

EMBARGO: Sunday March 4th, 9.00 pm.

Changing Chinese appetites create big opportunities for agriculture

Rapid urbanisation and growing consumer wealth are creating big opportunities for Australian agricultural products in China, according to the authors of a series of papers contained in the latest edition of the *Farm Policy Journal*, released today by the Australian Farm Institute.

Papers in the Journal provide Australian, Chinese and United States perspectives on the changes that are occurring in Chinese agriculture and in Chinese consumer markets generally, and on the implications of those changes for Australian farmers.

'While the papers present a range of different perspectives on China and the Chinese agricultural sector, there are several conclusions about which there is strong agreement', according to the Executive Director of the Australian Farm Institute, Mick Keogh.

'Firstly, while China has been largely self-sufficient in food over the past decade, there are signs that Chinese agriculture is reaching production limits, as statistics consistently highlight reductions in land and water resources available to the Chinese agricultural sector. This means that, in order to meet growing consumer demand, China is likely to increase agricultural imports over the next decade – a trend that is already obvious from trade statistics.'

'Secondly, rapid urbanisation and growing consumer wealth has resulted in marked changes in Chinese diets, as staples such as cereals and rice decline in importance and the consumption of higher value products, such as fruit and vegetables, fish, dairy and meat, grows.'

'Australia has the potential to become an increasingly important supplier of agricultural products to China, although it is not alone in targeting that market. Agricultural exporting countries with lower costs of production such as Brazil already have a significant share of some markets in China.'

'Australia is a competitive supplier, especially of agricultural products that require large areas of land to produce, and these are also some of the products that are experiencing the biggest increases in demand in China. These include oilseeds and feed grains, and meat and dairy products in particular.'

'Conversely, the rate of growth that has occurred in Chinese fruit and vegetable production makes it likely that China will increasingly become a significant exporter, creating strong import competition in Australian domestic markets.'

'Australia's advantage lies in its reputation as a supplier of high quality produce, with low disease risk and excellent quality and safety standards. As Chinese consumers grow in wealth and become increasingly discerning about their food, Australia is well positioned to become a preferred supplier of quality agricultural products to the high-value end of the Chinese market.'

**Further information: Mick Keogh BH (02) 9690 1388 AH 0418 256 066
(Abstracts of Journal Papers Follow)**

Feeding a Growing Dragon with Global Markets

Dr Fred Gale, Senior Economist, Economic Research Service, United States Department of Agriculture (USDA)

China remained surprisingly self-sufficient in agricultural commodities until a boom in soybean, cotton, vegetable oil and animal hide imports pushed it into net importer status during the years following its accession to the World Trade Organization (WTO). Investments in industrial capacity coinciding with WTO accession drive China's spectacular Gross Domestic Product growth figures and its agricultural trade. As China faces the realities of growing resource scarcity, it will remain an important participant in global agricultural trade and will increasingly look to global markets for raw materials.

Agriculture in China: Key Drivers and Emerging Opportunities

Ivan Roberts, International Branch, Australian Bureau of Agricultural and Resource Economics (ABARE)

David Barrett, International Branch, Australian Bureau of Agricultural and Resource Economics (ABARE)

Neil Andrews, International Branch, Australian Bureau of Agricultural and Resource Economics (ABARE)

China's economic growth and urbanisation is bringing about profound changes in food demand and is posing challenges for its agricultural industries. Urban incomes are around three times as high as rural incomes, and the growth in incomes in recent years and continued urbanisation are driving changes in food demand. The increasing affluence of urban consumers has led to a move away from starchy staples toward more varied diets that include increased quantities of meat, dairy and seafood products. To date, the agricultural sector has been able to adjust its production mix to meet this changing demand for food. However, water constraints and land degradation in some regions are placing tremendous pressure on China's agricultural production base and it is questionable whether China can continue to meet its domestic food requirements. The prospect for significant increases in meat production means that there is potential for China to become a large importer of feed grains and increase its imports of oilseeds. China is also likely to become more dependent on wheat imports. China's demand for dairy products and sugar are expected to increase more rapidly than production, and increased imports are likely, enhancing the prospects of increased Australian exports to China.

