Research Focus

Wool and Australia's FTA with China

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The Australian Prime Minister and the President of China have committed their countries to negotiating a ‘free trade’ agreement or FTA. Negotiations proper will begin at the end of February. It would be preferable to pursue trade liberalisation on a multilateral basis in a way that does not involve discrimination against other trading partners, but export industries support the liberalisation of trade by whatever means so long as they are consistent with that broader objective.

What outcome of the negotiations will satisfy these objectives?

The Australian export industry with the biggest stake in the outcome of the Australia-China FTA is wool. The wool industries of Australia and China rely heavily on each other for markets and inputs. Australia is the biggest wool producer and exporter in the world, supplying 60 per cent of China’s needs, but it is only a tiny producer of textiles. China is the world’s largest producer and consumer of wool textiles, already taking 50 per cent of Australia’s wool exports. By 2010 China’s demand for wool is expected to almost double and account for around 62 per cent of all global demand for apparel wool.

But barriers to trade in wool remain that prevent wool trade growth between Australia and China reaching its full potential. Tariffs within China’s wool import quota are low, but after the quota cuts in (at 287,000 tonnes) tariffs are high and make wool uncompetitive in China. The Australian industry also bears the cost of re-testing wool on landing in China when an agreement on standards could eliminate this burden.

China’s in-quota tariff is 1 per cent for greasy wool and 3 per cent for lightly processed wool, but the out-of-quota tariff on both products is 38 per cent. Although the quota level has not yet been attained, it was almost reached in recent years. While China might not invoke the higher tariff, the great uncertainty associated with this influences the behaviour of commercial textile producers, who look to products other than wool whenever the quota level is approached.

Imported wool in China is re-tested, even though all Australian wool is tested and certified for type and quality before it is exported. Moreover, all wool imports into China are being charged a fee for re-testing, despite the fact that not all wool consignments are actually tested. The testing charge adds a further 15 per cent to costs. Better protocols between the Australian and Chinese industries could eliminate the need for re-testing.

Peter Drysdale will make a presentation on APEC Then and Now at an APEC International Symposium in Tokyo on 14 March. Later in the month he will deliver a paper on the concept of an Asian economic community at a workshop on Preferential Trading Arrangements in Asia in New Delhi organised by the Indian Council for Research on International Economic Relations. He will also speak at the ADB’s Brainstorming on FTAs workshop in Manila.
Such restrictions penalise Australia’s wool growers more as demand for wool increases. They also raise the price of wool making it more difficult for the Chinese wool textile industry to remain competitive in world markets. They also introduce an extra element of risk for industry. Demand for wool is forecast to grow with the expansion of China’s wool textile industry. Yet the risk of application of above-quota tariff will increase as demand grows. Any steep rise in tariffs would result in substitution of competing fibres (mainly synthetics) for wool.

The raw wool producing sectors in Australia and China are in fact strongly complementary. Australia is overwhelmingly a producer of low micron or fine wools from merino sheep used in worsted manufacturing, while China is overwhelmingly a producer of high micron or fine wools from merino sheep used internationally. Japan and China’s clothing industry relies heavily on coarser wools. Less than 10 per cent of China’s overwhelming demand for wool is met by Australia, yet China’s agri-industry relies heavily on Australia-type wool to maintain its competitiveness in international markets.

It is estimated that the removal of barriers to the Australia-China wool trade (including the total elimination of tariffs) would increase Australia’s exports by up to A$597 million by 2015, or 20.5 per cent above what would be achieved in the absence of liberalisation. For China, the additional value added in production of textiles and clothing would amount to US$393 million, with textile and clothing apparel exports increasing by US$809 million.

Liberalisation of the wool trade between China and Australia would also generate opportunities for closer integration between Australia and China in wool. New testing systems to improve quality control in wool marketing, improvements to wool production, auctioning, testing procedures, and adoption of standards, as well as relevant technical cooperation programs between Australia and China would all reinforce the mutual benefits of freer trade in wool.

Wool and textile trade between China and Australia will continue to grow, with China becoming an increasingly important global player in the future. The wool industries of Australia and China are already closely integrated and complementary, and the common interests of Australia and China’s wool industries far outweigh any competition between them. The liberalisation of the wool trade between the two countries has the potential to enhance greatly the existing relationship between the two industries.

A good outcome on wool is therefore integral to achieving a successful FTA between Australia and China.

* Brian Van Rooyen is Deputy Chair of Wool Innovation Australia and Chair of the AWI China Free Trade Committee. This article is a digest of a seminar he presented at the Australian National University on 21 February 2006.

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**Events**

3 March, Free Trade Agreements between Japan and Southeast Asia: Economic Interest and a Contest with China, Kitti Prasirtsuk (Thammasat University), seminar

**APSEG seminars**

7 March, Chris Manning, Economics, RSPAS, ANU, Labour and poverty in Indonesia post crisis

14 March, Irvin Studin, Canadian, Privy Council Office, Tyrannies of distance and proximity: Post-election comparisons between Australian and Canadian politics and policy

21 March, Michael Carnahan, VF, APSEG, The economic impact of peacekeeping missions

28 March, Richard McLoughlin, Australian Fisheries Management Authority, Turning a financially failing and environmentally struggling industry around – policy and resource management development in the Australian fishing industry

4 April, Chunlai Chen, APSEG, China’s agricultural trade after the entry into the WTO

*Seminars are held at 12.30 pm in Seminar Room 4, First Floor, Crawford Building

**Publications**


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* Reshaping the Asia Pacific Economic Order, Hadi Soesastro and Christopher Findlay (eds), Routledge, 2006

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