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Canadian Agri-Food  
Trade Alliance

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## **CHASING CHINA**

# **A Policy Paper on Expanding Canada's Agriculture and Agri-Food Exports to China**

**February 2017**

## POLICY PAPER

# Expanding Canada's Agriculture and Agri-Food Exports to China

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## A. Executive Summary

In 2012, Canada and China began commenting on the possibility of expanding trade and economic relations between the two countries, raising speculation as to the possibility of FTA talks beginning sometime in the year. In August 2012, the two countries released the results of an economic complementarities study which identified opportunities to expand and improve trade, including agriculture and agri-food, between the nations. While the start of FTA negotiations between Canada and China does not appear to be imminent, in order to contribute meaningfully to deliberations on this topic, CAFTA has commissioned this paper to review the potential for Canadian agri-good exporters to expand and enhance trade with China.

China is a strong and growing economy. As with other developing countries, China's demand for agri-food imports is expected to expand. Growing urbanization increases in personal income, and limits on China's agricultural production will impact the country's ability to meet its growing agriculture and food demand through domestic production. China's middle class is expanding rapidly and quickly adopting a "western" diet with an increased focus on animal proteins, processed foods, eating out, and convenience dishes. This offers significant potential for agriculture and food exporters around the world, including those in Canada.

China is already a large market for Canadian agri-food exports. In 2015, Canada exported C\$6.2 billion in agri-food and seafood products to China,<sup>1</sup> and unlike many of Canada's trading partners; exports to China have been climbing steadily and did not fall during the global economic crisis. Half of all Canadian agri-food exports to China are canola and canola products. China is also an important market for soybeans, pulses, pork, wheat, barley, beef, genetics and processed products.

Although China's growing demand for agriculture and food products has also benefitted Canadian agriculture sectors, Canadian exporters continue to face a number of significant trade barriers which will impede trade growth. As well, China's domestic policies of food self-sufficiency and its programs aimed at promoting and protecting domestic agriculture, continue to restrict the competitiveness of imported agriculture products and limit domestic demand for imported goods. Tariffs and non-tariff barriers also restrict the range of products that can be exported to that country and both raise the risk and uncertainty for exporters.

Enhancing agri-food trade with China will require a number of issues be addressed including tariffs which remain high on many agri-food products, tariff escalation, tariff rate quotas, non-tariff barriers including inconsistent application of regulations, slow customs administration, discriminatory application of China's VAT on imported goods, and limitations on Foreign Direct Investment.

Addressing these issues could increase and improve Canadian agri-good exports to China. The U.S. International Trade Commission estimated that the elimination of China's tariff and non-tariff barriers could increase U.S. agri-food exports by \$3.9 billion suggesting that Canadian agri-food exports could also grow significantly as the agri-food sector is similar in both countries. As well, New Zealand's agri-food exports to China increased three-fold after those countries concluded their FTA.<sup>2</sup>

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<sup>1</sup> AAFIC. *China – At a Glance*. Retrieved Aug. 25, 2016

<sup>2</sup> Exports for Overseas Merchandise Trade (fob NZ\$). Stats.govt.nz

Achieving these results, however, would require that a number of significant and highly sensitive issues be addressed. China's 13th Five-Year Plan explicitly notes the government's commitment to supporting its agriculture sectors and ensuring that food security is a priority. The plan goes further to establish self-sufficiency targets in key sectors including wheat, corn, sugar, and rice. In these and other sectors China vigorously supports producers and manages supply and prices through an array of domestic subsidies and support programs, target prices, and reserves. These are in turn re-enforced through the use of TRQ's and tariffs.

Many of Canada's agri-food export interest rest in the areas where China is most sensitive thereby creating significant challenges to expanding trade. Having said that, some opportunities to expand and/or improve trade do exist:

- China's experiences in recent FTA's, including those with New Zealand and Chile, suggest China may be prepared to address tariffs and other trade barriers in some sectors including malt, barley, pulses, beef, pork and canola;
- China has a history of excluding the most sensitive sectors, including wheat and sugar, from tariff reductions in its FTA's. However, as noted in the Canada-China Economic Complementarities Study, China's production of key agricultural inputs, including sugar, have not kept pace with the country's rapidly growing demand for food products. Tariff reductions and/or tariff quota expansion for sugar and sugar-containing products and other sensitive agricultural inputs like wheat would provide an opportunity for the Canadian industry to supply the growing demand for imports;
- Regular government to government communication around the market supply and demand could improve predictability for Canadian exporters;
- In the case of wheat which is subject to a TRQ, any steps to encourage China to increase its TRQ fill rate (which is currently at just 9%), could increase Canada's exports of that product;
- Addressing non-tariff barriers, including inconsistent application of regulations and testing, and encouraging greater adherence to international recognized standards, could reduce export costs and expand trade for some sectors, in particular pork and beef, and reduce export costs; and
- Improving the customs administration process could greatly reduce costs and improve predictability for exporters.

## B. CHINA'S ECONOMY

China is the most populous country in the world and the second largest economy with a Gross Domestic Product (GDP) of US\$ 10.35 trillion which is expected to grow by 6.5% in 2016.<sup>3</sup> China's nominal GDP per capita reached US\$7,924 in 2015; it has more than doubled since 2008.

China has a population of 1.36 billion in 2015 with a median age of 36.8 year<sup>4</sup>. China's economic growth has averaged 10% a year over the past 30 years<sup>5</sup>, a feat unattained by any other country, with 2016 growth projected at 6.5% and 6.2% in 2017<sup>6</sup>. In 2015, China's agriculture, industrial, and services sectors contributed 9.0%, 40.5%, and 50.5% respectively to its total GDP<sup>7</sup> with China's coastal provinces being more industrialized and its in-land regions more agrarian. China's agriculture sector alone contributed to 4.2% of China's GDP<sup>8</sup>.

China's economic growth remained strong during the recent global financial crisis, reflecting in part China's massive stimulus spending (or over-spending) on infrastructure projects. China has traditionally had a high consumer savings rate making much of China's economic growth dependent on exports rather than domestic consumption. Economic growth has been slowing, however, as the global economic crisis has reduced foreign demand for Chinese goods and as Chinese consumer spending has become even more constrained. China's real GDP growth slowed from 7.7% in 2012 and 2013 to 7.3% in 2014 and 6.9% in 2015. Many analysts think the economy has entered a "New Normal" situation with stable but lower GDP growth rates of around 6.5%-7% a year. Strong domestic demand was fueled by higher incomes and more readily available credit. The change in the economy is due to China's policy since 2011 of boosting domestic consumption to drive growth. In 2014, China has surpassed the US becoming the world's largest economy in terms of purchasing power. The US had held this title since 1871, when it displaced the UK. Now China is number one.

The economic welfare of China's citizens represents a series of contradictions. Chinese rural and urban incomes rose by 59% and 87%, respectively, between 2000 and 2006<sup>9</sup>. However, by 2014 China's per capita GDP was still only 88<sup>th</sup> in the world at US\$ 6,807.43<sup>10</sup>. There is also significant economic disparity across China, divided mainly between China's more affluent coastal regions and its largely agrarian in-land provinces. While much of China's rural population is still peasant-based, it is estimated that China has more than 100 million middle class (annual income of at least US\$ 17,000) and almost 1 million "super-rich" (annual income of at least US\$ 1.5 million)<sup>11</sup>. This economic disparity has resulted in increased internal tensions within China and, over the past few years, the migration of over 200 million people to China's cities. Today, over half of China's population is urbanized.

<sup>3</sup> The World Bank- China

<sup>4</sup> CIA. *World Factbook – Field Listing: Median Age*. Retrieved Aug. 25, 2016

<sup>5</sup> The World Bank

<sup>6</sup> OECD – China Economic Forecast Summary, June 2016

<sup>7</sup> World Bank, National Accounts Data & OECD National Accounts Data Files, 2015

<sup>8</sup> National Bureau of Statistics of China, *Statistical Yearbook (2015)*; and National Bureau of Statistics of China online information, "National Data: Quarterly Data".

<sup>9</sup> United States International Trade Commission. *China's Agricultural Trade Competitive Conditions and Effects on U.S. Exports*. Investigation No. 332-518. USITC Publication 4219. March 2011.

<sup>10</sup> IMF, *World Economic Outlook Database*, April 2014.

<sup>11</sup> The Hurun Report

Over the last three decades, China has implemented reforms to make its economy more market-oriented. These include the phasing out of collective agriculture, agriculture price liberalization, fiscal decentralization, increased autonomy for State Owned Enterprises, diversification of the banking system, private sector growth, and increased foreign trade and investment. While China has made significant progress, its banking system is still highly controlled with the four main banks being government owned; there are restrictions on foreign investment in economically significant industries; in 2008 there were still 154,000 State Owned Enterprises in China accounting for only 3.1% of enterprises but 50% of industrial assets<sup>12</sup>; and China suffers from inconsistency in the application of regulations as a result, in part, the devolution of authority to local and municipal officials. As well, China faces significant environmental problems as a result of its energy inefficient industrial sectors, a heavy reliance on coal, inefficient agriculture practices, and weak environmental regulations.

### **State-Owned Enterprises**

China's basic economic system still relies on public ownership in conjunction with different forms of private ownership. Generally, clothing, food and assembly have moved into private hands while private sector investment is only partially allowed in other, strategically important sectors.

State-owned enterprises continue to exist to stabilize supplies and prices, maintain food security, and protect natural resources and the environment. Imported commodities that are governed by state trading administration include: grain (wheat, corn, rice), sugar, cotton, fertilizers, tobacco, crude oil and processed oil.

With all of this, China faces a number of challenges in continuing to expand its economy including shifting its dependence away from exports; increasing consumer spending; managing rapid urban growth and the social impact of economic disparity; addressing inconsistency in the application of regulations and policy; and managing its environmental issues.

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<sup>12</sup> State-owned enterprises in China: How big are they? Gao Xu. World Bank. 2010.

## C. CHINA'S AGRICULTURE SECTOR AND AGRICULTURE POLICY

China is the largest agriculture producer in the world with annual output of US\$ 376 trillion. Agriculture represents just 9.2% of China's GDP<sup>13</sup>, but employs a third of its working population.<sup>14</sup>

China's main agricultural products are rice, wheat, corn, soybeans, rapeseed, sugarcane and cotton. Wheat, corn and soybeans are predominant in the north while rice and tea are the most important crops in the south<sup>15</sup>. China is the world's largest producer of rice and is among the principal sources of wheat, corn, tobacco, soybeans, peanuts, and cotton.

China's agricultural production has been increasing significantly, almost doubling in value in the last 8 years. Recently, rice has taken second place to corn as China's main domestic crop. Crop production grew by 5.0% a year from 2010 to 2014. Pork dominates the meat sector and has grown by 2.9 per cent a year between 2009 and 2013. Poultry grew by 3.3% a year over the same period. Pig, sheep, and buffalo numbers have gone up from 2010 to 2014, while goat and cattle numbers have gone down.

**Table 1: Top Ten Crops Produced in China (That Are Also Produced in Canada), '000 tonnes<sup>16</sup>**

Crops	2014
Maise	126,213
Wheat	96,136
Potatoes	70,964
Sweet potatoes	12,201
Soybeans	11,600
Rapeseed	8,419
Sugar beet	2,962
Sorghum	2,380
Sunflower seed	1,781

**Table 2: Top Five Meats Produced in China, '000 tonnes<sup>17</sup>**

Meat	2014
Pork	53,752
Poultry	18,938
Beef and Veal	6,408
Duck Meat	2,987
Mutton and Lamb	2,081

<sup>13</sup> World Bank Economic Outlook, June 2015

<sup>14</sup> CIA World Factbook, 2015

<sup>15</sup> An Analysis of the Competitiveness of Chinese Malting Barley Production and Processing. Institute for Farm Economics, FAL Braunschweig. June 2007.

<sup>16</sup> Agriculture and Agri-Food Canada China Market Overview 2016

<sup>17</sup> Agriculture and Agri-Food Canada China Market Overview 2016



China is home to 22% of the world's population but only 7% of its arable land.<sup>18</sup> Agriculture in China remains small scale with 300 million farmers on 200 million farms averaging just 1.6 acres. While only 11% of China's land is arable<sup>19</sup> much of this is being lost due to erosion and economic development. The majority of China's cultivated land (75%) is used for crops, a quarter of which is cultivated for rice<sup>20</sup>.

All land in China is owned by collectives or the state. Starting in 1978, China began dismantling its agriculture communes. Households now lease land from collectives (for periods of 30 to 70 years) and are given crop production quotas they must provide to the collective in exchange for agricultural inputs. Once these production quotas are met, farmers can put their land to any use. Farmers are not permitted to sell or sublet land or to use it as collateral for loans. This, and the small size of most farms, makes investment in equipment difficult and makes Chinese agriculture best suited for labour intensive crops.

By 1984, China introduced further reforms to liberalize agriculture pricing and marketing, introducing voluntary contracts between farmers and the government and abolishing grain rationing. While more than 90 percent of all agricultural products are now sold at "market" prices, disorganized supply chains often result in ineffective market signals resulting in poor farm-gate decisions. As well, China's domestic agriculture policies impact production decisions.

China's most recent Five-Year Plan (2016-2020) reaffirms its commitment to strengthen support for farmers, to promote modernization and to safeguard food security by increasing production capacity and improving competitiveness.

