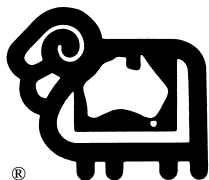


AUSTRALIAN COUNCIL of WOOL EXPORTERS & PROCESSORS INC



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26 June 2015

ACWEP-15-088

The Secretary
Joint Select Committee on Trade and Investment Growth
PO Box 6100
Parliament House
CANBERRA ACT 2600

By Email: jsctig@aph.gov.au

Dear Sir / Madam,

Submission from the Australian Council of Wool Exporters and Processors Inc
To the Joint Select Committee on Trade and Investment Growth

The Australian wool industry has had limited experience with existing Free Trade Agreements. But, the Australian Council of Wool Exporters and Processors is in a position to make some comments on its expectations; and on experiences gained by the New Zealand wool industry that are of relevance to Australia.

Our Submission is addressed under the following headings:

1. **Background**
 - 1.1 **Australian Council of Wool Exporters and Processors Inc (ACWEP)**
 - 1.2 **Free Trade Agreements**
2. **Experience with Countries with whom Australia has a Free Trade Agreement**
3. **Recent Free Trade Agreements**
4. **The Importance of Free Trade Agreements to the Australian Wool Industry**
 - 4.1 **Tariff Rates**
 - 4.2 **Other Factors – Tariff Rate Quotas (TRQ)**
 - 4.3 **Other Factors – Country Specific Tariff Quotas (CSTQ)**
 - 4.4 **Other Factors – Interpretation of Words**
5. **Key Free Trade Agreements for the Australian Wool Industry**
 - 5.1 **China**
 - 5.2. **India**
6. **Appendix 1 Destinations for Australia's Wool Exports by Weight, 2014/15 (to April)**
7. **Appendix I1 Destinations for Australia's Wool Exports by Value, 2014/15 (to April)**

1. Background

1.1 Australian Council of Wool Exporters and Processors Inc (ACWEP)

The Australian Council of Wool Exporters and Processors represents Australian wool exporters and Processors in relation to matters associated with the purchasing, processing (if done in Australia) and exporting of wool.

This involves interacting with:

- * Wool grower organisations.
- * Wool brokers, who facilitate the exchange of ownership via auction of most Australian wool.
- * Other service organisations, such as the Australian Wool Exchange and the Australian Wool Testing Authority.
- * The Federal Department of Agriculture, generally on matters relating to the veterinary / biosecurity requirements of customer countries; and to a lesser extent on Australian requirements for importing wool.
- * The Department of Foreign Affairs and Trade on non-veterinary trade issues, in particular on Free Trade Agreements.
- * Equivalent wool exporter organisations in other wool exporting countries.

1.2 Free Trade Agreements

With regards to Free Trade Agreements, ACWEP provides information to the Department of Foreign Affairs and Trade on:

- * Current wool production scenarios.
- * Details of volumes exported to relevant countries; and of any changing patterns.
- * Details of issues experienced by wool exporters in exporting to countries with which FTAs are being negotiated.

2. Experience with Countries with whom Australia has a Free Trade Agreement

The United States of America is the only country which Australia has a long term Free Trade Agreement with that includes wool. The FTA was finalised in 2004.

There is little to report on this FTA from a wool perspective, as:

- * Tariffs on wool were left virtually unchanged in the FTA; or were set to reduce over a period of time.
- * The United States was not a major customer country at the time of the Agreement.

It accounted for 0.7% of Australia's wool exports in 2003/04; and currently accounts for less. 0.3% of Australia's wool exports went to the United States in the 2013/14 financial year and 0.4% has gone there to the end of April in the current financial year.

The fall in wool exports to the United States is more like to be a consequence of the decline in the United States textile industry over the last eleven years, than to the failure to negotiate a better outcome for wool in the FTA.

3. Recent Free Trade Agreements

Australia has negotiated Free Trade Agreements with China, Korea, Japan and Thailand in recent years. Each of these countries has a wool processing industry.

With the exception of China (which will be referred to later), none of these countries imposed a tariff on Australian wool before the FTAs were implemented. Hence, there were no specific benefits (or disadvantages) for wool arising from these FTAs.

4. The Importance of Free Trade Agreements to the Australian Wool Industry

4.1 Tariff Rates

The opportunities for the Australian wool industry to benefit from tariff rate reduction in bilateral Free Trade Agreements depend of the pre-existing tariff rate and the volume of wool exported to the FTA partner.

With regard to tariff rates:

- * Australia is the largest producer of wool in the world, particularly for use in apparel. (Note, China has more sheep)
- * Most countries that import Australian wool either have relatively small numbers of domestic sheep and / or they are primarily used for meat or dairy production, rather than wool production. The wool from such sheep is invariably of limited value for apparel.

