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Key agricultural outcomes of recent free trade agreements

Matthew Hyde

Since 2013 the Australian Government has concluded free trade agreement (FTA) negotiations with the Republic of Korea, Japan and China. These agreements will reduce or eliminate import tariffs on many Australian agricultural exports to these countries over the next 20 years.

This article discusses the key agricultural outcomes of the China–Australia Free Trade Agreement (ChAFTA) and summarises the Korea–Australia Free Trade Agreement (KAFTA) and the Japan–Australia Economic Partnership Agreement (JAEPA).

Key agricultural outcomes of the China–Australia Free Trade Agreement

On 17 November 2014 the Australian and Chinese governments concluded negotiations for ChAFTA. China has been Australia's largest export market for agricultural commodities since 2010–11, averaging around 19 per cent of total agricultural exports in the four years to 2013–14, worth around \$6.8 billion. It is anticipated that the agreement will enter into force by late 2015.

In 2013 Australia supplied 8 per cent of China's US\$112 billion agricultural imports (excluding seafood) and was the third-largest individual supplier behind the United States (23 per cent) and Brazil (20 per cent). In 2013 Australia was the principal supplier to China of barley (74 per cent), wool (69 per cent) and beef (57 per cent).

Under ChAFTA, China's import tariffs on many Australian agricultural exports—including dairy products, beef, sheep meat, hides and skins, livestock, seafood, wine and horticulture—are to be removed over periods of up to 11 years. Most products will be tariff free within four years, while tariffs on some grains, including grain sorghum and barley, will be eliminated when the agreement enters into force. For wool, Australia will obtain exclusive access to a tariff-free quota that will start at 30 000 tonnes clean equivalent and grow to almost 45 000 tonnes over eight years. Australia will retain access to China's multilateral wool tariff-rate quota (TRQ), which has an in-quota tariff of 1 per cent.

Australia's exports of wheat, rice, cotton, sugar, canola and vegetable oils receive no tariff concessions or additional market access under ChAFTA. However, tariff concessions on imports of these products have been excluded from all China's existing FTAs. China's wheat and rice imports are currently subject to a 1 per cent tariff under the existing multilateral TRQs, which are rarely filled because China is a major world producer of both grains. China also imports cotton and sugar under multilateral TRQs, although the quotas for these commodities are often binding and over-quota tariff rates are applied. Imports of canola and vegetable oils face tariffs of up to 25 per cent.

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Key agricultural outcomes of recent free trade agreements continued

Key agricultural outcomes under the China–Australia Free Trade Agreement

Commodity	Outcome
Milk powders	Removal of 10 per cent tariff on skim and whole milk powders over 11 years, with a safeguard measure on imports of whole milk powder.
Cheese	Removal of 15 per cent tariff on blue vein cheeses over four years and 12 per cent tariff on all other cheeses over nine years.
Fluid milk	Removal of 15 per cent tariff over nine years.
Other dairy products	Removal of 15 per cent tariff on infant formula over four years. Removal of tariffs between 10 per cent and 19 per cent on ice-cream, lactose, casein and milk albumins over four years. Removal of 10 per cent tariff on butter and yoghurt over nine years.
Beef	Removal of tariffs between 12 per cent and 25 per cent on beef within nine years, with a safeguard measure. Removal of 12 per cent tariff on beef offal over seven years.
Sheep meat	Removal of tariffs between 12 per cent and 23 per cent over eight years.
Wool	Creation of a tariff-free quota for Australian wool. The quota will commence at 30 000 tonnes (clean equivalent) and grow by 5 per cent a year over eight years.
Sheep and bovine hides and skins	Removal of tariffs between 5 per cent and 14 per cent over seven years.
Live animals	Removal of tariffs up to 10 per cent over four years.
Pig meat	Removal of tariffs up to 20 per cent over four years.
Seafood	Removal of tariffs between 10 per cent and 15 per cent on all seafood (excluding sharkfin), including the 14 per cent tariff on abalone and the 15 per cent tariff on rock lobster, over four years.
Wine	Removal of 20 per cent tariff on bulk wine and 14 per cent tariff on bottled wine over four years.
Horticulture	Removal of all tariffs on horticulture, including tariffs up to 25 per cent on nuts over four years and tariffs up to 30 per cent on citrus over eight years.
Grains	Removal of 3 per cent tariff on barley and 2 per cent tariff on grain sorghum on commencement of the agreement.