China has implemented a number of domestic supports and policies as well as trade restrictions to protect domestic production in key sectors. China maintains price supports for rice and wheat production, sets prices for sugar cane, and subsidizes farm inputs. China also maintains large agriculture reserves, particularly for raw and refined sugar, soybeans, maize, rapeseed, and cotton which, when released, can severely impact domestic supply and prices. In addition, after joining the WTO, China established Tariff Rate Quotas (TRQ's) for key products including wheat, corn, rice and sugar.

In its 2012 Trade Policy Review of China, the WTO reported that China's Green Box support has increased, as have market price support programs, input subsidies, and other trade- and production- distorting forms of support. Agriculture support in China has increased from 5% of gross farm receipts in 2001 to 17% in 2010 but still remains slightly below the OECD average of 18%<sup>21</sup> and still below per capita producer support in South Korea, Japan, the EU, Canada, Mexico, Russia and the United States<sup>22</sup>. Payments vary significantly by commodity, with the highest support given to cotton and sugar, where it may exceed half of the value of farm receipts<sup>23</sup>. According to the 2016 WTO Trade Policy Review of China, the WTO reported that "during 2013-2015 government funding for subsidies granted to farmers increased: "Support to agriculture continues to be granted mainly through the "four subsidies" programs: the Direct Subsidy to Farmers (rice, wheat and corn); the Comprehensive Subsidy for Agricultural Inputs; the Subsidy for Promoting Superior

<sup>18</sup> Loro Horta. *Chinese Agriculture Goes Global*. YaleGlobal. Dec, 2014.

<sup>19</sup> NationMaster.com

<sup>20</sup> China Agriculture Review, [www.all-china-agriculture.com](http://www.all-china-agriculture.com)

<sup>21</sup> WTO Trade Policy Review. China. June 2012, WT/TPR/S/264

<sup>22</sup> United States Trade Commission. *China's Agricultural Trade: Competitive Conditions and Effects on U.S. Exports*. Investigation No. 332-518. USITC Publication 4219. March 2011

<sup>23</sup> WTO Trade Policy Review. China. June 2012. WT/TPR/S/264

Strains and Seeds; and the Subsidy for Purchasing Agricultural Machinery and Tools.”

On September 13, 2016, the United States notified the WTO Secretariat that it has initiated WTO dispute proceedings against China regarding China’s domestic support measures in the agriculture sector. The US has accused China of “excessive government support” for its production of, among other crops, wheat, Indica rice, Japonica rice, and corn, adding agriculture to a growing list of Washington’s concerns over Chinese overproduction and distortion of global markets. This is the 14th the US has filed against China during Mr Obama’s presidency but its first major action against Beijing on behalf of the powerful US grain export sector. Washington has stepped up a trade crackdown on China in recent months, introducing steep anti-dumping tariffs on steel imports, launching a flurry of new WTO cases.

## Policy Influencers

- In 2012, Xi Jinping was elected General Secretary of China’s Communist Party. Leadership changes occur once every ten years in China.
- The Chinese government exerts control over trade of grains and other key commodities through state-owned trading companies, import/export quotas and licenses, export taxes, temporary tariff reductions, tax waivers, sanitary and phytosanitary measures, and subsidies. This control has decreased over the past decade, but policies continue to influence trade, market access, in addition to market forces.
- China’s Ministry of Agriculture (MOA) is the Chinese federal equivalent of Agriculture and Agri-Food Canada (AAFC). MOA has a broad range of responsibilities related to primary agriculture, rural areas, and rural economic development.
- The General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) is comparable to the Canadian Food Inspection Agency (CFIA). It oversees national quality, import/export commodity inspection, health and animal plant quarantine, food safety, certification and accreditation, standardization, and administrative law enforcement.
- China’s agriculture and agri-food policy is mandated by the government’s five year plans (FYP). The current 13th FYP covers the period 2016-2020. Areas of focus include improved food safety, increased production and mechanization, and advances in agricultural science and technology<sup>24</sup>.

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<sup>24</sup> Highlights of Proposals China’s 13<sup>th</sup> Fiver Year Plan (2016-2020) <http://www.china-un.org/eng/zt/China123456/>

## D. CHINA'S MERCHANDISE TRADE

China is the largest exporter and second largest importer of goods in the world. In 2014, China exported US\$ 2.21 trillion and imported US\$ 1.95 trillion in merchandise making China responsible for 13.1% of the world's exports and 10.4% of the world's imports.

China's trade patterns have moved from the light manufacturing of parts for global suppliers to domestically producing more value-added products. While wages are rising in these sectors, China has started to get out of some of the more labour-intensive sectors. Overall, China is moving away from exports and toward meeting domestic demand. Rather than relying on investment to stimulate demand, China is encouraging consumption. As a result, demand for some commodity imports is contracting while consumption imports are slowly rising.

In 2015, China exported merchandise mainly to the United States; the EU; Hong Kong, China; Japan; the Republic of Korea; and ASEAN countries, which combined represented about 70% of exports. Imports to China mainly came from the EU, the Republic of Korea, the United States, Chinese Taipei, Japan, and Australia, and ASEAN countries. In 2015, services represented 12.3% of China's total exports and 22.9% of its imports<sup>25</sup>.

Exports have been a major contributor to China's rapid economic growth. China's merchandise exports increased by 283% between 2004 and 2015. (By comparison, Canada's merchandise exports increased from C\$ 429 to C\$ 522 billion between 2004 and 2015)<sup>26</sup>. China's exports fell by 16% in 2009 as a result of the global economic crisis but rebounded the next year, with 2015 exports 89% higher than 2009.<sup>27</sup> Exports of goods and services constitute 22.4% of China's GDP.<sup>28</sup>

According to the WTO Trade Policy Review document, China is the world's largest trader (excluding intra-EU trade). The merchandise trade surplus increased sharply in 2014 and 2015, when it reached US\$567 billion or the equivalent of 5.5% of GDP. This mainly reflected the decline in imports. The share of imports in GDP fell to 15.5% in 2015. In the context of the current Review, the authorities reiterated that China is implementing policies to promote the balanced development of foreign trade through consumption-friendly policies to expand domestic demand and hence imports, while stabilizing exports.<sup>29</sup>

The U.S. is China's largest single country trading partner (the EU is its largest export market and second largest source of imports). In 2015, China's exports to and imports from the United States were US\$ 483 and US\$ 116 billion, respectively<sup>30</sup>. (By comparison, Canada's exports to and imports from the United States are C\$296 billion and C\$281 billion, respectively.)

<sup>25</sup> World Trade Organization – China Trade Policy Review July 2016

<sup>26</sup> International Merchandise Trade Annual Review 2011. Statistics Canada. Catalogue No. 64-208-X

<sup>27</sup> WTO – Merchandise Exports. 2015

<sup>28</sup> World Bank – Services, etc. value added (% of GDP) 2015

<sup>29</sup> WTO, Trade Policy Review, WT/TPR/S/642, <http://www.tradingeconomics.com/china/balance-of-trade>

<sup>30</sup> US-China Trade Statistics and China's World Statistics. The US-China Business Council

## Exports

China's major exports are machinery and appliances, transport equipment, products of the chemical or allied industry, base metals and articles thereof, optics and mineral products. China remains a significant "assembler" of products. More than two thirds of Chinese imports are used as components in exports. These imports in turn make up more than three quarters of the value of Chinese exports.

China's major export markets are the U.S. (18% of merchandise exports), the EU (15.6%), Hong Kong (14.6%), Japan (6%) and South Korea (4.4%) followed by Vietnam, India, Singapore, Taiwan and Malaysia. China's export customers are very concentrated with 70% of Chinese merchandise exports destined for these 10 countries. Canada is China's 13th largest export market (1.4%).

## Imports

China's major merchandise imports include electrical machines and equipment mineral fuel and oil, power generation equipment, slag and ash optics and medical equipment, plastics, inorganic and organic chemicals, vehicles, copper, and iron and steel.

In 2015, China's major import suppliers include the EU (13%), South Korea (10.9%), U.S. (9%), Taiwan (9%), Japan (8.9%), and Australia (4.1%), followed by Malaysia, Brazil, Thailand and Russia. Over 65% of Chinese imports originate in these 10 countries. Canada ranked as China's 18th largest merchandise import supplier (1.2%).

## Tariffs

According to the WTO, the vast majority (99.5%) of China's applied Most Favoured Nation tariff in 2015 was in ad valorem rates. The non-ad valorem rates comprised specific and alternate rates, and formula duties. China's average applied MFN rate in 2015 was 9.5%.

Agricultural products are charged a higher MFN rate at 14.8% than non-agricultural products at 8.6%. In 2015 China applied tariff-rate quotas (TRQs) to 47 tariff lines including wheat, maize, rice, some cereal flours, cane and beet sugar, some mineral and chemical fertilizers, wool, and cotton.

## WTO Accession

China joined the WTO in 2001. As a result of its accession, China liberalized trade in industrial, and to a lesser extent, agriculture goods. China's average applied Most Favoured Nation (MFN) tariff is currently 9.5%. China's average tariff on agriculture products is 14.8%, compared with 8.6% for industrial goods.

China utilizes a variety of non-tariff measures including import licenses, state trading, and subsidies. Since joining the WTO, China has had 29 complaints brought against it - more than the next three countries combined. Since 2009, China has had five anti-dumping challenges at the WTO. As well, in the WTO TBT and SPS Committees, members have raised concerns regarding China's trade practices. The complaints against China are numerous - beyond the price supports, China is believed to be subsidizing everything from the costs of seeds to fertilizer for its farmers. In September 2016, the U.S. Trade launched a formal complaint at the WTO over China's price supports for corn, wheat and rice.

## Bilateral and Regional Trade Agreements

China has signed 14 preferential trade agreements. Between 2014 and 2016, China signed FTAs with Australia and the Republic of Korea. The agreements with Iceland and Switzerland entered into force in 2015.<sup>31</sup> Since its last review in 2014, China has continued to deepen its integration with Hong Kong and with Macao through supplementary agreements to their Closer Economic Partnership Arrangements (CEPAs). China continues to grant unilateral preferences to LDCs (least developed nations). As of December 2015, duty-free treatment on 97% of tariff lines was granted to 33 LDCs.<sup>32</sup>

China has FTA's with Hong Kong, Macau, Thailand, Chile, Pakistan, Peru, Costa Rica, the European Free Trade Association (Liechtenstein, Iceland, Norway, and Switzerland), New Zealand, Australia, Singapore, South Korea and the founding members of the ASEAN (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand). It also has an economic cooperation agreement with Taiwan.<sup>33</sup> China is currently part of the negotiations for the RCEP agreement (Regional Comprehensive Economic Partnership) which includes Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Six other nations, Australia, India, Japan, South Korea, New Zealand, who already have free trade agreements with China are also involved in the negotiations.<sup>34</sup> In addition, China has adopted a policy of economic engagement with African nations. Furthermore, China is a member of the BRICS countries which also includes Brazil, Russia, India, and South Africa.

Notwithstanding certain challenges, China also has strong trade and economic ties with South American economies including Brazil. China is now Brazil's largest trading partner and in June 2012 China and Brazil signed a series of trade agreements that characterize the relations between the two countries as a "global strategic partnership". China also has a strong trade relationship with Argentina. China is Argentina's second largest trading partner and in June 2012 five new cooperation agreements were signed between the two countries.

### China-New Zealand FTA

New Zealand was the first developed country to sign an FTA with China. The China- New Zealand FTA came into effect in 2008 and called for the progressive elimination of tariffs on goods. By 2016, all exports from China to New Zealand will be duty free and by 2019 China will eliminate the duties on over 96% of its tariff lines.

While the China-New Zealand FTA is progressive, China has excluded a number of key agriculture products from tariff reductions. This includes rice, wheat, sugar and certain edible oils including palm, soya and canola/rape seed oils. The MFN tariff rates continue to be applied to these products (these products were also excluded from the China-Chile FTA). The agreement also includes a special agriculture safeguard measure designed to address increased New Zealand dairy exports to China and implements tariff quotas for New Zealand wool.

<sup>31</sup> Minister of Commerce of China, China FTA Network: [http://fta.mofcom.gov.cn/english/fta\\_yanjiu.shtml](http://fta.mofcom.gov.cn/english/fta_yanjiu.shtml)

<sup>32</sup> International Trade Center, BB 2016-07-25 WTO Trade Policy Review: China. <http://www.intracen.org/BB-2016-07-25-WTO-Trade-Policy-Review-China/>

<sup>33</sup> Minister of Commerce of China, China FTA Network: [http://fta.mofcom.gov.cn/english/fta\\_yanjiu.shtml](http://fta.mofcom.gov.cn/english/fta_yanjiu.shtml)

<sup>34</sup> New Zealand Foreign Affairs & Trade, Regional Comprehensive Economic Partnership (RCEP): <https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/rcep/>

Since implementation, China and New Zealand have recognized a significant increase in two-way trade with export growth in both absolute and relative terms. Recognizing that exports from New Zealand to China are mainly agriculture (dairy products, meat), forestry products, wool and fish and seafood, the FTA has been a significant achievement for New Zealand's resource sectors.