Australian Agriculture and the Proposed Free Trade Agreement with China

Professor John Longworth, Professor Emeritus of Agricultural Economics, The University of Queensland

Negotiations between Australia and China for a comprehensive free trade agreement (FTA) have now entered their third year. For Australia, the inclusion of agriculture in any FTA is vital. Whilst some agricultural exports to China have expanded significantly, especially in the last five years, in general the trade with China is subject to major barriers that could be removed under an FTA. On the other hand, the widening rural-urban income divide has become a major economic and political issue in China and the Chinese consider that increased imports from Australia under an FTA could further exacerbate this problem. A major task of the Australian Government negotiators and industry spokespeople has been to improve the understanding of the Chinese side of the real climatic and other physical constraints seriously limiting the scope for expansion in the Australian agriculture sector. However, progress towards improving access to the Chinese market for Australian agricultural exports under the proposed Sino-Australian FTA has been extremely limited so far.

When Dragons and Kangaroos Trade:

China's Rapid Economic Growth and its Implications for China and Australia

Dr Jikun Huang, Director and Professor, Center for Chinese Agricultural Policy, Chinese Academy of Sciences

Jun Yang, Research Fellow, Center for Chinese Agricultural Policy, Chinese Academy of Sciences

Dr Scott Rozelle, Professor, Stanford University and Shorenstein Asia-Pacific Research Center, Freeman Spogli Institute of International Studies

China's economy has experienced remarkable growth since its economic reform and is expected to maintain high growth in the coming decades. This paper looks at the implications of China's rapid growth and emergence in the global economy for its own economy and for the rest of world, with specific focus on Australia. The conclusion is that China will emerge as the second largest importer and exporter in the world by 2020. Although imports of many land-intensive agricultural products are projected to rise, exports of most labour-intensive products (eg horticulture, fishery and processed foods) are also going to grow in the future, which implies that China needs to continue restructuring its agricultural sector as the economy moves towards globalisation. The results also show that the opportunities from China's economic growth for the rest of world are projected to far surpass the adverse effects. With the exception of Russia, it is predicted that Australia will be the single biggest winner from China's rise in world markets.

Sanitary and Phytosanitary Developments in China

Craig Burns, Executive Manager, International Division, Australian Department of Agriculture, Fisheries and Forestry

Australia's trade officials are currently negotiating a free trade agreement (FTA) with China. As a result of recent trade liberalisation, incomes in China are on the rise and consumer preferences are becoming more sophisticated, driving demand for more varied foods and improved safety standards. In line with this trend, Chinese retailers and government agencies are also becoming more sophisticated, implementing new and revised technical requirements for supply chains to meet. This paper discusses one of the key sanitary and phytosanitary (SPS) issues in China – food safety. It also covers the importance of including SPS chapters in an FTA and addresses the common misconception that this compromises Australia's strict level of SPS protection.

China's Dairy Development and Opportunities for Australian Cattle Supply

Michael Clarke, Principal, AgEconPlus

The Chinese Government is committed to the development of a national dairy industry, which it views as a 'sunrise' opportunity for China. This commitment will extend to favourable policies, financing and import arrangements. Dairy cattle numbers in China will grow in response to increased consumption. Dairy cattle imports are likely to continue but at a lower annual level than the peak of 132,000 head achieved in 2004. Holstein-Friesian heifers from Australia and New Zealand will dominate the import market for considerable time. With a protocol requirement in place until at least 31 December 2007 stipulating that one parent must have three generations of pedigree data and the other parent simply identified, Australia has capacity to supply approximately 90,000 head of Holstein-Friesian heifers per annum (pa). A two-parent pedigree protocol would more than halve this number to something like 40,000 head pa. Risks to the Australian dairy heifer export trade with China include Australia's supply of suitable dairy heifers; change in Chinese Central Government policy favouring imports of live Australian dairy cattle; and damage to Australia's reputation as a quality supplier caused by underperforming stock.