Source: Australian Department of Foreign Affairs and Trade 2015, 'China–Australia Free Trade Agreement. Fact sheet: agriculture and processed food', available at dfat.gov.au/trade/agreements/chafta/fact-sheets/Pages/fact-sheet-agriculture-and-processed-food.aspx

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Key agricultural outcomes of recent free trade agreements continued

Safeguard measures

Under ChAFTA, China will have the option to impose specific safeguard measures on imports of beef and whole milk powder from Australia. These measures are designed to protect the Chinese industry from injury caused by significant increases in imports over a short period. Safeguard measures can be applied if the volume of product imported from Australia exceeds an annual threshold. If applied, the import tariff will be restored to the most-favoured nation (MFN) applied tariff rate for the remainder of the calendar year.

Under ChAFTA, the beef safeguard threshold starts at 170 000 tonnes, which is about 10 per cent higher than China's imports of Australian beef in 2013. China will increase the threshold by 3 per cent a year over the first 10 years of the agreement. Australia will also face a discretionary safeguard on whole milk powders. The safeguard trigger volume will start at 17 500 tonnes and increase by 5 per cent a year—well above current and past trade levels. Both safeguards have an automatic review to allow their removal if Australian trade is found not to be causing injury to the Chinese industry.

China's existing free trade agreements

At the start of 2015, China had nine FTAs in effect, covering trade with 17 countries. China commenced agreements with the ASEAN countries in 2005, Chile in 2006, Iceland and Pakistan in 2007, New Zealand in 2008, Singapore in 2009, Peru in 2010, Costa Rica in 2011 and Switzerland in 2014.

Compared with China's other FTAs, the agricultural outcomes achieved by Australia in ChAFTA have shorter tariff elimination time frames for some products (such as nuts and some other horticultural products) and fewer safeguards.

China–Australia Free Trade Agreement outcomes for Australian agricultural commodities

Dairy

In 2013 China imported US\$7.2 billion of dairy products, representing a 900 per cent increase over the previous decade in real terms. Australia supplied around 4 per cent of that total, down from 10 per cent a decade earlier. Australia's market share was lost mainly to New Zealand—the dominant supplier of dairy products to China—which had an import share of around 51 per cent by value in 2013.

New Zealand is the only major dairy exporter with an existing free trade agreement with China. China's imports of New Zealand dairy are dominated by milk powders, which are scheduled to be tariff free in 2019. Assuming ChAFTA comes into force in 2015, China's imports of Australian milk powders will be subject to a tariff of 5 per cent in 2019. Australian exports of milk powder to China will be tariff free in 2026.

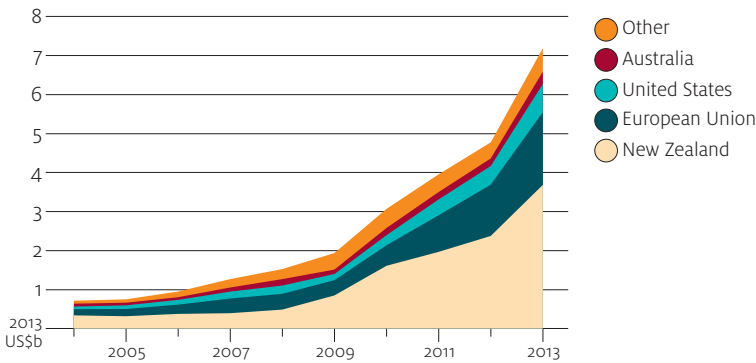
Under ChAFTA, a dairy-specific safeguard measure (to be reviewed in 15 years) is imposed only on imports of Australian whole milk powder. This compares with the imposition of separate safeguard measures on imports of many New Zealand dairy products. The safeguard measures in the New Zealand–China Free Trade Agreement (NZ–China FTA) apply to imports of fluid milk, milk powders, cheese and butter.