By 2011, New Zealand agriculture exports to China increased almost three-fold from NZ\$ 881million in 2007 to NZ\$ 3.3 billion. Significant growth has taken place in exports of dairy products, cocoa, and alcoholic beverages. New Zealand reports that the value of its dairy exports to China doubled in the first two years of the agreement. By 2011, they had increased more than four-fold<sup>35</sup>. Between 2009 and 2014 total goods trade between China and New Zealand doubled.<sup>36</sup> New Zealand exported approximately \$6 billion USA of goods to China in 2015.<sup>37</sup>

Exports from China to New Zealand have largely been machinery and electrical machinery, cellular telephones and communication apparatus, reception apparatus for televisions, tricycles and textiles, clothing and footwear<sup>38</sup>.

In addition to increased trade, both countries have also cited improved customs administration and management as benefits from the FTA. This includes a commitment to release goods from customs within 48 hours of arrival subject to certain conditions and the establishment of a Sanitary and Phytosanitary Joint Management Committee and a Technical Barrier to Trade Committee. New Zealand has also reported considerable progress in addressing non-tariff barriers with China as a result of the trade deal.

## China-Australia FTA

The China-Australia Free Trade Agreement (ChAFTA) entered into force on 20 December 2015. When the treaty is fully implemented in 2024, 95 per cent of Australia's exported goods to China will enter the country duty-free. Chinese tariffs will be lowered on Australian meat, dairy and wine, among other agricultural products. By 2019, Australian pulses and pork will have no tariffs while the same Canadian commodities will face average tariffs of 7.5% and 20 to 25% respectively.

Tariffs on Australian malt will be eliminated by 2019, compared to Canada's rate of 10%. Australian malting barley currently faces no tariff rate since it was eliminated after the agreement was implemented.

Tariff rates on Australian beef will gradually be reduced over 10 years, and completely eliminated by 2024. Canadian beef currently faces a tariff rate of between 12 and 25%.

Given that Australia's and Canada's economies are similar, the ChAFTA could serve as a template for future trade negotiations with China, but the results of the agreement also point to potential problems with liberalizing trade especially in the agriculture and forest products sectors.

For example, China still applies quotas on imports of rice, wheat, maize, sugar and vegetable oils. In-quota

<sup>35</sup> Exports for Overseas Merchandise Trade (fob NZ\$). Stats.govt.nz

<sup>36</sup> NZ-China FTA. New Zealand Foreign Affairs and Trade

<sup>37</sup> WITS, New Zealand Product exports by Country and Region 2015.

<http://wits.worldbank.org/CountryProfile/en/Country/NZL/Year/2015/TradeFlow/Export/Partner/all/Product/Total>

<sup>38</sup> China-New Zealand Free Trade Agreement 2-year Review, Joint Report

tariffs for wool, rice, wheat, cotton and maize are set at only 1%. Tariffs for vegetable oils and related products are between 8 and 10% and as high as 15% for sugar.

Despite these limitations, the rewards for Australia are significant. A 2005 estimate projected that the agreement could mean at least AU\$20 billion in bilateral trade. This figure could be much larger as China's GDP has grown significantly since that time.<sup>39</sup>

## Agriculture Trade

Although China is the largest agriculture producer in the world, since 2003 it has been a net importer of food products with imports of US\$105 billion and exports of US\$44 billion in 2012.<sup>40</sup> China is now responsible for 9% of world agriculture imports and 10% of world agriculture exports.<sup>41</sup>

### *Exports*

China's agriculture exports have tripled in the past decade. Consistent with the large supply of agriculture labour, exports are concentrated in labour intensive products like fresh and processed fruits and vegetables and juices (which account for almost half of exports). Leading exports include tomato paste, mushrooms, garlic, and apples. China's agriculture exports are primarily destined for Japan, the U.S. and Hong Kong<sup>42</sup>.

### *Imports*

China is a net importer of agricultural products. In 2015, China's agri-food and seafood trade deficit was C\$58.5 billion with imports valued at C\$148.5 billion, and C\$90 billion in exports. China's top agri-food imports in 2015 were soybeans, palm oil, grain sorghum, barley, and cotton. Key supplying countries were the United States, Brazil, Australia, Canada, and Argentina.

Canada is China's 4th largest source of imported agriculture and food products in 2015, with 4.5% market share. According to Agriculture and Agri-Food Canada's China Market Overview September 2016, Canada's agri-food and seafood exports to China were valued at C\$6.3 billion in 2015. Top exports were canola, soybeans, canola oil, non-durum wheat, and dried peas. In 2015, Canada registered an agri-food and seafood trade surplus of C\$4.9 billion with China. China's processed food imports were valued at C\$55.0 billion in 2015. Canada's share was 2.8%. The United States, Indonesia, New Zealand, Australia, and France were the largest suppliers of processed food to China in 2015, providing 41.9% of the market.

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<sup>39</sup> China Institute- University of Alberta. Vol.2 Issue 1 March 2015

<sup>40</sup> WTO Trade Policy Review. China. June 2014. WT/TPR/S/300

<sup>41</sup> United States International Trade Commission. China's Agricultural Trade Competitive Conditions and Effects on U.S. Exports. Investigation No. 332-518. USITC Publication 4219. March 2011

<sup>42</sup> <http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=CN>

**Table 3: China's Top Agri-Food and Seafood Imports from the World, 2015**

Commodity	Import Value C\$ millions	Top Suppliers & Market Share #1	Top Suppliers & Market Share #2	Top Suppliers & Market Share #3	Canada's Share
Soybeans	44,753	Brazil 49%	United States 36%	Argentina 11%	0%
Palm oil	4,733	Indonesia 58%	Malaysia 42%	India 0.1%	0%
Grain sorghum	3,793	United States 83%	Australia 16%	Argentina 0.7%	0%
Barley, excluding seed	3,640	Australia 43%	France 39%	Canada 11%	11%
Cotton, not carded or combed	3,255	United States 38%	Australia 19%	India 14%	0%
Food prep. for infant use	3,246	Netherlands 32%	Ireland 16%	Germany 12%	0%
Whole hides and skins	3,164	United States 49%	Australia 19%	Canada 6%	6%
Greasy shorn wool	2,707	Australia 72%	South Africa 8%	New Zealand 7%	0%
Cassava	2,684	Thailand 81%	Vietnam 18%	Cambodia 1%	0%
Frozen, boneless meat of bovine animals	2,572	Australia 30%	Uruguay 20%	New Zealand 15%	9%

Source: Agriculture and Agri-Food Canada China Market Overview September 2016

Although a large agriculture importer, due to its food self-sufficiency policies, China's imports are largely concentrated in a few products including soybeans, vegetable oils, cotton, wool and hides and skins.

These 5 products make up almost 60% of China's agriculture imports. More than one-third of imports are soybeans, a main competitor to Canadian canola oil and canola seeds, primarily from the U.S., Brazil and Argentina. This is followed by cotton, from the U.S., India and Uzbekistan, and palm oil, mainly from Malaysia and to a lesser extent Indonesia.

Meat imports have grown considerably in China largely as a result of the rise in per capita meat consumption, which is linked to higher incomes, and China's inability to keep pace with demand. Meat imports grew from US\$ 431 million to US\$ 1.4 billion between 2005 and 2010<sup>43</sup> and have stayed steady at just over \$1 billion through to 2014.<sup>44</sup> Three-quarters of China's meat imports are poultry. However pork

<sup>43</sup> United States International Trade Commission. China's Agricultural Trade Competitive Conditions and Effects on U.S. Exports. Investigation No. 332-518. USITC Publication 4219. March 2011

<sup>44</sup> Statistics Canada, Competitive Trade Analysis – China. May 2015, Market Access Secretariat, Global Analysis Report PDF: [www.agr.gc.ca/resources/prod/internet-internet/MISB-DGSIM/ATS-SEA/PDF/6622.pdf](http://www.agr.gc.ca/resources/prod/internet-internet/MISB-DGSIM/ATS-SEA/PDF/6622.pdf)



with a 13% share of imports was the fastest growing meat import over that time period.

China has also seen significant increases in imports of dairy (with New Zealand and the EU accounting for 70% of China's dairy imports), alcoholic beverages (primarily wine and Cognac from the EU, Australia and the US), and fresh fruit (from the Philippines, Chile, the United States, Thailand, and Vietnam)<sup>45</sup>.

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<sup>45</sup> U.S. International Trade Commission

## E. CANADA-CHINA TRADE

In 2014, Canada was China's 21<sup>th</sup> largest trading partner, responsible for just 1.3% of China's total trade.<sup>46</sup> Almost 75% of Canada's merchandise exports are destined for the U.S. and Mexico making North America by far Canada's largest trading partner. Asia has however become Canada's second largest export market responsible for 10.4% of Canada's merchandise exports, two-thirds of which are destined for China, Japan and South Korea.

China is Canada's second largest single country export market, after the U.S., with merchandise exports of C\$ 21.4 billion in 2015. Exports to China are growing rapidly more than quadrupling in the last decade. China receives 4.1% of Canada's merchandise exports, a share that has more than quadrupled from 1.0% in 2002<sup>47</sup>.

In 2015, Canada's top 10 exports to China were woodpulp, paper or paperboard scraps (17.05%), oilseeds and misc. fruit, grain, etc. (14.66%), wood and wood articles, charcoal (8.22%), ores, slag, ash (7.11%), mineral fuels oils (3.64%), fertilizers (3.59%), organic chemicals (3.42%), fish, crustaceans, mollusks (3.23%), Cereals (3.21%) Boilers, mechanical appliances, ect. (3.12%) together representing 67.25% of shipments.<sup>48</sup> In 2015, China was Canada's third largest source of imports, behind the U.S. and E.U. Imports from China are valued at C\$ 38.9 billion or 7.1% of Canada's merchandise imports in 2015. Almost half of all imports are machinery and mechanical appliances, including computers.<sup>49</sup> Other major imports include apparel, plastics, furniture and toys, games and sports equipment.<sup>50</sup> Year over year gains were led by cellular telephones and equipment related to next generation mobile network technology.

### Agri-food Exports

In 2015, Canada exported C\$ 6.2 billion in agri-food and seafood products to China representing 10% of Canada's agri-food exports.<sup>51</sup> Agri-food exports to China grew 10% between 2013 and 2014 and have averaged 13% annual growth over the last decade. This is significantly higher than the average overall growth in Canadian agri-food exports which has averaged just 3% a year. Unlike many of Canada's trading partners, exports to China have been climbing steadily and did not drop during the global economic crisis.

Canadian agri-food exports to China are dominated by canola products (seed & oil) which represented C\$ 2.6 billion in 2015, almost half of all shipments. The next most significant exports were soybeans (C\$ 588 million), non-durum wheat (C\$ 333 million), and peas (C\$ 314 million). Exports of most of these products have been growing significantly in recent years.

<sup>46</sup> Asia Pacific Foundation, Stats

<sup>47</sup> Statistics Canada. International Merchandise Trade. Annual Review 2015. Catalogue No.11-001-X

<sup>48</sup> Asia Pacific Foundation of Canada, Stats, Trade, Canada's Merchandise Trade with China:

<https://www.asiapacific.ca/statistics/trade/bilateral-trade-asia-product/canadas-merchandise-trade-china>

<sup>49</sup> *Ibid*

<sup>50</sup> Global Trade Atlas 2015

<sup>51</sup> Agriculture and Agri-Food Canada, Canadian Agri-food and seafood Exports by country (Canadian Dollars:

<http://www.agr.gc.ca/resources/prod/Internet-Internet/MISB-DGSIM/ATS-SEA/PDF/6341-eng.pdf>

**Table 4: Canadian Exports of Selected Agri-food Products to China in C\$<sup>52</sup>**

	<b>2015</b>
Canola (seed and oil)	2,601,362,139
Soybeans	588,473,484
Wheat	333,454,534
Pulses	316,180,219
Barley	265,227,298
Beef	255,166,783
Pork and products	234,143,999
Hides & Skins	165,828,355
Sugar and sugar-containing products	37,052,130
Malt	2,935,564

China is an important and rapidly growing market for many Canadian agri-food sectors. On a value basis, in 2015 China was the second largest export market for Canadian canola products following the USA. Canola is the number one export to China, followed by soybeans, wheat, pulses, barley, beef and pork. Notwithstanding some volatility in exports to China, particularly for grain and oilseed exporters, China is becoming an increasingly important market for a number of Canadian agri-food sectors. However, exports of many processed foods including sugar-containing products face prohibitive import tariffs and non-tariff barriers.

**Table 5: China's Rank as the Top Export Market for Selected Canadian Agri-food Products, by Value<sup>53</sup>**

	<b>2015</b>
Canola and canola products	2
Soybean	1
Barley	1
Beef	2
Fish & Seafood	2
Pulses	3
Pork	3
Hides & Skins	1
Furskins	1
Wheat	9

Together, China and Hong Kong represent the Canadian pork industry's third largest market.

<sup>52</sup> Market Industry and Service Branch – Agriculture and Agri-Food Canada 2016 & Statistics Canada

<sup>53</sup> Ibid

## Agri-food Imports

Canada also imported C\$ 1.6 billion in agri-food products from China in 2015. Main imports included fish and seafood valued at C\$ 646 million. This represented over one-third of all imports. After fish and seafood, key imports include dried vegetables and mixtures (C\$ 38 million), apple juice (C\$ 36 million), prepared pasta (C\$ 35 million), sugar confectionery (C\$ 32 million), and garlic (C\$ 28 million).<sup>54</sup>

## FIPA

In 2012 Canada and China announced the conclusion of a Foreign Investment Promotion and Protection Agreement (FIPA). The FIPA is designed to ensure protection and predictability for Canadian investors in China and vice versa. The FIPA was under negotiation since 1994 however negotiations were delayed and then restarted once China achieved its WTO membership. The FIPA entered into force on October 1<sup>st</sup>, 2014.