This means that there is little, if any, need for Australia's customer countries to impose tariffs on imported greasy wool to protect their domestic wool growing industries.

Only China, India and the United States (already discussed) have imposed tariffs on wool imports in recent years; and they have generally been low when compared with tariffs imposed on other agricultural commodities. China and India are Australia's two most important export destinations for wool.

Differential Tariff Rates for Greasy and Processed Wool

Where tariffs are applied, there are often differential tariffs imposed for "Raw Wool"¹ (greasy, scoured or carbonised wool) and for wool Tops². Raw Wool is classified as a raw material, whereas Tops are classified as manufactured product.

4.2 Other Factors – Tariff Rate Quotas (TRQ)

While reduction of tariff rates is an important consideration (particularly in negotiating an FTA with India), alleviation of other barriers to trade is also important.

This includes the application of Tariff Rate Quotas (TRQ) (the quantity of wool that can be imported at the standard tariff rate), as occurs with wool (and other commodities) exports to China. TRQs are global - they are not specific to any particular country.

China has a TRQ of 287 million kilograms for Raw Wool and 80 million kilograms for wool Tops imported to China within each calendar year.

The tariff rates for wool imported within the respective TRQs are 1% for Raw Wool and 3% for Tops.

China nominally has a tariff rate of 38% for wool imports that exceed the TRQ. But, in practice, wool imports that would exceed the TRQ are prevented from entering China.

The global Tariff Rate Quota (TRQ) for greasy scoured and carbonised wool has been reached twice in the last ten years. There was little impact the first time (2006), as the TRQ was reached in November.

However, there were serious implications for the wool industry the second time (2007), when the TRQ was reached in July. It was very disruptive to trade and costly to Australian wool exporters. Attempts to resolve it included the then Minister for Agriculture, Warren Truss.

4.3 Other Factors – Country Specific Tariff Quotas (CSTQ)

FTAs negotiated between China and other countries (and now Australia) include a "Country Specific Tariff Quota" (CSTQ) for some commodities, including wool. CSTQs specify the amount of a commodity that can be exported tariff-free to China by the nominated exporting country.

CSTQs invariably apply to a portion of a country's exports to China.

Product exported to China in excess of the CSTQ is subject to a standard tariff rate as defined under the relevant TRQ.

The New Zealand Government negotiated a CSTQ of 20 million kilograms (20,000 tonnes) of "Clean Wool"³ equivalents, rising by 5% per annum as part of their FTA with China in 2008.

¹ Scoured wool is wool that has been washed (scoured) to remove the grease, dirt and sweat.

Carbonised wool is scoured wool that has been treated with Sulphuric Acid to make the grass seeds and sticks present in scoured wool brittle and easy to remove before further processing.

² Wool Tops are the last stage prior to wool being spun into yarn. Tops are a loose continuous filament of wool about three inches in diameter.

³ Clean wool is scoured wool (see previous page).

Relationship between TRQs and CSTQs

CSTQs effectively increase global TRQs by the quantum of the CSTQs, as the CSTQs apply to the first wool (or other commodity) exported to China in each calendar year. In the case of wool, New Zealand's CSTQ effectively increased the TRQ by 20 million kilograms in 2008, increasing by 5% per annum.

Australia has negotiated a CSTQ of (30 million kilograms (rising by 5% per annum), making it increasingly unlikely that the TRQ of 287 million kilograms will be challenged in the near future.

4.4 Other Factors – Interpretation of Words

Experience gained by New Zealand wool exporters has been invaluable; and highly relevant to Australia's negotiations with China. It indicated that there can be some surprises.

Advice from New Zealand was that their FTA refers to wool exported to China under the CSTQ as being exported "directly" to China. Unexpectedly for New Zealand, China interpreted "directly" to mean on the one vessel from New Zealand to China. However, virtually all New Zealand wool exports to China are transhipped to another vessel on route to China. China interpreted this as falling outside their definition of "direct", despite the fact that the containers are not opened or interfered with in any way during transhipment.

The "solution" has been for New Zealand exporters to obtain a "Transshipment Certificate" from the country where the wool is transhipped attesting to each consignment's integrity. Advice from New Zealand is that the "Transshipment Certificates" cost about \$US400, plus logistical inconvenience.

The Australian Council of Wool Exporters and Processors provided this advice to DFAT with a request to avoid a similar occurrence with an Australian FTA, as all wool exports from Western Australia to China are transhipped in Singapore.

We do not know, but it could well have implications for other commodities.

5. Key Free Trade Agreements for the Australian Wool Industry

5.1 China

China is Australia's largest customer country for wool, taking between 73% and 79% of Australia's wool exports since 2008/09.

