



# The China–Australia free trade agreement

## What does it mean for dairy?

**This China-Australia Free Trade Agreement (ChAFTA) has officially entered into force.**

This is great news for everyone involved in the trade of Australian dairy products to China, made even better by the fact that the agreement becomes operational before the end of the 2015 calendar year. Because of the way the agreement is structured this means that the first year of the agreement becomes a very short (or pro rata) year, lasting until 31st December 2015.

Then from 1st January 2016 the Free Trade Agreement will progress to its second year – with the benefits of 2nd year tariff reductions and a faster path to eventually reaching zero tariffs for all dairy exports from Australia to China.

### **China – an important market**

China is the largest dairy importing market in the world today. While China is itself a substantial dairy producer, its domestic industry cannot nearly satisfy demand for growth and is increasingly reliant on imports to fill the gap. In 2012 China imported 1.375 million tonnes of dairy product and by 2014 that figure had jumped 40% to almost 2 million tonnes. With the population set to surge as the one child policy relaxes demand for dairy is likely to increase.

China is Australia's number one dairy market by volume with 136,441 tonnes of dairy product worth AUD \$424 million exported to Greater China

in 2014/15. This is 18 per cent of total Australian dairy exports by volume for the calendar year.

The ChAFTA will give Australian origin dairy products an advantage over other supplier countries who do not have a Free Trade Agreement with China. This includes dairy products from the USA and the European Union. The deal is the most ambitious FTA that China has undertaken in relation to providing dairy market access.

### **What is in the deal for dairy?**

The ChAFTA agreement will see the staged removal of all dairy export tariffs faced by Australian dairy exports to China within 4–11 years (depending on the product).

# Tariff reductions under the new FTA

This fact sheet provides details of tariff reductions for individual products and categories.

## Liquid milk and cream

Liquid milk is a fast growing export category to China, with Australian export volumes increasing from less than 2,000 tonnes in 2009, to nearly 50,000 tonnes in 2014.

The current base tariff rate for all liquid milk and cream products exported to China is 15%. Under ChAFTA the rate will be reduced and eventually bound to zero over 10 equal annual stages, reaching zero tariff in year 10 as per Table 1 below.

**Table 1** Liquid milk and cream

HS code	Description	Base rate (%)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
			(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>0401</b>	<b>Milk and cream, not concentrated nor containing added sugar or other sweetening matter:</b>											
<b>0401.10</b>	<b>Of a fat content, by weight, not exceeding 1%</b>											
0401.10.00	Milk and cream of ≤ 1% fat, not concentrated or sweetened	15	13.5	12	10.5	9	7.5	6	4.5	3	1.5	0
<b>0401.20</b>	<b>Of a fat content, by weight, exceeding 1% but not exceeding 6%</b>											
0401.20.00	Milk and cream of > 1% but ≤ 6% fat, not concentrated or sweetened	15	13.5	12	10.5	9	7.5	6	4.5	3	1.5	0
<b>0401.40</b>	<b>Of a fat content by weight, exceeding 6% but not exceeding 10%</b>											
0401.40.00	Milk and cream of a fat content, by weight, exceeding 6% but not exceeding 10%	15	13.5	12	10.5	9	7.5	6	4.5	3	1.5	0
<b>0401.50</b>	<b>Of a fat content, by weight, exceeding 10%</b>											
0401.50.00	Milk and cream of > 10% fat, not concentrated or sweetened	15	13.5	12	10.5	9	7.5	6	4.5	3	1.5	0

## Milk powder and cream in solid forms

The current base tariff rate for all 'Milk powder and cream in solid forms' products exported to China is 10%. Under ChAFTA the rate will be reduced and eventually bound to zero

over 12 equal annual stages, reaching zero tariff in year 12 as per Table 2 below.

Tariffs will immediately reduce to 9.2% on entry into force, before further reducing to 8.3% from the 1st of January 2016.

