

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

Voluntary Public

Date: 5/3/2013

GAIN Report Number: AS1315

Australia

Post: Canberra

Australia and China sign Agricultural Agreement

Report Categories:

Agricultural Situation

Policy and Program Announcements

Livestock and Products

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Report Highlights:

Australia and China have signed a new agreement covering agricultural science, technology, two-way investment and trade

Agricultural Investment and Trade Agreement

On April 23rd, the Australian Minister for Agriculture, Fisheries and Forestry, Joe Ludwig met with the Chinese Agriculture Minister, Han Changfu on the occasion of Minister Han's first visit to Australia. Minister Han was in Australia to participate in the Joint Agricultural Commission to discuss agricultural trade, policies and cooperation between Australia and China.

During the visit a new agriculture agreement was signed between the two countries. The agreement covers science and technology, two-way investment and trade.

The deal carries major significance for Australia. China is the most valuable export destination for Australian agriculture. In 2012 total Australian farm exports to China were valued at over \$7 billion. Key products exported to China included wool, cotton, grain (predominantly wheat), meat, wine and dairy products.

Table 1 Australian agricultural exports to China

Product	2010 (\$USD million)	2011 (\$USD million)	2012 (\$USD million)
Wool	\$ 1,504	\$ 2,093	\$ 1,946
Cotton	\$ 377	\$ 1,535	\$ 1,836
Grain and seed	\$ 448	\$ 728	\$ 1,172
Meat	\$ 149	\$ 232	\$ 411
Wine	\$ 148	\$ 202	\$ 240
Dairy	\$ 128	\$ 138	\$ 167

The visit had a particularly significant outcome for Australian beef exports, as China agreed to accredit 28 Australian cold storage facilities and approved for export four Australian red meat processing plants. The deal will allow exporters to consolidate shipments of beef close to ports which will increase the efficiency and competitiveness of Australian product.

Over the past two years Australian exports of beef to China have increased four-fold. In February 2013 exports to China reached a monthly record of 11,866 tons making it the third largest destination for Australian beef exports behind Japan and the United States in that period..

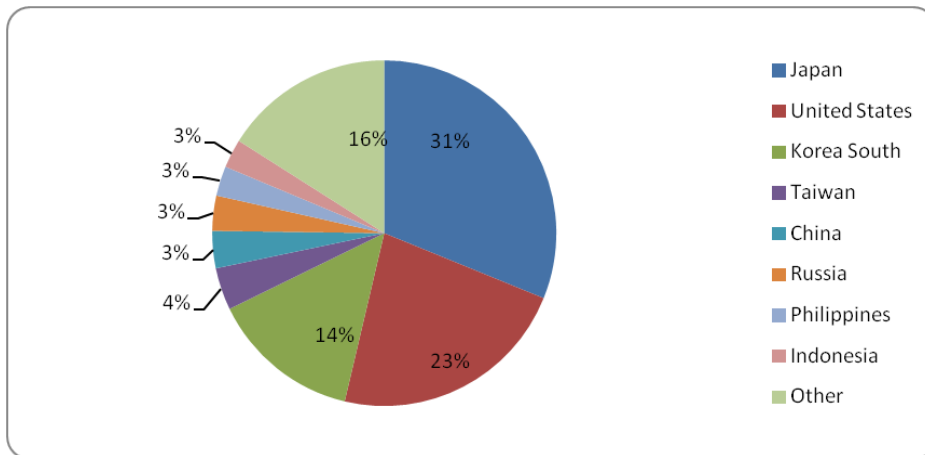


Figure 1 Australian beef exports by destination – 2012

China is also the most valuable destination for United States agricultural exports, which totaled \$26 billion in 2012. Key commodities for the United States also include grain, cotton, meat and dairy products. US beef exports to China are less than 10 percent of the size of Australian exports but the United States is the largest supplier of pork and the second largest supplier of poultry products to China.

The visit from the Chinese agriculture minister reflects a continuing strengthening in the relationship between Australia and China and the focus of the current Australian government on opportunities in Asia. In October 2012 the Australian Government released the *Australia in the Asian Century White Paper* which identifies the growing Asian population and associated increase in food demand as a major opportunity for Australian agriculture.

Australia already has free-trade-agreements with a number of trading partners in the Asia-Pacific region including New Zealand and Malaysia and further agreements are under negotiation with China, India, Indonesia, Japan and South Korea.

Trade and investment between Australia and China is two-way with Australia importing \$US764 million worth of agricultural products from China in 2012. There has also been significant interest from Chinese investors in Australian agriculture. In 2012 a Chinese-Japanese consortium, Lempriere and Shandong RuYi Group purchased the largest irrigated farm in the southern hemisphere, Cubbie Station in southern Queensland. Cubbie has the potential to grow 330,000 bales of cotton and holds 460,000 mega-litres of water licences. Another Chinese company was paid \$560 million to lease the total area of phase two of the Ord River Irrigation Area (ORIA) in northern Australia. Under the terms of the 99-year lease Shanghai Zhongfu has to develop the land for irrigation on which they intend to grow sugarcane and they must also build a sugar mill.

Both of these investments have been somewhat controversial, the first due to the large water entitlements associated with Cubbie Station and the potential loss of local jobs. The Ord investment was controversial because two Australian companies were the unsuccessful bidders and even though the price paid exceeded the limit required to be reviewed by the Foreign Investment Review Board this did not occur because it is only a lease, not a permanent purchase.

These developments have the potential to increase Australia's export competitiveness relative to the United States in the Chinese market. This will vary by commodity, and key competitive commodities such as grains and cotton are subject to