Prior to negotiation of the FTA, China imposed a 1% tariff on Raw Wool and a 3% tariff on wool Tops. There is a global TRQ of 287 million kilograms of clean wool equivalents for Raw Wool and 80 million kilograms for wool Tops (Australia no longer exports wool Tops).

As mentioned above, the Australia has negotiated a CSTQ of (30 million kilograms (rising by 5% per annum over nine years) for wool.

While this has limited monetary benefit (around \$A3 million per annum) because of the low level of the tariff, it is hopefully the start of Chinese moves towards a more liberalised approach to import regulations that lead to expansion of the CSTQ to 100% of Australia's wool exports to China and to simplification of import regulations.

5.2 India

India is Australia's second most important export destination for wool, with between 6.1% and 8.0% of Australia's wool exports going there since 2008/09.

India traditionally had high tariffs (15 to 20%) for wool imports. It is understood that this was Revenue driven, rather than an attempt to protect their domestic wool growing industry. Like China, India's domestic sheep flock is of poor quality for use in apparel.

The current tariffs are 5.15% for Raw Wool and 37.7% for wool Tops.

There are no Quotas; and it appears unlikely that any will arise as part of the FTA negotiations, as previous reductions to tariffs for wool have applied to all wool imports.

Elimination of the 5.15% tariff on Raw Wool would have represented a \$A9.6 million saving in 2013/14.

Peter Morgan
Executive Director

cc Chris Kelly, President Australian Council of Wool Exporters and Processors Inc

Appendix 1

Destinations for Australia's Wool Exports by Weight, 2014/15 (to April)

<i>Australian Wool Industries Secretariat Inc.</i>										
ABN 30 454 304 967 Unit 9, 42-46 Vella Drive SUNSHINE WEST VIC 3020					Reg. No. A0041776E Telephone: 61 3 9311 0103 Facsimile: 61 3 9311 0138					
Exports of Australian wool in kg for period July 2014 to April 2015								5 June 2015		
Country	Greasy	Scoured	Carbonised	Carded	Top	Noil/Waste	YTD Total	As a %	Prev Year	% Change
China	208,236,437	1,525,010	440,463				210,201,909	76.15%	197,503,069	6.4%
India	16,469,104	799,562	96,875			59,236	17,424,777	6.31%	19,434,459	-10.3%
Czech Republic	13,074,285						13,074,285	4.74%	12,451,333	5.0%
Italy	10,719,430	842,637	524,410				12,086,477	4.38%	12,846,099	-5.9%
Korea	181,190	58,728	5,741,071				5,980,989	2.17%	4,865,778	22.9%
Malaysia	1,367,423	3,991,390	10,403				5,369,216	1.95%	4,549,411	18.0%
Egypt	2,254,865	159,039					2,413,904	0.87%	2,973,858	-18.8%
Taiwan	2,300,061		20,811				2,320,872	0.84%	2,267,134	2.4%
Thailand	136,667	1,311,444					1,448,111	0.52%	653,819	121.5%
Japan	13,609		1,061,186				1,074,795	0.39%	858,645	25.2%
USA	848,562	185,838	32,753		2,448		1,069,601	0.39%	832,992	28.4%
Germany	588,979	58,881	120,605				768,465	0.28%	441,392	74.1%
United Kingdom	19,693	609,681	109,722			8,320	747,416	0.27%	1,118,117	-33.2%
Iran		625,000					625,000	0.23%	175,000	257.1%
Lithuania		307,945					307,945	0.11%	140,660	118.9%
Mexico		98,084	157,402				255,486	0.09%	187,241	36.4%
Turkey		26,846	86,946				113,792	0.04%	80,077	42.1%
New Zealand	49,081		50,003	1,534			100,618	0.04%	247,159	-59.3%
Hong Kong			73,868				85,902	0.03%		
United Arab Emirates	0	75,000					75,000	0.03%	650,000	-88.5%
Mauritius	12,158		51,416				63,574	0.02%	55,100	15.4%
South Africa	61,800						61,800	0.02%	71,050	-13.0%
Spain		60,000					60,000	0.02%	103,864	-42.2%
French Antilles		55,510	4,305				59,815	0.02%	14,194	321.4%
Pakistan		13,258	38,780				52,038	0.02%	84,339	-38.3%
Tunisia			41,438				41,438	0.02%		
Argentina	40,058						40,058	0.01%	62,206	-35.6%
Canada	13,394		26,406				39,800	0.01%	26,276	51.5%
Switzerland	19,981	15,000					34,981	0.01%	15,419	126.9%
Mali	21,495						21,495	0.01%		
Peru	10,321						10,321	0.00%	18,191	-43.3%
Vietnam					646		646	0.00%		
Georgia									318,826	-100.0%
Singapore									70,509	-100.0%
Senegal									38,769	-100.0%
Belgium-Luxembourg									30,400	-100.0%
Greece									20,339	-100.0%
Ethiopia									20,202	-100.0%
Cameroon									18,243	-100.0%
Myanmar, Republic of									12,477	-100.0%
Albania									12,467	-100.0%
Portugal									5,803	-100.0%
Chile									1,307	-100.0%
Lebanon									181	-100.0%
Totals	256,438,593	10,818,853	8,688,862	1,534	3,094	79,590	276,030,526	100.00%	263,276,404	4.8%
As a % of Total	92.9%	3.9%	3.1%	0.0%	0.0%	0.0%	100.0%			