**Table 2** Milk powder and cream in solid forms

HS code	Description	Base rate (%)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12
			(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>0402</b>	<b>Milk and cream, concentrated or containing added sugar or other sweetening matter:</b>													
<b>0402.10</b>	<b>In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%</b>													
0402.10.00	Milk and cream solid forms of ≤ 1.5% fat	10	9.2	8.3	7.5	6.7	5.8	5	4.2	3.3	2.5	1.7	0.8	0
<b>0402.2</b>	<b>In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%</b>													
0402.21.00	Milk and cream in solid forms of > 1.5% fat, unsweetened*	10	9.2	8.3	7.5	6.7	5.8	5	4.2	3.3	2.5	1.7	0.8	0
<b>0402.29</b>	<b>Other</b>													
0402.29.00	Milk and cream in solid forms of > 1.5% fat, sweetened*	10	9.2	8.3	7.5	6.7	5.8	5	4.2	3.3	2.5	1.7	0.8	0
<b>0402.9</b>	<b>Other</b>													
<b>0402.91</b>	<b>not containing added sugar or other sweetening matter</b>													
0402.91.00	Concentrated milk and cream, unsweetened (excl. in solid form)	10	9.2	8.3	7.5	6.7	5.8	5	4.2	3.3	2.5	1.7	0.8	0
<b>0402.99</b>	<b>Other</b>													
0402.99.00	Sweetened milk and cream (excl. in solid form)	10	9.2	8.3	7.5	6.7	5.8	5	4.2	3.3	2.5	1.7	0.8	0

## Special Safeguard Volumes

Note that a Special Safeguard Volume will apply to 2 tariff lines – 0402.21 milk and cream in solid forms of greater than 1.5% fat and 0402.29 milk and cream in solid forms of greater than 1.5% fat, sweetened. The trigger level volumes (a combined volume covering both tariff lines) are set out in Table 3.

Australian exports to China under these tariff lines over the last 5 years has averaged 12,650 tonnes per year. In 2014 the volume was 12,262 tonnes.

The Year 1 volume will be pro-rated for the percentage of that year for which the agreement is in force. If during any given calendar year the volume of imports by China from

Australia exceeds the trigger level China may apply a safeguard measure in the form of increasing the customs duty back to the base rate (10%) from the date that the measure is applied until the end of that calendar year. After year 15 of the agreement the Committee on Trade in Goods (set up under ChAFTA) will conduct a review of the special safeguard measure.

**\*Table 3** Special Safeguard Volumes

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
17,500	18,375	19,294	20,258	21,271	22,335	23,452	24,624	25,855	27,148	28,506	29,931	31,427	32,999	34,649

## Yoghurt and buttermilk

The current base tariff rate for yoghurt exported to China is 10%, and for buttermilk is 20%. Under ChAFTA the rate of duty will be reduced and bound to zero over 10 equal annual stages, reaching zero tariff in year 10 as per Table 4 below.

Tariffs on yoghurt will immediately reduce to 9% on entry into force, before further reducing to 8% from the 1st of January 2016.

Tariffs on buttermilk will immediately reduce to 18% on entry into force, before further reducing to 16% from the 1st of January 2016.

**Table 4** Yoghurt and buttermilk

HS code	Description	Base rate (%)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
			(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
		2015		2016	2017	2018	2019	2020	2021	2022	2023	2024
0403	<b>Buttermilk, curdled milk and cream, yoghurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa</b>											
0403.10	<b>Yoghurt</b>											
0403.10.00	Yoghurt	10	9	8	7	6	5	4	3	2	1	0
0403.90	<b>Other</b>											
0403.90.00	Buttermilk, curdled milk and cream, etc. (excl yoghurt)	20	18	16	14	12	10	8	6	4	2	0

## Whey and products

Whey and products consisting of natural milk constituents – not elsewhere specified

The current base tariff rate for whey products exported to China is 6%. Under ChAFTA the rate will be reduced and eventually bound to zero on all Australian origin products over 6 equal

annual stages, reaching zero tariff in year 6 as per the schedule below.

For products consisting of natural milk constituents, not elsewhere specified (HS Code 0404.90) the current base tariff is 20%. Under ChAFTA the duty will be reduced and eventually bound to zero over 10 equal annual stages, reaching zero tariff in year 10 as per Table 5 below.