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Key agricultural outcomes of recent free trade agreements continued

The annual safeguard volume for milk powder has been exceeded by New Zealand every year since 2009. In 2013 the annual threshold volume was breached as early as 28 January. Under the specific safeguard measures, the MFN tariff rate of 10 per cent has been applied to imports of New Zealand milk powder for the remainder of each calendar year.

China dairy imports by source

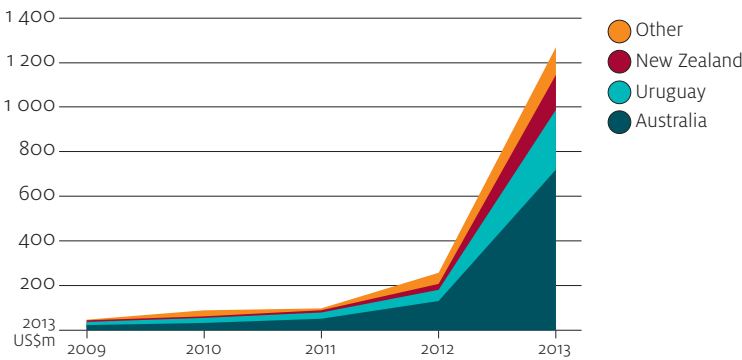


Source: United Nations Commodity Trade Statistics Database (UN Comtrade)

Beef

China's total beef imports were US\$1.3 billion in 2013, almost 400 per cent higher than the previous year. Australia was the major beneficiary of the strong import growth after China banned beef imports from Brazil and the United States because of concerns over bovine spongiform encephalopathy. An agreement to allow imports of Brazilian beef was signed in November 2014, although no official trade has been recorded at time of publication.

China beef imports by source



Source: United Nations Commodity Trade Statistics Database (UN Comtrade)

continued ...

Key agricultural outcomes of recent free trade agreements continued

Under ChAFTA, all import tariffs on Australian beef will be removed within nine years, which is a similar time frame to that agreed to under the NZ–China FTA. Imports of Australian beef will be subject to a specific safeguard measure, while New Zealand beef is not. By 2016 China's imports of New Zealand beef are scheduled to be tariff free. Assuming ChAFTA comes into force in 2015, Australian beef will be tariff free in China by 2024.

China applies different import tariff rates and export establishment registration requirements according to the type of beef imported. Almost 80 per cent of China's imports of Australian beef were frozen cuts in 2013, which are subject to a tariff rate of 12 per cent, compared with a tariff of 25 per cent on carcasses. Imports of chilled beef ceased in September 2013 as a result of Chinese registration requirements. However, shipments of chilled beef imports from Australia recommenced in July 2014, after the Chinese Government approved 10 Australian establishments to commence chilled beef exports on a trial basis.

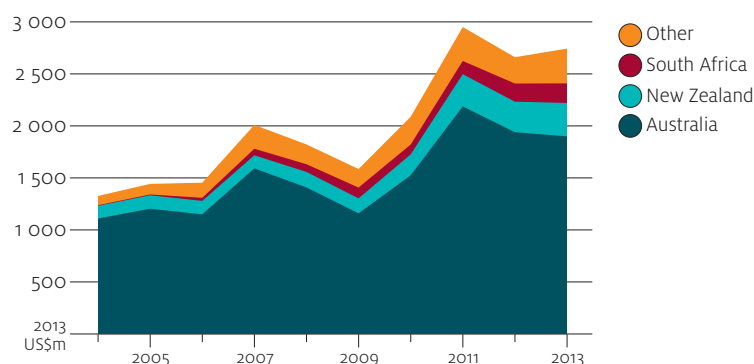
Wool and sheep meat

Wool

China has been Australia's largest export market for wool since 1992. Australia's greasy wool exports to China were around 234 000 tonnes in 2013–14, valued at \$1.7 billion. This accounted for 77 per cent of Australia's total greasy wool exports. China's total imports of wool doubled in the 10 years to 2013 in real terms to US\$2.7 billion. Over that period, Chinese imports of New Zealand and South African wool increased significantly.