## Canada-China Economic Complementarities Study

In August 2012, the governments of Canada and China released the results of an economic complementarities study which evaluated the potential bilateral economic complementarities in a selected range of sectors, including agriculture, environmental goods and services, machinery and equipment, natural resources, services, textiles and transportation infrastructure and aerospace.

The study found that there are opportunities to expand agriculture and agri-food (including fish and seafood) trade between the two countries. As well, the study found that there are significant opportunities to address trade barriers including tariffs, sanitary and phytosanitary measures, and delays in resolving market access issues.

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<sup>54</sup> Statistics Canada, Agri-Food Exports by Country, CATSNET Analytics

## F. ENHANCING CANADIAN AGRI-FOOD EXPORTS TO CHINA

China's demand for agri-food imports is expected to expand. Growing urbanization increases in personal income, and limits on China's agriculture production will impact the country's ability to meet its growing agriculture and food demand through domestic production. Overall, this could bode well for Canada, one of the world's largest agri-food exporters.

Although China's growing demand for agriculture and food products has benefited Canadian agriculture and agri-food, Canadian exporters continue to face a number of significant trade barriers which will continue to impede trade growth. As well, China's domestic policies of food self-sufficiency and its programs aimed at promoting and protecting domestic agriculture continue to restrict the competitiveness of imported agriculture products and limit domestic demand for imported goods. Tariffs and non-tariff barriers also restrict the range of products that can be exported and raise both risk and uncertainty for exporters. Key issues include:

### Tariffs

China committed to reduce its agri-food tariffs when it joined the WTO. Today, China's average MFN agriculture tariff is 15.1%. However duties vary significantly. Tariffs on Canada's key export interests range from 3% on feed and malt barley to 9% on canola oil to 10% on malt to 20 to 25% on certain beef and pork products to 30% on certain sugar containing products. Over quota tariffs on particularly sensitive items are much higher at 50% on sugar and 65% on wheat. In addition, Canadian exporters, particularly in the malting sector, experience tariff escalation which limits imports of processed goods in favour of unprocessed ingredients. Canola also faces tariff discrimination in favour of soybeans.

### Tariff Rate Quotas (TRQ)

With its accession to the WTO China implemented a number of TRQ's on products it considered to be sensitive including wheat (with a TRQ of 9% of domestic consumption), corn (5%), rice (4%), sugar (13%) and cotton (2%). Control of these TRQ's is largely in the hands of State Owned Enterprises and fill rates can be very low. As well, over quota tariffs are prohibitively high.

### Non-Tariff Barriers

Non-tariff barriers (NTBs) typically increase the direct cost of exporting goods to a country, through additional regulatory requirements, and increase risk and uncertainty for exporters. In some cases, NTB's have the effect of completely prohibiting trade.

Exporters from around the world have consistently raised concerns regarding China's use of non-tariff barriers to manage imports and its failure to comply with international standards and science based decision making. Canada experienced this when China placed import restrictions on Canadian beef following the discovery of BSE in Canada and on pork with the discovery of H1N1. In both cases, China failed to acknowledge Canada's internationally recognized animal health status and to resume trade in a timely manner.

China also maintains a zero-tolerance policy on pathogens, such as salmonella, e-coli, and listeria, and on residues of veterinary drugs, metals, pesticides and other products. There is a risk that Canadian meat products may be rejected due to inconsistencies between Canadian and Chinese residue and microbiological standards.

China has also shown inconsistency in the application of sanitary and phytosanitary (SPS) and other measures between domestic and imported goods and across ports of entry. In addition, China is known to reduce SPS requirements when market shortages require additional imports. This creates a level of uncertainty for exporters and can increase the length of time for products to enter a country.

The WTO reports that only 46% of China's national standards are equivalent to international standards. In addition, China's national standard-setting body has not established standards for all products. This permits agencies, provinces or local governments to establish standards to address these gaps resulting in inconsistent standards in some areas.

China is also noted for its unpredictable regulatory and policy environment. Given China's size, implementing and interpreting policy and regulations is often devolved to local or municipal officials. This can result in the inconsistent application of regulations across the country and, a particular problem for imported goods, across ports of entry. This situation makes it essential for exporters to develop relationships within Chinese business people and officials in order to navigate local and regional governments and to facilitate the timely resolution of issues.

## Customs Administration

Customs administration is considered to be slow and overly onerous in China requiring that importers and exporters secure a host of permits, licenses and certificates. There are also concerns that China alters the administration requirements to temper the flow of imports where required. Canada also faces delays in custom clearance. Of note, as part of its FTA with China, New Zealand secured a commitment for 48-hour clearance of imported goods through customs and reports that, while not achieved in all cases, this requirement has improved customs flow.

## Value Added Tax (VAT)

China applies a VAT on goods, including goods imported from other countries. However, China provides an exemption of its VAT for domestic primary agriculture producers, creating a competitive disadvantage for imported products.

## Foreign Direct Investment (FDI)

In agriculture, China takes different views on FDI based on the sector in question. Currently, China encourages FDI in the production of natural food additives and ingredients. However, 2007 amendments to its FDI Catalogue impose a number of new restrictions on agriculture investment:

- Investment in crop variety development, breeding and production must be through a joint venture under the control of a Chinese partner;
- Restrictions on soybean processing and bio-fuels production;

- Restrictions on the production of carbonated beverages;
- Foreign investment in retailers, wholesalers and distributors with over 30 outlets selling grain, cotton, vegetables, oil, medicines, tobacco, pesticides and chemical fertilizers can only take a minority stake; and
- FDI is prohibited in the development of genetically modified breeds of plants and animals.

## Government to Government Dialogue

Unlike other countries, the Chinese government does not communicate directly with importers. Even where industry involvement is critical to the identification or resolution of issues, all communication takes place at a government to government level. In addition, China is noted for imposing trade restrictions on importers as a response to non-related issues including political concerns or a desire to control domestic markets.

This environment makes the maintenance of relationships and on-going communication between Chinese and Canadian officials critical to support a predictable trading environment for Canadian exporters. Political dialogue between Canada and China has increased in the past few years through political and trade missions led by Prime Ministers, key federal Cabinet Ministers, and provincial Premiers and Ministers. In addition, through Agriculture and Agri-food Canada's Market Access Secretariat and regular interventions from Canada's embassy in China and the Canadian Food Inspection Agency, various issues have been addressed over the past few years. This level of political and official interaction will however need to increase if trade between Canada and China is to expand and if the objective is a more predictable trading environment. Regular communication at all levels will be essential to improve transparency in the development and application of policies and regulations but it is equally necessary to support the resolution of issues when they occur.

Given that most communication between China and Canada will need to take place at the political and official level, it is also critical that Canadian officials maintain close and regular communication with Canadian industries to develop priorities and to ensure issues are addressed in an efficient and effective manner. China is noted for imposing measure that go beyond what is necessary or reasonable to manage an issue. As well Chinese measures are often driven by other considerations such as a desire to control domestic supply and prices or a response to other political issue.

It is therefore critical that Canadian officials develop policies and responses in tandem with industry to ensure that measures are reasonable and that Canada does not simply acquiesce to demands that are unnecessary or unattainable.

## Opportunities to Expand and Enhance Trade

If issues described above were addressed, Canadian agri-food exports to China could increase significantly. Since the completion of the China-New Zealand FTA, New Zealand's agri-food exports to China increased three-fold to NZ\$ 3.3 billion in 2012<sup>55</sup>. Much of this has been in the form of dairy products.

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<sup>55</sup> Statistics New Zealand. Exports of Overseas Merchandise Trade (fob NZ\$)

The U.S. International Trade Commission estimated that the elimination of China's tariff and non-tariff barriers could increase U.S. agriculture and food exports by \$3.9 to \$5.2 billion over 2010 levels of U.S. \$17.8 billion. Gains would be largely in exports of wheat, cotton, pork offal, poultry, alcoholic beverages, and fruits. Removing the estimated gains for cotton, which Canada does not produce, the elimination of trade barriers would result in an estimated increase of \$6.59 billion or 23% of 2012 U.S. agri-food exports to China. This suggests that gains for Canadian agriculture and agri-food would also be significant.

Achieving these results would, however, require that a number of significant and highly sensitive issues be addressed. China's Five-Year Plan explicitly notes the government's commitment to support its agriculture sectors and to ensure food security is a priority. The plan goes further to establish self-sufficiency targets in key sectors including wheat, corn, rice and sugar. In these and other sectors, China vigorously supports producers and manages supply and prices through an array of domestic subsidies and support programs, target prices, and reserves. These are in turn re-enforced through the use of TRQ's and tariffs.

Many of Canada's agri-food export interests rest in the areas where China is most sensitive thereby creating challenges to expanding trade. However, opportunities to expand and/or improve trade do exist:

- China's experience in recent FTA's, including those with New Zealand and Chile, suggest China may be prepared to address tariffs and other trade barriers in some sectors including oilseeds and vegetable oil, malt, barley, pulses, beef and pork. On the other hand, tariff reductions in sensitive sectors including wheat and sugar will be challenging. Tariff reductions and liberal rules of origin in China are essential to enable growth in sugar-containing products exports to China and to improve Canada's negative trade balance;
- Regular government to government communication around market supply and demand could improve predictability for Canadian exporters;
- In the case of wheat which is subject to a TRQ, any steps to encourage China to increase its TRQ fill rate (which is currently just 9%), could increase Canada's exports of that product;
- Addressing non-tariff barriers, including inconsistent application of regulations and testing, and encouraging greater adherence to internationally recognized standards and science-based decision making, could expand trade for some sectors, in particular pork and beef, canola and soybeans (new varieties) and reduce export costs; and
- Improving the customs administration process could greatly reduce costs and improve predictability for exporters.



## G. SECTOR ANALYSIS

China is a significant export market for many Canadian agri-food products. Issues impacting these sectors are outlined below.

### Canola

China is the second largest importer of canola and canola products after the United States and shows continued demand for canola seed, oil and meal. In 2015, China imported 4.4 million tonnes of Canadian canola – including 3.85 million tonnes of seed and 600 thousand tonnes of oil. Imports of Canadian canola provide China with \$3.6 US billion of economic activity per year and more than 16 000 jobs.<sup>56</sup> China remains a significant and growing market for Canadian canola due to its demand for both vegetable oil and protein meal. As China's GDP expands, consumers continue to increase the demand for canola products. Demand for protein meal, which is used in livestock and aquaculture feed, is also expanding as increasingly affluent Chinese introduce more animal proteins into their diets.

While China is a major producer of oilseeds its production has been limited by the availability of arable land, poor yields, competition from other crops and government policies that favour grain production (in particular wheat, corn, and rice). Because China cannot meet its demand through domestic production, it imports canola and other oilseeds.

China produces 56.3 million tonnes of oilseeds a year including domestic rapeseed (23%), peanuts (26%), soybeans (26%) and cottonseed (21%). There is significant opportunity to expand Canadian canola exports for Chinese consumer products and livestock feeds. Demonstration research in China has shown that Canadian canola meal provides superior results over domestic rapeseed for dairy production and offers a price competitive high quality ingredient for the aquaculture sector. Canola oil offers considerable health benefits over soybean and palm oil in food production. Canada's canola industry and the Canadian government have invested significantly in the Chinese market to highlight the value of Canadian products. Notwithstanding this potential, China's domestic and trade measures have created an environment for Canadian canola producers and exporters that can be both unpredictable and unstable.

### Tariffs

Under its WTO commitments, China applies import tariffs on canola seed, oil and meal. However, tariffs vary considerably across oilseeds and across oilseed products. Tariffs on canola seed (9%) are three times higher than those applied to soybeans (3%). These high tariffs on canola significantly reduce Canadian canola's import competitiveness relative to soybeans.

Chinese oilseed crushers are price sensitive with the capability to switch their processing plants from soybeans to canola. China crushed more than 4.5 million tonnes of rapeseed compared to 78 million tonnes for soybeans during the 2014/15 crop year. The tariff differential between canola and soybeans in China has global price ramifications for canola, given that China is the world's largest importer of oilseeds. In 2015, this tariff equated to a price differential of approximately C\$ 32 per tonne relative to soybeans and increased the price of Canadian canola shipments to China by approximately C\$ 123 million.

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<sup>56</sup> LMC International. The economic impact of Canadian-grown canola on the Chinese economy. 2013

The expectation of the Canadian canola industry is that a free trade agreement will eliminate tariffs on canola seed, oil and meal. Of note, under the China-New Zealand FTA, China committed to eliminate tariffs on all oilseeds and meals in 2012. Similarly, under the China-Chile FTA, tariffs on all oilseeds and meals will be eliminated. Although Chile and New Zealand are not significant oilseed exporters, this does establish a precedent for pressing China to eliminate tariffs on Canadian canola seed and meal.