**Table 5** Whey and products

HS code	Description	Base rate (%)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
			(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
		2015		2016	2017	2018	2019	2020	2021	2022	2023	2024
0404	<b>Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included:</b>											
0404.10	<b>Whey, and modified whey, whether or not concentrated or containing added sugar or other sweetening matter</b>											
0404.10.00	Whey and modified whey	6	4.8	3.6	2.4	1.2	0	0	0	0	0	0
0404.90	<b>Other</b>											
0404.90.00	Products consisting of natural milk constituents, nes	20	18	16	14	12	10	8	6	4	2	0

## Butter, dairy spreads, and other fats and oils

The current base tariff rate for butter, dairy spreads, and other fats and oils exported to China is 10%. Under

ChAFTA the rate on butter and other fats and oils will be reduced and eventually bound to zero over 10 equal annual stages, reaching zero tariff in year 10 as per Table 6 below.

For dairy spreads (0405.20) the rate will be reduced and eventually bound to zero over 5 equal annual stages, reaching zero tariff in year 5 as per Table 6.

**Table 6** Butter, dairy spreads, and other fats and oils

HS code	Description	Base rate	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>0405</b>	<b>Butter and other fats and oils derived from milk; dairy spreads:</b>											
<b>0405.10</b>	<b>Butter</b>											
0405.10.00	Butter	10	9	8	7	6	5	4	3	2	1	0
<b>0405.20</b>	<b>Dairy spreads</b>											
0405.20.00	Dairy spreads	10	8	6	4	2	0	0	0	0	0	0
<b>0405.90</b>	<b>Other</b>											
0405.90.00	Other fats and oils derived from milk	10	9	8	7	6	5	4	3	2	1	0



## Cheese

The current base tariff rate for all cheese types exported to China (other than blue cheese) is 12%. Under ChAFTA the rate all cheese types (other than blue cheese) will be reduced and eventually bound to zero over 10 equal annual stages, reaching zero tariff in year 10 as per the schedule below.

For blue veined cheese (0406.40) the current base tariff rate is 15%. Under ChAFTA the rate will be reduced and eventually bound to zero over 5 equal annual stages, reaching zero tariff in year 5 as per Table 7 below.

**Table 7** Cheese

HS code	Description	Base rate (%)	Yr 1 (%)	Yr 2 (%)	Yr 3 (%)	Yr 4 (%)	Yr 5 (%)	Yr 6 (%)	Yr 7 (%)	Yr 8 (%)	Yr 9 (%)	Yr 10 (%)
			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>0406</b>	<b>Cheese and curd:</b>											
<b>0406.10</b>	<b>Fresh (unripened or uncured) cheese, including whey cheese, and curd</b>											
0406.10.00	Fresh cheese, including whey cheese and curd	12	10.8	9.6	8.4	7.2	6	4.8	3.6	2.4	1.2	0
<b>0406.20</b>	<b>Grated or posderec cheese, of all kinds</b>											
0406.20.00	Grated or posdered cheese, of all kinds	12	10.8	9.6	8.4	7.2	6	4.8	3.6	2.4	1.2	0
<b>0406.30</b>	<b>Processed cheese, not grated or powdered:</b>											
0406.30.00	Processed cheese, not grated or powdered	12	10.8	9.6	8.4	7.2	6	4.8	3.6	2.4	1.2	0
<b>0406.40</b>	<b>Blue-veined cheese and other cheese containing veins produced by <i>Penicillium roqueforti</i></b>											
0406.40.00	Blue-veined cheese	15	12	9	6	3	0	0	0	0	0	0
<b>0406.90</b>	<b>Other cheese</b>											
0406.90.00	Cheese, nes	12	10.8	9.6	8.4	7.2	6	4.8	3.6	2.4	1.2	0

## Other dairy related products

Tariffs for many other dairy related products will be reduced from the current Base rate and eventually bound to zero over 5 equal annual stages under ChAFTA. Examples include:

- › Lactose – currently 10% Base rate – tariff reduced and bound to zero over 5 equal annual stages.
- › Cocoa and Cocoa preparations – currently between 8% and 10% Base rate – tariff reduced and bound to zero over 5 equal annual stages.
- › Preparations for Infant use (Infant formula) – currently 15% Base rate – tariff reduced and bound to zero over 5 equal annual stages.
- › Ice cream – currently 19% Base rate – tariff reduced and bound to zero over 5 equal annual stages.
- › Protein concentrates, casein, milk albumins – all currently 10% Base rate – tariffs reduced and bound to zero over 5 equal annual stages.

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