New Zealand is the second-largest supplier of wool to China, with an import market share of 12 per cent in 2013, compared with Australia's 69 per cent in that year. New Zealand exports mostly coarse wool to China (92 per cent in volume terms), whereas Australia principally exports finer wool (84 per cent in volume terms).

China raw wool imports by source



Source: United Nations Commodity Trade Statistics Database (UN Comtrade)

continued ...

Key agricultural outcomes of recent free trade agreements continued

China's wool imports are managed through a multilateral TRQ set at 287 000 tonnes, with a 1 per cent in-quota tariff and a 38 per cent out-of-quota tariff. Although China's wool imports usually exceed the quota, the out-of-quota rate has not been applied by the Chinese Government in the past three years.

Under ChAFTA, Australia gains access to an additional tariff-free wool quota. When ChAFTA enters into force, the volume of the quota will be 30 000 tonnes clean equivalent (or 43 000 tonnes greasy). Australia will also retain access to the multilateral TRQ.

Sheep meat

Australia and New Zealand are the two dominant suppliers of sheep meat to China, with New Zealand supplying 57 per cent of China's imported sheep meat and Australia supplying 39 per cent. Although China's overall imports of sheep meat increased 17-fold in the decade ending 2013, import market shares between Australia and New Zealand have remained largely unchanged. In 2013–14 Australian sheep meat exports to China totalled \$393 million, accounting for around 18 per cent of Australia's overall sheep meat exports.

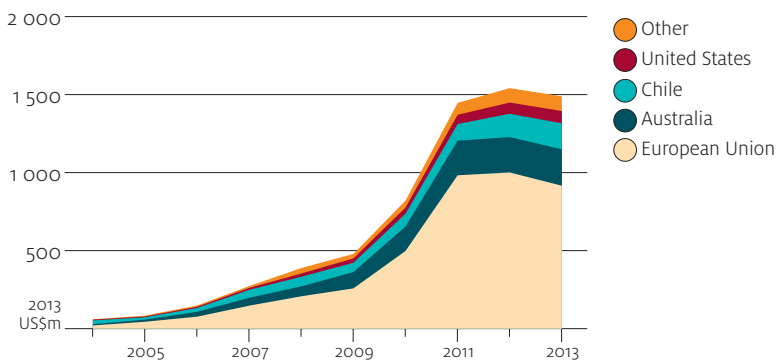
Under ChAFTA, China's imports of Australian sheep meat will be tariff free in eight years, the same time frame achieved in the NZ–China FTA. Sheep meat imports from New Zealand will be tariff free in 2016. Assuming ChAFTA comes into force in 2015, Australian sheep meat imports will be tariff free in 2023.

Wine

The value of China's table wine imports increased 23-fold in the decade to 2013 in real terms, reaching US\$1.5 billion. In that year, Australia supplied 16 per cent of China's table wine imports. Its main competitors are the European Union (which exports high quality bottled wine) and Chile (which typically exports lower quality bulk wine). Other smaller volume competitors include the United States, Argentina and New Zealand.

In China, premium bottled table wines dominate the import market, as opposed to lower value bulk wine. The share of imported bottled table wine, by value, grew from 51 per cent in 2004 to 93 per cent in 2013. Almost all China's imports of Australian wine in that year were of bottled table wine.

China table wine imports by source



Note: Table wines do not include sparkling or fortified wines.