### **Non-Tariff Barriers**

China is a highly volatile market for oilseed imports, such as canola. As with grains and other commodities, China utilizes a number of domestic programs, including seed subsidies, to manage domestic supply and farmer incomes. This leads to an element of uncertainty for Canadian canola exporters and volatility in Chinese canola demand. Better communication and on-going dialogue between China and Canada on supply and demand levels would assist in creating a more predictable market for Canadian canola exporters.

Although China has an extensive domestic biotech crop research program, its approval process for traits developed in other countries has a built in delay. Canada's canola industry has a policy that it will not commercialize new canola traits until that trait has been approved in all major export markets. In practice, traits are submitted for approval in all major markets. However, China's policy is to only review a trait once they have been approved in its domestic market. The approval system for biotech events has also been very slow and unpredictable. This adds significantly to the overall approval process and delays the adoption of innovation by Canadian growers. China's built in delay essentially establishes asynchronous approvals which leads to a much higher likelihood of detecting unapproved biotech events.

### **Sanitary and Phytosanitary Issues**

Exports of Canadian canola to China have also been affected by Chinese concerns over blackleg disease, a fungus that can impact crop yields. In 2009 China imposed import restrictions on Canadian canola imports over concerns that shipments from Canada could spread the disease to China's domestic crop which it maintains is free of the disease. Following extensive discussions, the Chinese government has agreed to transitional measures to maintain restricted trade. Today, China permits shipments of canola to about 14 crushing facilities along the coast where domestic rapeseed is not cultivated and therefore the risk of disease transmission is low. This access was gained following significant political intervention and is still "transitional". Prime Minister Harper and Chinese Premier Wen Jiabao witnessed the signing of a memorandum of understanding on blackleg research in early 2012 and the two countries have worked together to better determine the nature of blackleg transmission and how to mitigate it. In late August 2016, Prime Minister Trudeau and Chinese Premier Li Keqiang announced that proposed Chinese rules that would have severely impacted canola exports would not be applied as both countries continue to negotiate a long-term solution. The Canadian canola industry would like to see a solution implemented on a permanent basis and the number of plants to which shipments are permitted increased.

## Soybeans

China is the world's largest importer of soybeans, accounting for 60% of world demand<sup>57</sup>. Soybean product imports were valued at C\$45.7 billion in 2014, an increase of 12.6 percent over 2013. The top four supplying countries were Brazil (45.9%), the U.S. (40.3%), Argentina (9.1%) and Uruguay (3.3%), with Canada holding the fifth spot (1.1%), valued at C\$511.66 million.<sup>58</sup>

China is one of the top export markets for the Canadian soybean sector. It is Canada's largest export market for commodity soybeans and demand for food-grade soybeans continues to grow. In 2016, Canada exported approximately 1.5 million metric tonnes of soybean and soy products to China. Over 90 percent of this volume consisted of commodity soybeans. In the same year, China imported over 120,000 metric tonnes of food-grade soybeans from Canada. Overall, China represents over 35 percent of total Canadian soybean exports at a value of over \$784 million in 2016<sup>59</sup>. It is expected that demand for soybeans in the Chinese market place will continue to rise.

In 1995, China adopted a policy of self-sufficiency for grains, resulting in China's trade policies favouring soybean imports over feed grains. In 2008 and 2012, China increased price supports for wheat, rice and corn at a higher rate than those for soybeans, reducing the incentive for Chinese farmers to produce the crop. As a result, domestic production fell by 18 percent while soybean imports increased by 50 percent.<sup>60</sup> Coupled with dietary shifts toward more animal proteins, which creates a strong demand for soybean meal used as livestock feed rations,<sup>61</sup> Chinese soybean imports rose from 1.1 million tonnes in 1996 to 81.7 million tonnes in 2015.<sup>62</sup>

Soybeans have a lower import tariff (3%) when compared to soybean meal and oil (5% and 9% respectively.) This had led to greater imports of soybeans than soybean meal and oil, resulting in China's oilseed crushing industry to be the largest in the world<sup>63</sup>. While China imported C\$45.7 billion in soybean products in 2014, only C\$1.19 billion of the total was soybean oil and C\$19.5 million was soybean cake.<sup>64</sup>

As China's policies favouring grain production remain and its feed and livestock industry develop further, the country's high demand for soybeans is expected to continue. Although China's soybean import growth rate is expected to be lower than it was ten years ago, it is projected to remain strong in absolute terms over the next decade by increasing from 83 million tonnes in 2016/17 to 109.5 million tonnes in 2025/26.<sup>65</sup>

<sup>57</sup> Gain Report. *China- Peoples Republic of – Oilseeds and Products Annual*. March 15, 2016

<sup>58</sup> AAFC. *Oilseeds in China*. Dec 2015: <http://www5.agr.gc.ca/resources/prod/Internet-Internet/MISB-DGSIM/ATS-SEA/PDF/6690-eng.pdf>

<sup>59</sup> Statistics Canada CATSNET Analytics

<sup>60</sup> USDA. *China's demand for imported soybeans to remain strong*. May, 2016: <http://www.ers.usda.gov/data-products/chart-gallery/detail.aspx?chartId=59411>

<sup>61</sup> *Ibid*

<sup>62</sup> China Ministry of Agriculture. *MAO holds press conference on GMO*. April, 2016

<sup>63</sup> Lee, Tran, Hansen & Ash. *Major Factors Affecting Global Soybean and Products Trade Projections*. USDA: May 2016

<sup>64</sup> AAFC. *Oilseeds in China*. Dec 2015

<sup>65</sup> Lee, Tran, Hansen & Ash. *Major Factors Affecting Global Soybean and Products Trade Projections*. USDA: May 2016

## Non-Tariff Barriers

Many of the non-tariff barriers impacting canola are the same for the export of Canadian soybeans to China. Similar to canola, the Canadian soybean sector's policy is to withhold commercialization of new soybean events until they have been approved in major soybean export markets. As the Canadian soybean industry's largest customer, China's delayed and unpredictable approval of Canadian biotechnology causes trade disruption and denies Canadian producers access to the latest technology that keep our industry competitive.

Similarly, strict regulations prohibiting unintentional and unavoidable traces of genetically modified materials in non-GM soybean exports have served as a barrier to the export of non-GM, food-grade soybean exports to China. As demand for high quality, non-GM soybeans rise in the region, the issue of low-level presence continues to be a leading issue related to market access and non-tariff barriers to trade.

## Tariffs

Tariffs on soybeans are 3%, whereas tariffs on soybean meal and oil are 5% and 9% respectively. These tariffs are bound under its accession agreement with the WTO.

Of note, under the China-New Zealand FTA, China committed to eliminate tariffs on all oilseeds and meals in 2012. Similarly, under the China-Chile FTA, tariffs on all oilseeds and meals were eliminated over varying periods of time ranging from 1 to 10 years, which was completed 1 January, 2015. Although New Zealand and Chile are not significant soybean exporters, this does establish a precedent for pressing China to eliminate tariffs on Canadian soybean seed and meal. The 2015 China-Australia FTA is another example of an agreement in which both parties have moved towards a reduction in soybean tariffs. Under, ChAFTA tariffs on soybean meal are reduced from 5% to zero by 2019.

The Canadian soybean sector's expectation for a Canada-China bilateral agreement is the removal of all tariffs on soybeans and soy products including oil and meal.

## Pulses

China's produces 4.2 million tonnes of pulses a year. (By comparison Canada produces 4.8 million tonnes a year.)<sup>47</sup> China's pulse crop is relatively small, representing less than 1% of total grain and feed production. Unlike other crops, pulses receive no support from the Chinese government. Pulses are generally planted on marginal lands that are not otherwise in use for major crops. Pulse production is largely small scale, manual and inefficient. Pulse processing is more modernized and mechanized.

In 2015, Canada exported C\$ 316 million in pulse products to China representing 7.51% of Canada's pulse shipments and making China Canada's third largest pulse market after India and Turkey. Exports to China have more than tripled in the past few years, increasing from C\$ 71 million in 2008. Today, pulses represent the third most valuable agri-food shipment to China after canola and fish and seafood products.

Canada's main pulse shipment to China is yellow peas which represent over 85% of Canada's pulse exports to that country. Canada is the world's largest producer and exporter of yellow peas - one of the most widely used pulse crops in the world. In China domestically grown yellow peas are used in the manufacture of starches, vinegars and sauces. Imported yellow peas, mainly from Canada, are used in the manufacture of 20% of China's vermicelli (glass noodles) as a lower cost substitute for mung beans.

USDA estimates that over 90% of China's dried pea imports are from Canada<sup>66</sup>. Canada's own trade statistics show that exports of peas in the 2015 fiscal year were 730,700 tonnes.<sup>67</sup> Other suppliers are the U.S. and France.

Pulse Canada reports that increased demand for health products and rising incomes will drive the increased use of pulses and pulse products, such as lentils, chickpeas, pea protein and flour, in processed foods.

### Tariffs

Tariffs vary across individual pulse products with some products entering duty free and others facing tariffs of up to 7.5%. The tariff on yellow peas, Canada's main pulse export to China, is currently 5%.

Given low domestic production and quality levels and Canada's current 90% share of Chinese yellow pea imports it is unlikely that a reduced tariff will further expand Canadian exports on its own. However, reduced tariffs will result in increased profits for Canadian pulse producers and will help secure Canada's advantage should China negotiate trade deals with major Canadian pulse competitors like the U.S. and the EU. As well, reduced tariffs will make other Canadian pulses and pulse ingredients more competitive relative to both domestic and imported products.

In its existing FTA with New Zealand, China reduced duties on pulse products over 4 years and eliminated them by 2011. In its FTA with Chile, China similarly agreed to go duty free on pulse products but, in that case, within 1 year of implementation. In its FTA with Australia, China committed to reduce its duties to zero incrementally from 2015-2024.<sup>68</sup>

### Non-Tariff Barriers

In 2006 Chinese officials increased testing on shipments of yellow peas from Canada after finding several shipments that contained selenium levels beyond their tolerances. China announced new tolerances in 2011 that have alleviated that problem. However, Canadian exporters continue to face numerous issues in shipping products to China including inconsistent application of regulations and testing protocols

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<sup>66</sup> Gain Report. China-People Republic of. Edible Beans Annual 2011. USDA Foreign Agriculture Service

<sup>67</sup> Statistics Canada (2015 stats), Canadian International Merchandise Trade Data base: Peas

<sup>68</sup> Australian Department of Foreign Affairs and Trade. FTA Text and tariff schedules:

<http://dfat.gov.au/trade/agreements/chafta/official-documents/Documents/chafta-explanatory-schedule-of-chinese-tariff-commitments-non-official.pdf>

## Pork and Pork Products

China is the largest pork producer in the world accounting for half of the world's pork production and consumption. Annual production is 5 times that of the United States and twice that of the EU and Canada combined. China's per capita pork consumption is 40 kg, not including offal - an important component of Chinese pork consumption.

China produces around 650 million pigs a year and over 50 million tonnes of pork<sup>69</sup>. (By comparison Canada produces about 27 million pigs a year and 1.9 million tonnes of pork<sup>70</sup>.) Although commercial scale hog farms are on the rise particularly in Eastern China, production remains largely small scale with over 96% of China's 67 million hog farmers having fewer than 50 pigs. Chinese hog production is expected to increase in the future as producers expand herd size in response to strong prices, a government per-sow subsidy to offset industry contraction, and other policies to encourage herd growth.

Notwithstanding this, imports are also expected to rise as a result of strong pork demand, competitive pork prices relative to other proteins, and land and environmental constraints on hog expansion in China<sup>71</sup>. Indeed, in 2015 Chinese pork imports rose 38%, compared with 2014, totaling 778,000 tonnes. USDA estimates that in 2010 China directly imported 200,109 tonnes of pork muscle meat (not including offal, sausages and certain other pork products) and imported a further 118,879 tonnes via Hong Kong<sup>72</sup>. China's total imports of pork and pork products, including offal, are estimated at 2 million tonnes. Although large in absolute terms, China's pork imports account for only 4% of domestic consumption. China's pork imports are also highly volatile and price dependent. Imports vary considerably based on domestic production which in turn varies with feed costs, disease outbreaks, government policy interventions and the relative price of Chinese and imported pork. China's main sources of imported pork are the U.S., the EU and Canada. Other major suppliers include Mexico and Chile. USDA reports that on a value basis the U.S is responsible for 42% of China's imports of muscle meat and 58% of offal imports.

In 2015, Canada exported 128,375 tonnes of pork and pork products to China valued at Canadian C\$ 207 million and a further 18,245 tonnes of pork valued at C\$ 39 million to Hong Kong<sup>73</sup>. Combined, this would represent 25% to 30% of China's total pork imports.

China is a lucrative market for Canadian pork exports. Chinese consumers have a strong demand for offal and variety meats that are less popular and have a lower value in Canada. Exports to China increase both the demand for and value of pork offal thereby increasing the overall value of Canadian hogs and profitability for the Canadian hog industry. Increasing demand in China; environmental, economic, and land constraints on Chinese hog expansion; and concern over the safety of Chinese pork bode well for expanding Canadian exports.

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<sup>69</sup> Gain Report. China- Peoples Republic of, Livestock and Products Annual. 2011

<sup>70</sup> Canada Pork International

<sup>71</sup> Gain Report. China- Peoples Republic of, Livestock and Products Annual. 2011

<sup>72</sup> *Ibid*

<sup>73</sup> Canadian Domestic Exports of Pork. Stats Can. CATSNET Analytics July 2015.

