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Understanding how China's tariff on Australian barley exports will affect the agricultural sector

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Introduction

On 19 November 2018 China initiated an anti-dumping and countervail investigation into Australian barley exported to China between 1 October 2017 and 20 September 2018. Dumping occurs when a company exports a product at a price lower than the price it normally charges on its own home market. Countervail cases examine whether dumping has occurred because a foreign government has provided subsidies or tax benefits to its producers. (For more on anti-dumping and countervailing duties, refer to World Trade Organization (2020)). After an 18 month investigation the Chinese Ministry of Commerce ruled that both dumping and subsidisation had occurred. On 19 May 2020 it imposed a combined 80.5% tariff on Australian barley, comprised of a 73.6% anti-dumping duty and a 6.9% countervailing duty.

The Australian Government does not agree with China's ruling on both dumping and subsidisation (Statement by Trade Minister, 20 May 2020). While the government has the right to contest the ruling via the WTO's Dispute Settlement process, as of June 2020 it had not announced it would do so. Until actions are taken and the tariffs are reduced or repealed, the Australian grain industry will be forced to adapt to a changed trading environment.

Short term impacts

The immediate impact of the new tariffs on Australian barley production is likely to be minimal. Up to 19 May the major driver leading into the 2020–21 season had not been the imminent ruling on the anti-dumping case with China, but the improved seasonal conditions across south-eastern Australia. At the time the tariff was implemented, plantings were mostly complete. Area planted to barley in 2020–21 is forecast to be 8% higher than in 2019–20, with assumed improvements to yields forecast to result in a 17% increase in production (ABARES 2020).

The impact on the Australian barley industry from China's new tariff will be from the loss of trade with China, a premium market. The magnitude of China's barley tariff has effectively made Australian barley uncompetitive in that market. To mitigate losses, it is anticipated that Australian barley will be diverted away from China towards alternative, lower-value markets, including the lower-value domestic feed market.

Lower domestic and export prices resulting from forecast increased supply and weaker global demand are expected to put pressure on producers' barley margins, particularly in the short term. However, barley production is expected to remain profitable since it is a relatively low-input crop and has agronomic value as part of crop rotations.

Impacts lessened in the medium term

ABARES conducted some indicative computable general equilibrium (CGE) modelling to estimate possible medium-term impacts on Australia's barley trade and, more broadly, on its agricultural sector, from China's 80.5% tariff on Australian barley. Details of the model are set out in [Cao, Thorpe & Fell \(2020\)](#). The modelling examines outcomes by 2025, a timeframe which allows producers to adjust to the new trading environment.

There are three key assumptions underlying the modelled scenarios.

1. That China maintains the additional tariffs for the full 5-year duration of its determination.
2. There is no change to Australia's access to its existing markets, that is, there are no barley shipments to markets to which trade does not currently take place.
3. No activities that may stimulate demand for Australian barley as a preferred product in existing markets are taken into account. The reason these activities are excluded from the analysis is because the costs of undertaking such activities are unknown at this stage.

The modelled outcomes effectively reflect a worst-case scenario.

Barley trade will be lower, but there will be adjustments

ABARES modelling indicates that Australian exports of barley to China would cease under an 80.5% tariff. Trade has averaged around \$1.2 billion per year between 2014–15 and 2018–19. In the short run, the costs are likely to be higher compared to those once producers, and the industry more broadly, have had time to respond. Altered planting decisions by producers and changes in the markets to which Australia exports barley will lessen the negative impact of China's punitive tariff.

In response to the lost trade in barley to China, there would be an increase in barley exports to other countries. Assuming no additional measures were taken by industry or the Australian government to stimulate demand for Australian barley in alternative markets, the modelling results indicate that in the medium term around 40% of the barley exports originally destined for China would find alternative markets.

Barley export returns would also fall

Based on current returns, the barley trade diverted to alternative markets is expected sell at a lower price compared to export unit values to China prior to 19 May (DAWE 2020). The combination of this price fall and the diversion of exports results in a modelled fall in barley export returns of \$330 million.

Producers will adapt, lessening potential losses

In the years after the tariff has been imposed, producers would change what they plant, shifting to the next best alternative crop where possible. This shift would help offset the potential losses to farm cash receipts and to the agricultural sector overall (Figure 1).

Figure 1 Production decisions lessen the impact of the new tariff by 2025



In 2025 it is estimated that the gross value of barley production would be around 30% lower than what is projected to have occurred without the tariff (around \$720 million in 2019–20 dollars) due to reduced barley plantings combined with a lower expected price. However, to

offset this loss, producers would increase plantings of the next best alternative crop or activity; the land currently used for barley production would not be left idle.

It is estimated that Australia's gross value of production of wheat and other crops would increase by around \$220 million by 2025 (in 2019–20 dollars). For livestock it would increase by around \$250 million, as a result of cheaper feed grains and other production adjustments. Together, these increases limit the total fall in Australia's gross value of agricultural production to around \$250 million.

In terms of farm cash receipts at the industry level, losses to the cropping sector are estimated to be around \$500 million by 2025, but there would be offsetting gains to the livestock sector of around \$250 million (in 2019–20 dollars).

Exports of other products would increase

With Australia's agricultural production diverted to other activities, exports of other agricultural products in 2025 are estimated to increase. This means the value of Australia's total agricultural exports (to all countries) would fall by less than what is lost in the trade with China. Only around 30% of the value of lost barley exports to China, equivalent to around \$330 million, is estimated to be lost to the total value of agricultural trade in Australia.

Growing value in alternative markets could help reduce the overall loss to the sector

The estimated fall in Australian gross value of agricultural production of around \$250 million in 2025 represents the 'worst case' outcome from the imposition of China's 80.5% tariff. This modelled outcome does not assume any new sectoral or market adjustments. These could include, for example, government or industry initiatives to raise awareness and promote Australian barley in growing markets, developing new market access, or partnering with industry bodies to increase demand for malting barley, in particular. Allowing for these adjustments would reduce the estimated fall in the gross value of agricultural production.

China would also experience impacts

The imposition of the 80.5% tariff on Australian barley will also compel Chinese buyers to shift to alternative sources for malting barley. This is likely to lead to lower returns for their products compared to the returns derived from using Australian barley.

ABARES modelling shows that, as a result of the tariff, the gross value of Chinese agricultural production falls by about \$3.6 billion—around three times the average value of China's barley imports from Australia between 2014–15 and 2018–19.

The expected fall in the value of China's agricultural production occurs because it is difficult and costly for users of Australian barley to shift to other sources. Because barley is used as an input in downstream value-adding activities, the impact of the switch to alternative sources is larger than just the import value of the grain. The need to find alternative supplies of barley leads to an increase in demand for Chinese-grown barley. In response, Chinese agriculture shifts towards a less efficient production mix of coarse grains (corn and barley), which further compounds the effect of the tariff.

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