Source: United Nations Commodity Trade Statistics Database (UN Comtrade)

continued ...

Key agricultural outcomes of recent free trade agreements continued

Of the many countries that export a significant volume of wine to China, only Chile and New Zealand have an FTA with China. Since the implementation of the Chile–China Free Trade Agreement in 2006, the import value of Chilean wine in China grew almost sevenfold in real terms in the period to 2013. The import value of New Zealand bottled wine also increased significantly between 2008 and 2013, although from a low base.

Under ChAFTA, imports of Australian wine will be tariff free after four years. This will provide the same preference currently enjoyed by Chile and New Zealand and a competitive advantage for Australian wine imports against imports from the European Union and the United States, Australia's principal competitors in the bottled wine segment of China's import market. Countries without an FTA with China will continue to face the MFN import tariffs of 20 per cent on bulk wine and 14 per cent on bottled wine.

Horticulture

The value of Australian horticultural exports to China was around \$82 million in 2013–14. Most of these exports were fruit and tree nuts, which each totalled \$37 million. Citrus fruit comprised the largest share of fruit exported and China was the third-largest export market for Australian citrus fruit in that year. Macadamia nuts comprised the largest share of the export value of tree nuts to China.

Under ChAFTA, China's imports of Australian nuts and table grapes will be tariff free after four years, while imports of citrus fruit will be tariff free within eight years. None of Australia's major competitors in China's citrus fruit or macadamia nut import market have an FTA with China.

Table grapes are China's second-largest fruit import, valued at US\$515 million in 2013. Chile and Peru compete with Australia in China's table grapes market and both countries have FTAs with China. After implementation of the Chile–China Free Trade Agreement in 2006 and the Peru–China Free Trade Agreement in 2010, China's imports of table grapes from Chile increased by 448 per cent and from Peru by 384 per cent, by value, in the period to 2013. The two countries now dominate the market, with import shares of 45 per cent for Chile and 19 per cent for Peru, by value, in 2013. Their products were tariff free in China as of 1 January 2015.

Key agricultural outcomes of the Japan–Australia Economic Partnership Agreement

On 15 January 2015 the Japan–Australia Economic Partnership Agreement (JAEPA) came into force. Under JAEPA, Australian exports of beef, cheese, wine, horticulture, seafood, vegetable oils, livestock, pork, honey, wheat and feed barley have preferential tariff access to Japan.

Tariff cuts under JAEPA occur on 1 April each year. Australia received its first cuts when JAEPA entered into force on 15 January 2015 and will receive its second round of tariff cuts and quota increases on 1 April 2015. This means tariff cuts and quota increases have been further frontloaded.

continued ...

Key agricultural outcomes of recent free trade agreements continued

Japan currently has 14 economic partnership agreements in force, including an agreement with the ASEAN countries. Of these, only Mexico and Australia have achieved preferential access for beef, Australia's largest agricultural export to Japan.

Under JAEPA, Australia is now the only country that can export feed wheat and feed barley to Japan without participating in a complex quota system. Australia now also has exclusive access to TRQs for cheese, pork and other products.

Key agricultural outcomes under the Japan–Australia Economic Partnership Agreement

Commodity Outcome

Beef

The 38.5 per cent tariff on frozen beef was reduced to 30.5 per cent on commencement of the agreement. It will be cut by a further 2 percentage points in the second year and 1 percentage point in the third year, before declining evenly to 19.5 per cent by 1 April 2031.

The 38.5 per cent tariff on chilled beef was reduced to 32.5 per cent on commencement of the agreement. It will be cut by 1 percentage point a year for the following two years, before declining evenly to 23.5 per cent by 1 April 2028.

Japan's 50 per cent global snapback tariff will no longer apply to imports of Australian beef and will be replaced by a discretionary safeguard.

Reduction of duties on preserved and prepared beef and beef offal. Australia will also receive access to growing duty-free TRQs for these products.