## Tariffs

China applies tariffs of 10% to 25% on pork and pork products. Canada's major pork competitors are now subject to the same MFN tariffs. Chile is the only major supplier of pork to China that currently has an FTA with that country. Under the China-Chile FTA, which came into force in 2006, tariffs on pork products will be eliminated over 2, 5 or 10 years, making some products including frozen and chilled meat currently duty free. The elimination of tariffs on pork products would maintain Canada's competitiveness with Chile and provide a significant advantage over other major export competitors like U.S. and the EU.

## Non-Tariff Barriers

Although China is a member of CODEX and a signatory to the WTO SPS Agreement, China is not consistent in recognizing, adopting or applying international standards. Canada experienced this in 2009 when China imposed bans on imports of pork from several Canadian provinces and imposed certain restrictions on all Canadian imports with the discovery of H1N1 in this country. Access eventually resumed but only after almost a year of diplomatic and political engagement.

China also has a zero-tolerance policy for residues of veterinary health products, including antibiotics, despite internationally recognized Minimum Residue Levels (MRLs) for these products. China also has zero-tolerance for the growth promotant ractopamine. In June of 2012, the Codex Alimentarius Commission (CAC) established a residue level for ractopamine in beef and pork, however China has yet to recognize the MRL. It is critical that China adopt this and other internationally recognized MRL's.

China resorts to a number of policy interventions to manage hog production and prices and to encourage modernization in the hog industry. These include sow subsidies to promote herd expansion, large farm subsidies to promote large scale production, free immunizations, financial awards to local governments for investing in the hog sector, tax exemptions, and a market stabilization program through which it manages a reserve of frozen pork in an attempt to manage pork prices. These measures, which are often implemented without warning, provide advantages to domestic producers, can disrupt prices and demand and create a level of volatility for exporters.

Currently more than 60 Canadian processing plants are approved for exports to China. However, China's plant approval process is slow and must be improved to permit the smooth flow of commercial trade between the two countries.

China's custom procedures also impede the smooth flow of trade. Under its FTA with New Zealand, China has committed to a 48-hour clearance process whereby imported goods will be released within 48 hours of arrival in China. In some cases, Canadian pork products are held for testing for periods of up to two weeks upon landing in China. This is a particular problem for chilled products making their export to China unfeasible. While random testing is the norm for imported goods in other countries, China holds all products. In addition, there is a lack of transparency and timeliness in its testing protocols and procedures and their application can vary significantly depending on the entry point for imports.

## Registration of Cold Storage and Meat Slaughter Processing Establishments

China requires that all Canadian establishments (including cold storage facilities) exporting food of animal origin to China be approved by its General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ), and Certification and Accreditation Administration (CNCA). Establishments seeking to export have encountered repeated delays before obtaining approval by China. In addition to individual approvals in the queue, Canadian industry has expressed a concern with the current approval system China has in place, which often results in unnecessary delays.

Because of Canada's high health standards it has become a centre for livestock genetics. China traditionally has high incidence of disease in its swine herds driving the importation of foreign, including Canadian, breeding stock. However, China's health protocols governing the importation of live animals exceed international standards. Typically, it takes three months for live hogs to be approved for shipment to China. This varies from typical procedures in other countries which generally take just one month. China's protocols are unnecessarily onerous, add additional costs for exporters, and add significantly to the stress on animals being exported.

## Wheat

In 2015, China was the second largest wheat producer in the world, second only to the EU, with production of 130.2 million tonnes. By comparison, Canada was the 6th largest wheat producer with production of 27.6 million tonnes<sup>74</sup>.

Wheat, along with rice and corn, is one of China's most important crops. Because of this China's wheat production is highly protected and controlled through a series of measures including a floor price which guarantees minimum price returns for farmers, direct subsidies to grain farmers and subsidies for purchasing farm equipment. In 2013 grain support programs were valued at US\$ 143.9 billion<sup>75</sup>. In addition, China has domestic programs that control the purchase and sale of wheat to license-holders and restricts the processing of rice, flour and corn (as well as edible oils) requiring that a Chinese company have a controlling stake in any joint venture. In 2012, China also issued draft legislation (the Grain Law) to promote grain (and oilseed) production, maintain and improve logistics for grain distribution and safeguard national grain security which, among other things, provides financial awards for grain production.

Chinese grain policies are largely driven by food security concerns and an interest in improving production and incomes for China's large agrarian population. In 2013, the Chinese leadership set forth a new food security strategy. Acknowledging that imports are like to increase due to changing diets, the growing role of livestock products, and limited endowments of land and water, the new policy aims to take the initiative to ensure that domestic supplies will be China's primary food source. The food security strategy calls for maintaining Chinese control over the country's food supply by; 1) boosting domestic production capacity through strategic investments and strong policy support; and 2) utilize international markets and overseas resources in a way that ensures a dominant role for Chinese companies in the food supply chain for imported commodities<sup>76</sup>.

In 2013, China, the world's top wheat consumer imported 2.9 million tonnes of wheat. Imports are largely controlled through TRQs which were implemented upon China's accession to the WTO. However, the fill

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<sup>74</sup> FAOSTAT 2016

<sup>75</sup> Gain Report. China – People's Republic of. Grain and Feed Annual 2014. USDA Foreign Agricultural Service.

<sup>76</sup> China's Growing Demand for Agricultural Imports, USDA report EIB-136



rate on the TRQ generally falls below 10% representing the portion of TRQ that is not held by State Owned Enterprises. China also controls exports by providing export licenses only to State Owned Enterprises. In 2008, China also eliminated the VAT rebate on wheat exports to discourage exports of domestic production.

Canada is the 3<sup>rd</sup> largest wheat exporter after the U.S. and Russia with exports of 16 million tonnes valued at C\$ 5.7 billion in 2011. Less than 1% of Canada's wheat exports (C\$ 61 million in 2011) are currently destined to China making China a mid-sized market for Canada.

Demand for grains in China is expected to rise as consumers shift to ready-made convenience products made with flour and as demand for feed grain rises with increased protein production and consumption. Chinese producers are implementing better farm management practices and have begun planting higher quality seeds and there is an increased focus on extension services and demonstration projects. While these measures could increase Chinese wheat production, it isn't clear how pervasive these practices are, leaving the potential for China to have an increased reliance on wheat imports.

### Tariffs

As part of its accession to the WTO, China implemented a 9.6 million tonne TRQ for wheat. The TRQ takes two forms: a Private Share equaling just 10% of the TRQ and a State Enterprise Share equaling the remaining 90%. The Private Share is used primarily to import high quality wheat however, in most years, the State Share remains largely unused and in 2009 the total TRQ fill rate was just 9.38%.

While the ideal scenario in an FTA would be the elimination of tariffs or reduced tariffs with a country specific TRQ, these measures seem unlikely given China's commitment to its domestic grain industry. In its FTA's with New Zealand and Chile wheat, corn, rice and oilseeds were specifically excluded from tariff reductions. However, even addressing the issue of China's TRQ fill rate for wheat could have a significant impact on wheat exports to China. For example, if China utilized its entire wheat TRQ, imports would increase by an additional 8.7 million tonnes, about half of Canada's current global wheat exports. As well, if China were to open up 100% of its TRQ to any company, state-owned or private, Canada would be at a much better position to access the Chinese market.

### Non-Tariff Barriers

China's domestic support programs for wheat and grain products limit the competitiveness of imported products by subsidizing domestic production and by controlling supply and price.

With wheat exports, China fails to recognize internationally accepted standards for the inclusion of a variety of residues. For example, China's Ministry of Health has a requirement limiting vomitoxin (a fungus) in wheat imports to 1 parts per million (ppm). This is the tightest requirement among Asian markets most of which have a tolerance of 2 ppm in wheat for milling. In addition, China's regulatory environment for sanitary and phyto-sanitary issues breach into the realm of quality issues that should be addressed in commercial contracts. Science-based approvals for pesticides and new traits would need to be part of any agreement with China to give assurance that potential benefits of an agreement could be realized. This would include a rigorous appeals process in the event of disagreements.

## Malt and Malting Barley

China is the largest beer producer and consumer in the world. China produces more than 50 billion litres of beer a year (by comparison in 2009 Canada produced 2.84 billion litres) and production has doubled in the past decade<sup>77</sup>. Per-capita beer consumption in China was 2 litres in 1984 and is estimated to have grown to 28 litres in 2010<sup>78</sup>.

The beer industry in China is highly regional and less consolidated than in western countries. Although premium products are increasing in demand, particularly among the middle class and in urban areas, most demand is for lower quality beers, which contain lower quality and lower volumes of malt. As a result, Chinese maltsters are highly price sensitive and, except in the case of premium beers, less concerned with quality.

China produces approximately 1.5 million tonnes of barley a year<sup>79</sup>. (For comparison, Canadian barley production is 8.5 million tonnes). China's production, while large in absolute terms, varies considerably, depending on how barley fits into crop rotations. Barley is not an important feed grain and, as a result, barley producers receive no government assistance.

While the Chinese brewing industry relies heavily on domestic barley production, China is only able to meet half of its demand. As a result, China began importing barley in the 1980's. In 2007 China accounted for 40% of all malting barley trade making China the largest malting barley importer in the world<sup>80</sup>. Currently only Australia, Canada, France, Denmark and Argentina have access to China for malting barley. In the 2012/13 crop year China imported 83% of its malting barley from Australia, 11% from Canada, 3% from Argentina and 2% from France. High tariffs make the import of malt products prohibitive and protect China's malting sector. China imported a record high 8.3 million tonnes of Barley in 2014-15.<sup>81</sup>

Although China is a large producer of malting barley, and notwithstanding government efforts to promote barley production and yields, with limited agriculture resources, increased demand, and domestic policies favouring food security (and as a result crops such as wheat and corn), China is expected to remain a net importer of malting barley in the future<sup>82</sup>.

### Tariffs

Historically, China has protected its malting industry with high tariffs on processed malt. Prior to WTO accession, malt tariffs were 30% while tariffs on malting barley were 3%. Following WTO accession, tariffs for malt dropped to 10% but still remain considerably higher than malting barley tariffs which remained at 3%. This makes the export of malt products to China prohibitive and continues to afford protection for China's malting industry.

<sup>77</sup> Globe and Mail. Canadian Barley, Chinese Beer. April 2010

<sup>78</sup> An Analysis of the Competitiveness of Chinese Malting Barley Production and Processing. Institute for Farm Economics, FAL Braunschweig. June 2007

<sup>79</sup> GAIN Report. China – Peoples Republic of. Grain and Feed Annual 2014. USDA Foreign Agricultural Service.

<sup>80</sup> An Analysis of the Competitiveness of Chinese Malting Barley Production and Processing. Institute for Farm Economics, FAL Braunschweig. June 2007

<sup>81</sup> Canadian Malting Barley Technical Center, Market Update China: <http://cmbtc.com/market-update-china/>

<sup>82</sup> Government of South Australia. [http://www.pir.sa.gov.au/grains/grain\\_value\\_chains/malt\\_and\\_beverage](http://www.pir.sa.gov.au/grains/grain_value_chains/malt_and_beverage)

The elimination of the 3% tariff on imports of malting barley would provide Canada the ability to once again become reasonably competitive with our major export competitor (Australia) into the Chinese market due to the current competitive advantage Australia has with a zero tariff for malting barley as a result of the China-Australia FTA. Under the China-New Zealand FTA malt barley tariffs were also eliminated immediately. Under the China-Chile FTA, as well as the China-Australia FTA, tariffs on barley were eliminated after the first year of implementation. Removing the 3% tariff for malting barley would position Canada to take advantage of increased demand in China on a more level playing field with some of our major competitors.

Canada's malting industry would also benefit from the elimination of tariffs on Canadian malt. The current 10% tariff on malt makes exports of products from Canada prohibitive. The elimination of tariffs would permit the export of malt from Canada, ensuring Canadian malt barley producers a market within Canada and retaining processing capacity and jobs in this country. Of note, in the China-New Zealand FTA, as well as the China-Australia FTA, China agreed to eliminate tariffs on malt over a period of 5 years. Similarly, under the China-Chile FTA, China will eliminate tariffs on malt after 10 years.

### Non-Tariff Barriers

The verification of equal application and treatment of Value-added Taxes (VAT) for both domestic production and imports needs to be ensured, including an overview of the preferential tax treatment for domestic malt production which may be considered a subsidy.

### Beef and Beef Products

China is the third-largest producer and consumer of beef in the world. In 2013 China's beef production was 6.7 million tonnes (compared to Canadian production at approximately 1.2 million tonnes). Historically China only imported small amounts of beef, however volumes have increased to nearly 300,000 tonnes in 2014.<sup>83</sup> While this represents only 4% of domestic production, given China's size, this is a lucrative market.

With the increase in China's middle and upper class, particularly in China's urban centers, and the demand for premium food products, the Canadian beef sector considers there to be significant potential in the Chinese market for Canada's high-quality grain-fed beef. Beef is the highest priced meat in China with consumption taking place mainly in restaurants, with household (32%) and, to a lesser extent, industrial (8%) uses<sup>84</sup>.

Domestic beef production in China is expected to decline as a result of higher input costs and relatively low returns for Chinese producers. As well, much of China's beef production takes place in western China where it must be frozen to ship to markets along the coast. Transportation costs and inefficient supply chains increase the difficulty of supplying Chinese consumers' demand for beef through domestic production. These factors should increase demand for imported beef products.

