

CHINA TAX ALERT

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China-Australia Free Trade Agreement (ChAFTA) Officially Finalised and Signed

Background

Bilateral trade between China and Australia has risen an average of 22% per year in the 21st century from 8.45 billion USD in 2000 to 136.95 billion USD. In 2014, Australia was China's eight biggest trading partner, seventh biggest import source and ninth most popular export destination; since 2010, China has been Australia's biggest import source and export destination. On June 17th 2015, the representatives of China and Australia officially signed the China-Australia Free Trade Agreement ("ChAFTA" or "the Agreement").

ChAFTA talks began in April 2005. Nearly ten years later, in November 2014, both sides announced the finalisation of substantive negotiations. The official, signed agreement provides an effective context for domestic approval procedures

Summary of ChAFTA

One of the immediate effects when ChAFTA is effective is that 85.4% of merchandise in both countries will be duty free. This percentage will increase in phases, eventually reaching 100% in Australia for both tariff items and trade value, and 96.8% and 97%, in China, respectively. These tariff reduction rates greatly exceeded other ordinary FTAs tariff reduction rates at approximately 90%.

Based on preliminary calculation, after the validation of ChAFTA, the customs duty of export merchandise from China to Australia will be greatly reduced. Chinese goods which can have a comparatively high reduction of duty mainly include clothes, leather, electronics and machines, other manufactures, steel and metal products, and chemicals.

Australian goods which can have a comparatively high reduction of duty include energy, steel and metal products, and beef, wool, dairy, and other farm products.

In China-Australia bilateral trade, the proportion of farm products is moderate. However, beef, dairy products, wine, and seafood are part of Chinese people's daily lives and Australia can be a crucial import source for China.

Chinese Tariff Commitments

For commodities originating from Australia, China has adopted 13 types of different tariff reduction initiatives according to different tariff categories:

Type	Initiative of tariff reduction	Applicable tariff categories
A-0	the base rate of duty for originating goods in category "A-0" shall be eliminated and bound at zero for products of Australian origin from the Agreement's entry into force	2402
A-3	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over three (3) equal annual stages beginning from the Agreement's entry into force	2
A-5	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over five (5) equal annual stages beginning from the Agreement's entry into force	5418
B-6	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over six (6) equal annual stages beginning from the Agreement's entry into force	2
B-8	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over eight (8) equal annual stages beginning from the Agreement's entry into force	18
B-9	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over nine (9) equal annual stages beginning from the Agreement's entry into force	60
B-10	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over ten (10) equal annual stages beginning from the Agreement's entry into force	57
B-12	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over twelve (12) equal annual stages beginning from the Agreement's entry into force	3
B-15	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over fifteen (15) equal annual stages beginning from the Agreement's entry into force	5
C-10	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over ten (10) equal annual stages beginning from the	6

	Agreement's entry into force, and the special agricultural safeguard mechanism in Article 2.14 (Special Agricultural Safeguard Measures) of Chapter 2 (Trade in Goods) shall apply	
C-12	the base rate of duty shall be reduced to and bound at zero for products of Australian origin over twelve (12) equal annual stages beginning from the Agreement's entry into force, and the special agricultural safeguard mechanism in Article 2.14 (Special Agricultural Safeguard Measures) of Chapter 2 (Trade in Goods) shall apply	2
Country Tariff Quota	the country-specific tariff quota in Article 2.13 (Country Specific Tariff Quota) of Chapter 2 (Trade in Goods) shall apply for products of Australian origin, with the in-quota duty rate being zero and the base rate of duty remaining as out-quota duty rate	6
D	the base rate of duty shall apply for products of Australian origin.	257

For instance, the base tariff rates of barley, alumina, and lignite which originate in Australia are 3%, 8% and 3% respectively. Based on ChAFTA, their staging category is A-0. When the Agreement becomes effective, they will be duty free.

The base tariff rate of a 750ml bottle of wine made in Australia is 14%. According to ChAFTA, its staging category is A-5. Once the Agreement is effective, its duty will be adjusted as follows:

Base Rate	Duty Rate in Each Year from Entry into Force of the Agreement (%)				
	1	2	3	4	5
14%	11.2	8.4	5.6	2.8	0

The base rate of milk powder made in Australia is 10%. According to ChAFTA, its staging category is C-12. Once the Agreement is effective, customs duty, without activating the special agricultural safeguard mechanism, will be as follows:

Base Rate	Duty Rate in Each Year from Entry into Force of the Agreement (%)											
	1	2	3	4	5	6	7	8	9	10	11	12
10%	9.2	8.3	7.5	6.7	5.8	5	4.2	3.3	2.5	1.7	0.8	0

KPMG's observations

ChAFTA will come into force after China and Australia finish implementing their domestic documenting approval procedures. KPMG suggest that enterprises assess the value of ChAFTA and use the opportunities that the Agreement provides them to lower the amount of duty they pay.

KPMG will monitor the progress and details of ChAFTA and provide updates on any further research and analysis..

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