperity over the next three decades. The Australian Forest Products Association also described the positive potential of an FTA for the forestry sector.

188. The steel and aluminium industries and the textiles, clothing and footwear sector expressed concerns about the impact of Chinese imports on local manufacturing. These concerns were taken into account when negotiating the phasing outcomes on a number of products in those sectors and negotiating the retention of our trade remedies arrangements.

189. In light of the announcements by Toyota, Ford and Holden of their intention to end motor vehicle manufacturing in Australia, the Federation of Automotive Products Manufacturers (FAPM) said an FTA with China would need to offer manufacturers of high-value components an opportunity to restructure their business and enter global supply chains. However, FAPM warned that the maturing Chinese market would make entry by Australian components difficult.

190. Submissions were received from a range of services industry bodies and peak professional services bodies over the course of negotiations, and consultations were held, including on specific FTA outcomes, with interested parties. The stakeholders which expressed a strong interest in services outcomes included: the Australian Chamber of Commerce and Industry; Australia China Business Council; Insurance Group Australia; the Law Council of Australia and a number of individual law firms; accounting peak bodies; Engineers Australia; Australian Institute of Architects; Business Development Services Australia; Universities Australia; Telstra; Media Entertainment and Arts Alliance; Qantas; and the major Australian banks.

State and Territory Governments

191. From the outset in 2004, the then Minister for Trade contacted State and Territory Premiers and Chief Ministers seeking comments on the feasibility of a bilateral FTA with China. Thereafter State and Territory governments were consulted through the regular Senior State and Territory Trade Officials' Group (STOG) and

Commonwealth-State-Territory Standing Committee on Treaties (SCOT) meetings. DFAT officials provided regular updates to State and Territory representatives of premiers and industry departments prior to or following key events such as negotiating rounds and broad industry consultations.

192. During the negotiations, DFAT worked closely with State and Territory governments to finalise schedules of non-conforming measures in relation to services and investment commitments at the regional level. In September 2014, the Trade Minister wrote to Premiers and Chief Ministers seeking the cooperation of states and territories to ensure that these schedules accurately reflected their requirements. Consultations with states and territories continued up until conclusion of the FTA. State and Territory governments were consulted through the Ministerial Council on International Trade and Commonwealth-States Standing Committee on Treaties meetings and visits by ChAFTA negotiators to State and Territory capitals.

Commonwealth Government agencies

193. In accordance with a whole-of-government approach, DFAT ensured relevant Commonwealth Government agencies were regularly and extensively consulted throughout ChAFTA negotiations. Agencies were consulted through regular inter-departmental committee meetings and through active participation by relevant agencies in the negotiating rounds. DFAT's website was also regularly updated after ChAFTA negotiating rounds, facilitating wide dissemination of information to government stakeholders.

CONCLUSION

194. It is in Australia's interests to enter ChAFTA, given the negotiated text:

- delivers commercially meaningful market access gains that will benefit Australian agricultural producers, energy and mineral resources exporters, service providers, consumers and investors;
- allows Australian exporters to capitalise on the opportunities created by the growth in China's middle class and the increased orientation of its economy towards consumption and services;
- delivers faster and deeper market access gains than those possible through multilateral WTO or regional negotiations;
- is consistent with WTO requirements for free trade agreements; and
- complements Australia's efforts to seek additional trade liberalisation from China through the WTO and regional mechanisms.

195. It should be noted that the removal of tariffs on merchandise imports will lead to reductions in tariff revenue, although this would be offset over time by the second-round effects of increased economic activity.

IMPLEMENTATION AND REVIEW

196. Following the conclusion of negotiations in November 2014, the text of ChAFTA will be translated and undergo legal verification before it is signed. Both English and Mandarin versions will be official versions of the agreement. Following Cabinet and Executive Council approval, the finalised FTA text will be signed by representatives of the Australian and Chinese governments. The full text of the FTA

will be released publicly once the agreement is signed. Following signature, the text will be tabled in Parliament and examined by the Joint Standing Committee on Treaties.