Canadian beef exports to China were cut off with the discovery of BSE in Canada in May 2003. Prior to that,

<sup>83</sup> Scott Waldron, Wang Jimin, Zhang Huijie, Dong Xiaoxia, Wang Mingli (2015), The Chinese Beef Industry in "Regional Workshop on Beef markets and trade in Southeast Asian and China", Ben Tre, Vietnam, 30th November – 3rd December, 2015

<sup>84</sup> Status Quo and Future Production of China's Beef Market, Chen, Frost and Sullivan. 2009

beef exports to China peaked at C\$ 7 million (2.7 million tonnes) in 2002. In 2012 Canada regained access for tallow and for boneless beef from cattle under 30 months (UTM). Bone-in UTM was achieved in the summer of 2016. Given China's zero-tolerance for the growth promotant ractopamine and erratic enforcement of this policy, exports of muscle cuts have yet to achieve their potential. China has also interpreted "chilled" beef to mean frozen, therefore Canadian exporters have been unable to tap into the potential for high quality fresh chilled exports. Also, tallow exports have yet to resume as China is still in the process of licensing importers. The Canadian Renderers Association estimates the Chinese tallow market to be worth \$50 million a year.

Canada's main competitors in China are Uruguay, Australia, New Zealand and Brazil. The U.S. has obtained access for boneless meat from animals under 30-months in mid-2016 but has not shipped any product as a result of the market access protocols that China has yet to establish with the US. Negotiations are however expected to resume and, once the U.S. gains access it is expected to be a major competitor to Canada.

China is Canada's largest market for bovine hides and skins, with exports of over \$226 million in 2014, making China responsible for almost half of all Canadian exports of hides and skins.

### **BSE Restrictions**

In 2003 China discontinued access for Canadian beef products as a result of the discovery of BSE in Canada. In June 2010 Canada and China signed a letter of understanding to re-establish staged-access for Canadian beef and beef products and in 2012 the Chinese government lifted the legal ban on tallow and on boneless beef from animals under 30 months. Tallow exports resumed in 2012. Beef exports have also been negatively impacted as a result of China's ban on ractopamine.

Canada continues to also work with China to expand the resumption of trade to other beef products.

### **Tariffs**

China applies its MFN tariffs on Canadian beef imports. These range from 12% to 25%. Under the China-New Zealand FTA, tariffs on beef and beef products will be completely eliminated with most eliminated by 2016. Australia, another key competitor for beef shipments to China has implemented its own FTA with China in Dec 2015. Over a period of 9 years, China will phase out its tariffs on Australian beef products, with tariffs eliminated by 2024.

### **Non-tariff Barriers**

China's ban on the growth promotant ractopamine, which is widely used throughout North America, acts as a significant barrier to exports of Canadian beef to that country. In June 2012, the Codex Alimentarius Commission (CAC) established a minimum residue level (MRL) for ractopamine in beef and pork however China has not yet indicated whether it will accept that MRL. It is critical that China recognize this MRL in order to increase trade in beef products.

Processing plant approvals are critical to the increase of beef trade. In order to export to China, a Canadian processing plant must be inspected by and approved by the Chinese government. The inspection process can however be slow and requirements differ between Canada and China ultimately preventing approvals.

Today, 7 active Canadian beef processors are certified for exports to China. Plant approval issues are particularly important given China's ractopamine ban.

### Intellectual Property and Counterfeit Issues

There is a concern that entities within China commonly tout locally produced counterfeits as misrepresentations of high quality branded products. Canada Beef is concerned that their effort to position and brand Canadian beef as a high quality product could be undermined by locals putting substandard meat (that may not even be beef) in locally printed Canadian Beef branded packaging. It is unclear what the legal consequences in China may be for such activities, but they seem operate quite openly without fear of repercussions.

### Sugar and Sugar-Containing Products

China is the fifth largest world producer of sugar and third largest consumer. In 2015/16 China produced 9.5 million tonnes of sugar, below consumption at 17.1 million tonnes<sup>85</sup>. China has a complex sweetener market dominated by caloric sweeteners (sugar and starch sweeteners) as well as low calorie sweeteners (saccharin). Emerging resource supply constraints, including available land and water as well as high labour costs, small farm sizes and low productivity limit sugar production growth in China. Also unlike India and Thailand, farmers in China can switch between different crops depending on their profitability. Sugar import prices have become more competitive given high domestic prices leading to massive imports of sugar. A new plan (2015-2020) for the production and development in the main producing areas of sugarcane intends to once again boost the sector so the OECD projects that China sugar production will increase by 24% by 2025 to reach 13.6 million tonnes still below consumption demands which are expected to grow from 15.6 million tonnes to 18.9 million tonnes by 2025.<sup>86</sup>

China is a net sugar (raw and refined) importer and this trade deficit has increased substantially such that China is now the world's largest sugar importer.<sup>87</sup> Sugar imports continue to be dominated by raw sugar and have greatly exceeded the WTO TRQ minimum of 1.95 million tonnes in recent years given high domestic prices. Imports of raw cane sugar were estimated at 3.245 million tonnes in 2015/16 while imports of refined sugar were an estimated 2.879 million tonnes<sup>88</sup>. Most imports are traditionally raw sugar because the Chinese central government favours raw sugar which can be refined in state-owned refineries. This trade policy enables the central government to stabilize market prices and ensure adequate supplies for state-owned trading companies. Refined sugar imports to China were exceptionally high in 2015/16 given smuggling of sugar from India, Thailand and other countries through Myanmar. This trend is not expected to continue as the government concentrates on controlling the border and starts to release state reserves to increase domestic supply and lower prices.<sup>89</sup> Major suppliers of refined sugar to China include

<sup>85</sup> FOLicht, Second Estimate of the World Sugar Balance 2016/17, International Sugar & Sweetener Report, November 4, 2016

<sup>86</sup> OECD-FAO Agricultural Outlook 2016-2025

<sup>87</sup> FOLicht, Second Estimate of the World Sugar Balance 2016/17, International Sugar & Sweetener Report, November 4, 2016

<sup>88</sup> *Ibid*

<sup>89</sup> FOLicht Collapsing Domestic Output to Consolidate China's Position as Leading Importer Int Sugar and Sweetener Report, April 14 2016

Thailand, South Korea, Brazil, Guatemala and Malaysia.<sup>90</sup>

China exports modest quantities of raw and refined sugar, dominated by refined sugar – 2015/16 exports of 163,000 tonnes refined sugar. Exports of refined sugar are principally to nearby Asian countries including Philippines, Hong Kong, Mongolia and South Korea; however, exports also reach the United States and Canada<sup>91</sup>. China exports a modest amount of raw and refined sugar to Canada. From 2013-15 Canadian imports of refined sugar from China averaged 900 tonnes<sup>92</sup>.

Given China's high domestic sugar prices, Canada's refined sugar production for Canadian processed foods (sugar-containing products or SCPs) should provide a competitive advantage for export to China. Canadian refined sugar is an input to about 30% of Canadian food processing for SCPs including sugar and chocolate confectionery, bakery products, cookies, desserts, mixes and doughs, breakfast cereals, jams and other preserved foods, flavouring syrups and concentrates. However, given high China tariffs on processed foods and non-tariff trade barriers, Canada has a large trade deficit with China in sugar containing products (SCPs). In 2015, the SCP trade imbalance was -\$85 million (exports of \$37 million and imports of \$122 million).<sup>93</sup> Canada's import tariffs on SCPs are much lower than Chinese tariffs and Canada does not impose restrictive rules of origin for sugar compared to Chinese restrictive rules.

### Domestic Policy

Historically, the government has followed a policy aimed at self-sufficiency by providing strong price incentives to producers, controlling imports, and accumulating and releasing government stocks so as to maintain high internal market prices. Although prices are no longer government established, sugar is still subject to considerable government intervention as an important central reserve commodity and is subject to state trading administration including import licensing and the allocation of import TRQs<sup>94</sup>.

The National Development and Reform Commission (NDRC) is the leading agency in making the decisions on the scale of the domestic sugar production and the timing of the purchase and auction of sugar from state reserves. This agency created the sugar reserve system in 1991 and this system has enabled the Central Government to stabilize domestic prices and ensure an adequate supply either at the Central or provincial level by purchasing sugar when the price falls and releasing stocks in tighter supply conditions to prevent prices overheating. In addition, this agency imports 450,000 million tonnes of sugar annually from Cuba and in most circumstances, imported Cuban sugar normally enters state reserves first (unless Chinese domestic production is lower than expected)<sup>95</sup>.

China has more recently recognized the unsustainable sugar situation including high sugar production costs and so in May 2015, the (NDRC) and the Ministry of Agriculture issued a five-year plan setting a target of

<sup>90</sup> FOLicht, Second Estimate of the World Sugar Balance 2016/17, International Sugar & Sweetener Report, November 4, 2016

<sup>91</sup> *Ibid*

<sup>92</sup> Statistics Canada, International Trade Division.

<sup>93</sup> Statistics Canada, Canadian International Merchandise Trade Database, HS Codes 130220, 170191, 170199, 170290, 170410, 170490, 180610, 180620, 180631, 180632, 180690, 190120, 190190, 190410, 190420, 190520, 190531, 190532, 190590, 200799, 200893, 200899, 210112, 210120, 210390, 210690.

<sup>94</sup> WTO Trade Policy Review, Report by the Secretariat, China, June 2016.

<sup>95</sup> USDA FAS, China Sugar Annual, CH12032 (4/17/2012); LMC International, The Outlook for China's Sugar Market, March 2011.

raising annual sugar production to 15 million tonnes by 2020. With sugar consumption forecast to reach 18 million tonnes by 2020, this indicates that the government hopes to gradually reduce imports. To achieve this is a very ambitious target, the government is providing subsidies and financial support to farmers to increase yields and reverse declines in sugarcane acreage. This includes subsidies such as for seeds, farm machinery and fertilizer as well as additional subsidies and low interest rate loans. It is unclear whether the government will reinstitute a floor price given its high cost and that it would again drive up imports.<sup>96</sup>

### Tariffs and Non-Tariff Barriers

As part of China's accession to the WTO, China adopted an import TRQ for sugar which is now 1.95 MMT, with an in-quota-tariff of 15 percent. The out-of-quota tariff rate is 50 percent. As stipulated in China's WTO accession agreement, 30 percent of the TRQ (585,000 MT) is reserved for non-state trading enterprises and the remaining 70 percent is assigned to state trading enterprises. Since 2005, the quota and tariff rate have remained unchanged.<sup>97</sup>

The automatic import licensing introduced in November 2014 means that importers must apply for a license to make out-of-quota imports of sugar. Should imports increase too rapidly, the government can slow or halt the issuance of licenses.<sup>98</sup>

Sugar-containing products (SCPs) face Chinese tariffs in the range of 8 to 32%, well above Canadian tariffs for similar products. In preferential FTAs, China has also imposed origin restrictions on the sugar in products such as cocoa and chocolate products which would prevent Canadian access for these products even with tariff reductions.

All imported foods and beverages are subject to inspections by the China Entry-Exit inspection and Quarantine Bureau (CIQ). This can be a complicated, challenging and costly process.

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<sup>96</sup> USDA FAS, China Sugar Annual, China Sugar Blues, April 20, 2016.

<sup>97</sup> Sugaronline.com, Friday Editorial, 26/06/09

<sup>98</sup> LMC International, How are farmers being protected from low world prices? Sweetener Analysis, June 2015.

