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ChAFTA Post-Implementation Review

Representing five sugar manufacturing companies which collectively produce 90 percent of Australia's raw sugar at 17 sugar mills in Queensland, the Australian Sugar Milling Council (ASMC) is the peak sugar industry organisation for raw sugar manufacturers. Representing around 75 per cent of Australia's sugarcane growers, CANEGROWERS is the peak body for Australia's sugarcane industry.

ASMC and CANEGROWERS appreciate the opportunity to provide a perspective on the impacts of ChAFTA on the Australian raw sugar industry (overleaf). In summary, being excluded from ChAFTA, the agreement has not delivered any market access gains for the sector.

In providing these views, we also outline our concerns with China's phytosanitary requirements. While this requirement was imposed on Australian raw sugar exporters before the ChAFTA negotiations commenced, and may not be subject to discussions during the review, it could form part of the net benefits assessment.

The industry remains committed to achieving improved market access for raw sugar exports and the removal of the phytosanitary requirement through the pending Goods Chapter review or for the latter, through some other process.

Please do not hesitate to contact either David Rynne, ASMC's Director Policy, Economics & Trade at david.rynne@asmc.com.au or 0431 729 509 or Warren Males, CANEGROWERS Head-Economics at warren_males@canegrowers.com.au or 0417 002 325 to discuss further.

Yours sincerely

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ASMC and CANEGROWERS joint submission to ChAFTA post-implementation review

How opportunities for Australian businesses may have changed under ChAFTA, such as the competitiveness of Australia's goods and services exports

- Sugar was excluded from ChAFTA. Consequently, no market access gains were made for Australian raw sugar in the agreement.
- China imports more than four million tonnes annually. The first 1.94 million tonnes are imported under WTO import quota at a 15% in-quota tariff. China's remaining sugar imports are subject to a 50% out-quota tariff. (NB: in the three years, May 2017 to May 2020, China's out-quota imports were subject to an additional Safeguard Duty, originally set at 45%. This was progressively reduced and from May 2019 until its removal was set at 35%.)
- In 2018, Australia exported around 180,000 tonnes of raw sugar to China.
- Ethanol is included in ChAFTA where China does not impose either an import quota or tariff restriction on Australian ethanol. Australia is yet to supply ethanol to China under ChAFTA. Without trade restrictions, trade in ethanol may occur in the future where commercial considerations permit.

Whether the outcomes of ChAFTA have met business and other stakeholder expectations

- Consistently producing less than it consumes, China is a structural sugar importer. This import demand is increasing, making China a market of potentially increasing importance for Australia. Improved access to China for Australian raw sugar is expected to reduce the concentration in Australia's sugar export markets. In 2018, almost 85% of Australian raw sugar exports were sold to just three markets – Japan, Korea and Indonesia.
- China's import patterns are subject to government influence and intervention, through import tariff and quota arrangements and also through the way in which licences are issued to China's importers rather than to exporters.
- Despite Australia's geographic proximity, Brazil is China's dominant sugar import supplier.
- At the conclusion of the ChAFTA negotiations, China agreed to a review with a view to enhancing the terms of access for Australian raw sugar during the scheduled reviews of the agreement. This post-implementation review of ChAFTA's provides opportunity for China to provide Australia with a preferential, country-specific quota to supply sugar. This would benefit China by addressing the imbalance in sources of its import supply. It would also benefit Australia by improving Australia's competitiveness, creating another export market option and increasing international competition amongst refiners for Australian sugar which, in turn, would increase the value of Australian sugar.

The effect of ChAFTA on any administrative or regulatory costs on business

- Whilst not imposed under ChAFTA, the Chinese Government imposed certain phytosanitary requirements on Australian sugar exports in 2014. These requirements place additional costs on the Australian industry, for no apparent gain to China's importers. The Australian industry seeks their removal.

- As a measure to ensure raw sugar consignments are free from “pests, soil, weed seeds and extraneous materials”, Australian sugar exporters are required to gain a phytosanitary certificate for each raw sugar cargo to China. The introduction of this requirement followed a similar stipulation being placed on Brazilian supply for sand that was found in a number of cargoes.
- Presently no other country that imports Australian sugar requires a phytosanitary certificate.
- Beyond the Chinese Government’s general support for (host) government-issued quality certificates, the basis of their request is not entirely clear given the known likelihood and consequence of these perceived risks, i.e.
    i. The International Standards for Phytosanitary Measures (ISPS) states that sugar as a Category 1 commodity has “methods of commercial processing” that “do not remain capable of being infested with quarantine pests”, and hence DOES NOT require a phytosanitary certificate.
    ii. The removal of soil, plant material and other contaminants is an essential part of the raw sugar manufacturing process. It is difficult to understand how soil, weed or pest contamination might occur.
    iii. Regarding extraneous materials, the owner and operator of the industry’s bulk raw sugar export facilities have developed and implemented practices to limit, if not eradicate the possibility of extraneous material being included on a raw sugar shipment.

- The phytosanitary requirements, costing the industry in excess of $200,000 per year, include annual registration fees, audit inspections, and engagement of third-party Authorised Officers (AOs) as sub-contractors to the Australian Government, to undertake the necessary inspections and generate the certificates.

Summary

Through the ChAFTA post-implementation review (or some other mechanism) ASMC and CANEGROWERS seek a worthwhile, preferential, country-specific quota to supply Australian raw sugar to China, and the removal of China’s phytosanitary requirement on these exports.