197. Implementation of ChAFTA will require changes to: the *Customs Act 1901*; the *Customs Tariff Act 1995* and associated regulations; the *Foreign Acquisitions and Takeovers Regulations 1989*; and the *Life Insurance Regulations 1995*. In addition, a Determination will be required under the *Migration Act 1958*.

198. Once domestic processes are completed, including amendments to relevant legislation and regulatory changes, Australia and China will exchange diplomatic notes advising that the ratification process has been completed by both Parties. Both Parties are aiming for entry into force during 2015.

199. The provisions of ChAFTA comprising the 'built-in agenda' set a range of reviews to deepen liberalisation and expand market access. For the bilateral goods trade, China and Australia will review ChAFTA within three years with a view to expanding market access, followed by further reviews at least every five years. For services, China and Australia will consult within three years, with a view to progressive liberalisation of measures affecting trade in services, followed by subsequent reviews. Both Parties have agreed to a broad cooperation agenda in a range of sectors including financial services, legal services, education and Traditional Chinese Medicine (TCM). The Investment Chapter includes a commitment on future negotiations to expand market access and further develop investment protections. ChAFTA contains a commitment to negotiate a reciprocal agreement on government procurement after the completion of China's negotiations to join the WTO Government Procurement Agreement.

ATTACHMENT: REGULATORY BURDEN AND COST OFFSET ESTIMATE

Certificates of origin

1. Australian goods exporters must satisfy the importing requirements of the destination country. This is a prerequisite for participating in international markets and represents business-as-usual practice. In the absence of ChAFTA, Australian exporters pay third party industry groups to certify origin in order to satisfy Chinese import requirements for a range of products.
2. Should an exporter elect to access preferential tariff arrangements under ChAFTA, increasing the cost competitiveness of the good in China, the exporter would continue to need to meet the certificate of origin requirements of China. An exporter who, for any reason, did not wish to obtain the certificate of origin, which would lead to preferential tariff treatment, would retain access to business-as-usual arrangements and receive China's most-favoured-nation (MFN) tariffs. Any requirement to obtain a non-preferential certificate of origin to satisfy Chinese import requirements would continue.
3. The rules of origin operational procedures under ChAFTA offer the option of self-certification of origin where the exporter has an advance ruling from the customs administration of the importing party. It is difficult to estimate the uptake of this option by exporters.
4. Exporters will, except in the circumstances outlined in paragraph 3 above, not be able to avoid the business-as-usual practice of paying third-party industry groups to produce certificates of origin in order to satisfy Chinese import requirements for a range of goods, and will retain access to existing MFN import arrangements when the FTA is in place.
5. For new exporters to China seeking preferential tariff arrangements under ChAFTA, the regulatory cost impact of obtaining a certificate of origin will depend on a range of factors, such as whether there are tariffs against their export good (71 per cent of current trade is tariff-free), at which stage during phased tariff reductions they may choose to enter the market, whether they choose to self-certify, whether the preferential certificate of origin can be substituted for the non-preferential certificate, and a range of other factors.
6. Taking the above factors into account, based on an estimated annual average incremental increase in certificates of origin of 1735, an internal cost of \$19.83 per certificate and an average \$33.00 cost of purchasing the certificate, the total average increase in regulatory burden for business is estimated to be \$91,650 per annum over 10 years.

Foreign investment screening

7. The changes to foreign investment screening for Chinese private investors in non-sensitive sectors (primarily business investment and real estate) is described in paragraphs 147 and 150 above. The increase in Foreign Investment Review Board monetary thresholds will have a deregulatory effect as fewer investment proposals will need to be prepared by or on behalf of those investors. Based on an estimated average cost of preparing investment proposals, multiplied by the estimated change in the number of proposals as a result of ChAFTA, the total average decrease in regulatory burden for business is estimated to be \$93,000 per annum over 10 years.

Regulatory Burden and Cost Offset (RBCO) Estimate Table

Average annual compliance costs (from business as usual)				
Change in costs (\$ thousands)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	-\$1.350			-\$1.350
Costs offset (\$ million)				
	Business	Community organisations	Individuals	Total, by source
Agency	\$0			\$0
Are all new costs offset?				
<input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory—no offsets required				
Total (Change in costs – Cost offset) (\$ million) = \$0				