**APPENDIX 1: CHINESE MFN TARIFFS ON SELECTED AGRI-FOOD PRODUCTS<sup>99</sup>**

<b><u>Chinese Barley Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
10030090	Barley excl. seed	3
10030010	Barley seed	0
11042910	Other worked grains of barley	65

<b><u>Chinese Beef Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
01021000	Live pure-bred breeding bovine animals	0
01029000	Live bovine animals, o/t pure-bred breeding	10
02011000	Fresh or chilled bovine carcasses&half carcasses	20
02012000	Fresh or chilled unboned bovine meat (excl. carcasses)	12
02013000	Fresh or chilled boneless bovine meat	12
02021000	Frozen bovine carcasses & half carcasses	25
02022000	Frozen unboned bovine meat (excl. carcasses)	12
02023000	Frozen boneless bovine meat	12
02061000	Fresh or chilled edible bovine offal	12
02062100	Frozen bovine tongues	12
02062200	Frozen bovine livers	12
02062900	Frozen edible bovine offal (excl. tongues & livers)	12
02102000	Meat of bovine animals, salted, in brine, dried or smoked	25
16025010	Preparations of bovine animals, in airtight containers	12
16025090	Preparations of bovine animals, nes	12

<b><u>Chinese Canola Tariff Lines</u></b>		
		<b>Tariff Rate (%)</b>
12051090	Other low erucic acid rape or colza seeds	9
15141100	Crude low erucic acid rape oil	9
15141900	Other low erucic acid rape oil	9
23064100	Oil-cake & other solid residues of low erucic acid rape or colza seeds	5

<sup>99</sup> WTO Tariff Analysis Online



<b><u>Chinese Furs and Skins Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
41015019	Whole hides and skins of bovine animals, of a weight exceeding 16 kg, not tanned, parchment-dressed or further prepared, whether or not dehaired or split, excl. have undergone a tanning which is reversible	5
43011000	Raw furskins of mink, whole, with or without head, tail or paws	15
41033000	Hides and skins of swine, fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared, whether or not dehaired or split	9
43018090	Raw furskins, nes, with or without head, tail or paws	20
41021000	Raw skins of sheep or lambs	7
41019019	Butts, bends and bellies and the other hides and skins of bovine animals, not tanned, parchment-dressed or further prepared, whether or not dehaired or split, excl. have undergone a tanning which is reversible	5
43016000	Raw furskins of fox, whole, with or without head, tail or paws	20
41015020	Whole hides and skins of equine animals, of a weight exceeding 16 kg, not tanned, parchment-dressed or further prepared, whether or not dehaired or split	5
41012020	- Whole hides and skins, of a weight per skin not exceeding 8 kg when simply dried, 10 kg when dry-salted, or 16 kg when fresh, wet- salted or otherwise preserved: - - - Of equine animals	5
43018010	Raw furskins of rabbit or hare, whole, with or without head, tail or paws	20
41039029	Other hides and skins of goats or of kids other than those have undergone a reversible tanning process	9
41012019	- Whole hides and skins, of a weight per skin not exceeding 8 kg when simply dried, 10 kg when dry-salted, or 16 kg when fresh, wet- salted or otherwise preserved: - - - Of bovine animals: - - - -Other	5
41039090	Other raw hides and skins, other than those of reptiles, swine and goats	9
41019020	Butts, bends and bellies and the other hides and skins of equine animals, not tanned, parchment-dressed or further prepared, whether or not dehaired or split	5
05119940	Horsehair and horsehair waste, whether or not put up as s layer with or without supporting material	15
41022190	Raw skins of sheep or lambs, pickled, but not tanned, parchment- dressed or further prepared, without wool on, excl. have undergone a tanning which is reversible	9
41022110	Raw skins of sheep or lambs, pickled, but not tanned, parchment- dressed or further prepared, without wool on, have undergone a tanning which is reversible	14

<b><u>Chinese Furs and Skins Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
43019090	Heads, tails, paws & other pieces or cuttings, suitable for furriers' use, nes	20
41019011	Butts, bends and bellies and the other hides and skins of bovine animals, not tanned, parchment-dressed or further prepared, whether or not dehaired or split, have undergone a tanning which is reversible	8.4
41015011	Whole hides and skins of bovine animals, of a weight exceeding 16 kg, not tanned, parchment-dressed or further prepared, whether or not dehaired or split, have undergone a tanning which is reversible	8.4
05021010	Pigs', hogs', or boars' bristles	20
05021020	Pigs', hogs', or boars' hair	20
05021030	Waste of bristles or hair of pigs, hogs or boars	20
05029011	Goats hair for brush making	20
05029012	Weasels tail hair for brush making	20
05029019	Badger and other brush making hair, nes	20
05029020	Waste, badger & other brush making hair	20
05059010	Powder and waste of feathers or parts of feathers	10
05059090	Feathers nes; skins & parts of birds with feathers or down	10
41012011	- Whole hides and skins, of a weight per skin not exceeding 8 kg when simply dried, 10 kg when dry-salted, or 16 kg when fresh, wet- salted or otherwise preserved: - - - Of bovine animals: - - - - Have undergone a reversible tanning process	8
41022910	Raw skins of sheep or lambs, fresh, or salted, dried, limed or otherwise preserved (excl. pickled), without wool on, have undergone a tanning which is reversible	14
41022990	Raw skins of sheep or lambs, fresh, or salted, dried, limed or otherwise preserved, without wool on, nes	7
41032000	Hides and skins of reptiles, fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared, whether or not dehaired or split	9
41039011	Dried hides and skins of goats, have undergone a reversible tanning process	14
41039019	Dried hides and skins of goats other than those have undergone a reversible tanning process	9
41039021	Other hides and skins of goats or of kids, which have undergone a reversible tanning process	14
43013000	Raw furskins of lamb, the following: Astrakhan, Broadtail, Caracul, Persian and similar lamb, Indian, Chinese, Mongolian or Tibetan lamb, whole, with or without head, tail or paws	20
43019010	Weasel tails	20
51021100	Hair of kashmir (cashmere) goats, not carded or combed	9
51021910	Fine rabbit and hare hair, not carded or combed	9
51021920	Fine goat hair, not carded or combed	9
51021930	Fine camel hair, not carded or combed	9

<b><u>Chinese Furs and Skins Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
51021990	Othe fine animal hair, not carded or combed, nes	9
51022000	Coarse animal hair, not carded or combed	9
51031090	Noils of fine animal hair, not garnetted stock	9
51032090	Other waste of fine animal hair, not garnetted stock	9
51033000	Waste of coarse animal hair	9

<b><u>Chinese Malt Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
11071000	Malt not roasted	10
11072000	Roasted malt	10
19011000	Preparations for infant use, for retail sale, of flour, etc	15
19012000	Mixes & doughs for prep. of bakers' wares of 19.05	25
19019000	Other food prep.s of flour, etc, nes	10

<b><u>Chinese Pork Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
01031000	Live pure-bred breeding swine	0
01039110	Live swine weighing<10kg,o/t for pure-bred breeding	10
01039120	Live swine 10kg≤weighing<50kg, o/t for pure-bred breeding	10
01039200	Live swine weighing≥50kg,o/t for pure-bred breeding	10
02031110	Fresh or chilled carcasses & half carcasses of sucking pig	20
02031190	Fresh or chilled swine carcasses & half carcasses, nes	20
02031200	Fresh or chilled unboned hams, shoulders & cuts thereof of swine	20
02031900	Fresh or chilled swine meat, nes (unboned)	20
02032110	Frozen carcasses & half carcasses of sucking pig	12
02032190	Frozen swine carcasses & half carcasses, nes	12
02032200	Frozen unboned hams, shoulders & cuts thereof of swine	12
02032900	Frozen swine meat, nes	12
02063000	Fresh or chilled edible swine offal	20
02064100	Frozen swine livers	20
02064900	Frozen edible swine offal (excl. livers)	12
02101110	Unboned swine hams&shoulders, salted, in brine,dried or smoked	25
02101190	Cuts of unboned swine hams&shoulders, salted, in brine drd or smoked	25
02101200	Bellies & cuts thereof of swine, salted, in brine, dried or smoked	25
02101900	Meat of swine, salted, in brine,dried or smoked, nes	25
05040011	Hog casings, salted	20
05040014	Hog fat-ends, salted	20
16010010	Sausage and similar products coated with natural casings	15
16010020	Other sausages and similar products	15
16010030	Sausage-based food products	15
16024100	Preparations of swine, hams & cuts	15
16024200	Preparations of swine, shoulders & cuts	15
16024910	Preparations of swine, in airtight containers	15

16024990	Preparations of swine, nes	15
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<b><u>Chinese Pulses and Special Crops Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
07131090	Other dried peas, shelled	5
21033000	Mustard flour & meal, prepared mustard	15
07133290	Other dried adzuki beans, shelled	3
12075090	Mustard seeds excl for sowing	15
07139090	Dried leguminoU.S. vegetables, shelled, nes	7
07134090	Other dried lentils, shelled	7
07133390	Other dried kidney beans, incl. white pea beans, shelled	7.5
10083000	Canary seed	2
10082000	Millet	2
07131010	Seed peas, dried, shelled	0
07132010	Seed chickpeas, dried, shelled	0
07132090	Other dried chickpeas, shelled	7
07133110	Seed beans, dried, shelled	0
07133190	Other dried beans, shelled	3
07133211	Small red (Adzuri) seed beans, dried shelled	0
07133219	Other seed adzuki beans, dried shelled	0
07133310	Seed kidney beans, incl. white pea beans, dried, shelled	0
7133900	Dried beans, shelled, nes	7
07134010	Seed lentils, dried, shelled	0
07135010	Seed broad beans and horse beans, dried, shelled	0
07135090	Other dried broad beans and horse beans, shelled	7
07139010	Dried leguminoU.S. vegetables seed nes, shelled	0
10081000	Buckwheat	2
12075010	Mustard seeds for sowing	0

<b><u>Chinese Sugar Containing Products Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
17041000	Chewing gum	12
17049000	Sugar confectionery not containing cocoa, nes	10
18061000	Cocoa powder, with added sugar or other sweetening matter	10
18062000	Chocolate, etc, in blocks, slabs or bars >2kg	10
18063100	Chocolate, etc, in blocks, slabs or bars, filled	8
18063200	Chocolate, etc, in blocks, slabs or bars, not filled	10
18069000	Chocolate, etc, not in blocks, slabs or bars, nes	8
19051000	Crispbread	20
19052000	Gingerbread & the like	20
19053100	Sweet biscuits	15
19053200	Waffles & wafers	15
19054000	Rusks, toasted bread & similar toasted products	20
19059000	Other bread, etc, nes; communion wafers, rice paper, etc	20
20060010	Jujubes preserved by sugar	30
20060020	Olives preserved by sugar	30
20060090	Other fruit, nuts or parts of plants preserved by sugar, nes	30
20071000	Jams, fruit jellies, marmalades, etc, homogenized	30
20079100	Jams, fruit jellies, marmalades, etc, of citrU.S. fruit	30
20079910	Other jams, fruit jellies, marmalades, etc, in airtight containers	5
20079990	Other jams, fruit jellies, marmalades, etc, of citrU.S. fruit	5
20081110	Ground-nut kernels, prepd, in airtight containers	30
20081120	Roasted ground-nuts	30
20081130	Ground-nut butter	30
20081190	Other prepared ground-nuts, nes	30
20081910	Walnut meats, prepd, in airtight containers	20
20081920	Other prepd nuts or seeds, in airtight containers	13
20081991	Chestnut seed	10
20081992	Sesames, otherwise prepared or preserved	10
20081999	Other nuts and seed	10
20082010	Pineapples prepd nes, in airtight containers	15
20082090	Pineapples prepared, nes	15
20083010	CitrU.S. fruit prepd nes, in airtight containers	20
20083090	CitrU.S. fruit prepared, nes	20
20084010	Pears prepd nes, in airtight containers	20
20084090	Pears prepared, nes	20
20085000	Apricots, prepared or preserved, nes	20

<b><u>Chinese Sugar Containing Products Tariff Lines</u></b>		
<b>Tariff Line</b>	<b>Description</b>	<b>Tariff Rate (%)</b>
20086000	Cherries, prepared or preserved, nes	20
20087010	Peaches prepd nes, in airtight containers	10
20087090	Peaches, prepared or preserved, nes	20
20088000	Strawberries, prepared or preserved, nes	15
20089100	Palm hearts, prepared or preserved, nes	5
20089200	Mixtures of fruit, prepared or preserved, nes	10
20089910	lychee, in airtight containers	20
20089920	Longan can	15
20089931	Seasoned laver	15
20089932	Salted sea tangle	15
20089933	Salted undaria pinnatifida	15
20089939	Other Seaweed and otheralga product	15
20089990	Other fruit, etc, prepared or preserved, nes	15
21031000	Soya sauce	28
21032000	Tomato ketchup & other tomato sauces	15
21033000	Mustard flour & meal, prepared mustard	15
21039010	Gourmet powder	21
21039020	Aromatic bitters of allohohic strenyth by volume of 44.2%-49.2%	21
21039090	Other sauces, mixed condiments or seasonings, nes	21
21069010	Concentrates for making carbonic acid beverage	35
21069020	Compound alcoholic preparations for manufacture of beverages	20
21069030	Royal jelly preparations	3
21069090	Other food preparations not elsewhere specified or included	20

<u>Chinese Sugar Tariff Lines</u>						
Tariff Line	Description	In Quota Tariff Rate (%)	Over Quota Tariff Rate (%)	Tariff Volume (Tonnes)	Total Imported into China - 2009 (Tonnes)	Tariff Fill Rate (%)
<b>Cane and beet sugar</b>						
17011200	Raw beet sugar, in solid form	1	50	1,945,000	1,064,000	54.70%
17019100	Cane or beet sugar, chemically pure sucrose containing added flavouring or colouring	1	50			
17019910	Granulated sugar	1	50			
17019920	Superfine sugar	1	50			
17011100	Raw cane sugar, in solid form	1	50			
17019990	Other cane or beet sugar, chemically pure sucrose, in solid form, nes	1	50			
<i>Sugar lines not subject to a quota</i>						
<b>Cane and beet sugar by-products</b>						
17031000	Cane molasses		8			
17039000	Molasses resulting from extraction/refining of sugar, nes		8			
23032000	Beet pulp, bagasse & other waste of sugar manufacture		5			

<u>Chinese Wheat Tariff Lines</u>							
Tariff Line	Description	In-Quota Tariff Rate (%)	Over Quota Tariff Rate (%)	Tariff Volume (Tonnes)	Total Imported into China - 2009 (Tonnes)	Tariff Fill Rate (%)	Notes
10011000	Durum wheat	1	65				



11010000	Wheat or maslin flour	1	65	9,636,000	904,000	9.38%	China's wheat quota is administered by a state trading enterprise.
10019010	Wheat or maslin seed excl. duraum wheat	1	65				
10019090	Other wheat or maslin nes	1	65				
11031100	Wheat, meal	1	65				
11032010	Wheat pellets	1	65				
<i>Wheat lines not subject to a quota</i>							
11090000	Wheat gluten		18				
11081100	Wheat starch		20				