Figures are in actual Kgs exported in individual classifications: Prepared by AWIS from source data supplied by Australian Bureau of Statistics
No warranty is given as to the accuracy or reliability and no responsibility is taken for any errors or omissions

Australian exports of Wool Top by ABS classification:

Top	2,448
Top not else where specified	
Combed wool in fragments	646
Total Top exported in actual kilograms	3,094

Appendix 1I

Destinations for Australia's Wool Exports by Value, 2014/15 (to April)

Australian Wool Industries Secretariat Inc.

ABN 30 454 304 967
Unit 9, 42-46 Vella Drive
SUNSHINE WEST VIC 3020

Reg. No. A0041776E
Telephone: 61 3 9311 0103
Facsimile: 61 3 9311 0138

Exports of Australian wool in \$'000 for period July 2014 to April 2015

5 June 2015

Country	Greasy	Scoured	Carbonised	Carded	Top	Noil/Waste	YTD Total	As a %	Prev Year	% Change
China	1,521,576	10,022	4,984				1,536,582	72.30%	1,468,599	4.6%
India	127,269	8,109	1,070			39	136,487	6.42%	145,950	-6.5%
Italy	110,550	8,074	5,717				124,341	5.85%	134,867	-7.8%
Czech Republic	95,330						95,330	4.49%	88,441	7.8%
Korea	1,733	698	61,136				63,566	2.99%	49,725	27.8%
Malaysia	11,282	44,703	125				56,110	2.64%	52,531	6.8%
Egypt	20,253	1,649					21,902	1.03%	26,248	-16.6%
Taiwan	17,452		220				17,672	0.83%	18,253	-3.2%
Thailand	1,144	16,266					17,411	0.82%	8,738	99.2%
Japan	187		10,987				11,174	0.53%	8,553	30.6%
USA	5,425	1,997	363		101		7,886	0.37%	5,638	39.9%
United Kingdom	189	6,375	1,232			19	7,815	0.37%	12,234	-36.1%
Germany	5,718	613	1,235				7,565	0.36%	4,420	71.1%
Iran		7,219					7,219	0.34%	2,491	189.8%
Lithuania		3,424					3,424	0.16%	1,618	111.6%
Mexico		961	1,490				2,452	0.12%	1,642	49.3%
Turkey		295	968				1,263	0.06%	846	49.3%
United Arab Emirates	1	1,006					1,006	0.05%	8,776	-88.5%
Hong Kong			867			9	877	0.04%		
Mauritius	158		623				782	0.04%	612	27.7%
South Africa	737						737	0.03%	362	103.8%
New Zealand	234		397	21			652	0.03%	1,459	-55.3%
French Antilles		499	42				541	0.03%	135	299.5%
Tunisia			517				517	0.02%		
Pakistan		130	342				472	0.02%	614	-23.1%
Argentina	401						401	0.02%	576	-30.3%
Spain		382					382	0.02%	776	-50.7%
Switzerland	124	146					270	0.01%	218	23.8%
Canada	62		203				266	0.01%	151	76.3%
Mali	157						157	0.01%		
Peru	49						49	0.00%	58	-15.4%
Vietnam					27		27	0.00%		
Georgia									3,221	-100.0%
Singapore									641	-100.0%
Senegal									277	-100.0%
Belgium-Luxembourg									228	-100.0%
Greece									183	-100.0%
Ethiopia									170	-100.0%
Albania									90	-100.0%
Cameroon									83	-100.0%
Chile									78	-100.0%
Myanmar, Republic of									62	-100.0%
Portugal									55	-100.0%
Lebanon									8	-100.0%
Totals	1,920,031	112,568	92,520	21	128	67	2,125,336	100.00%	2,049,627	3.7%
As a % of Total	90.3%	5.3%	4.4%	0.0%	0.0%	0.0%	100.0%			

Figures are in actual Kgs exported in individual classifications: Prepared by AWIS from source data supplied by Australian Bureau of Statistics
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