Dairy

Creation of a bilateral duty-free TRQ for imports of Australian unprocessed cheese, which started at 4 000 tonnes on commencement of the agreement. The quota limit will increase by 1 000 tonnes on 1 April 2015 and evenly thereafter to 20 000 tonnes on 1 April 2034.

Creation of preferential TRQs for other types of cheese imported from Australia, including grated and powdered cheese, processed cheese and unprocessed cheese for making shredded cheese, with quota limits increasing for the first 10 years of the agreement.

Grains

Exports of feed barley and feed wheat to Japan will be tariff free and outside the multilateral TRQ system. Special safeguard measures will no longer apply to imports of Australian feed barley and feed wheat.

Creation of a large Australia-only duty-free TRQ for unroasted malt. In the first year of the agreement, Australia will be able to export 8 600 tonnes duty free (assessed pro-rata because the first year extends only from 15 January 2015 to 31 May 2015), with the quota limit growing to 86 000 tonnes by 1 April 2024.

continued ...

Key agricultural outcomes of recent free trade agreements continued

Sugar	The 21.5 yen/kilogram tariff on high polarity raw sugar was eliminated and the domestic levy was reduced on commencement of the agreement.
Oilseeds and oils	The 3.5 per cent tariff on fish liver oil and the 7 per cent tariff on other fish oil were eliminated on commencement of the agreement. Tariffs of between 10.9 yen/kilogram and 13.2 yen/kilogram on canola oil and 8.5 yen/kilogram on cottonseed oil will be removed in equal stages by 1 April 2024.
Horticulture	<p>The 3 per cent tariffs on asparagus and many vegetables and 5 per cent tariff on macadamia nuts were eliminated on commencement of the agreement.</p> <p>The 16 per cent tariff on oranges will be removed through equal annual reductions by 1 April 2024 (for oranges imported between 1 June and 30 September).</p> <p>Removal of tariffs of up to 34 per cent on most fresh and canned fruit and vegetables over periods of up to 15 years.</p>
Wine	Removal of the 15 per cent or specific tariff of 82 yen/litre for sparkling wine and up to 125 yen/litre for wine in two-litre containers through equal annual reductions by 1 April 2021. Removal of tariffs of up to 125 yen/litre for wine containers of up to 150 litres by 1 April 2024. Wine in containers larger than 150 litres became duty free on commencement of the agreement.
Seafood	Tariffs of up to 5 per cent for prawns and rock lobster and up to 7 per cent for abalone were eliminated on commencement of the agreement. Tariffs of 3.5 per cent on southern bluefin tuna and salmon are to be removed by 1 April 2024.
Pig meat	A preferential TRQ for Australia was established on commencement of the agreement, starting at 5 600 tonnes and rising evenly to 14 000 by 1 April 2019. Japan's safeguard measures on pig meat imports will no longer apply to imports from Australia.

Source: Australian Department of Foreign Affairs and Trade 2014, 'Japan–Australia Economic Partnership Agreement. Fact sheet: agriculture and processed food', available at dfat.gov.au/trade/agreements/jaepa/fact-sheets/Pages/fact-sheet-agriculture-and-processed-food.aspx

Key agricultural outcomes of the Korea–Australia Free Trade Agreement

On 12 December 2014 the Korea–Australia Free Trade Agreement (KAFTA) entered into force. Under KAFTA, tariffs are to be eliminated on a wide range of agricultural commodities, including beef, wheat, sugar, wine and seafood.

continued ...

Key agricultural outcomes of recent free trade agreements continued

Tariff cuts under KAFTA occur on 1 January each year. Australia received its first cuts when the agreement entered into force on 15 December 2014 and received its second round of tariff cuts and quota increases on 1 January 2015.

The main beneficiaries of the agreement are expected to be exporters of beef, cheese, malting barley and malt, which are currently subject to relatively high import tariffs. For a more detailed analysis of the agricultural outcomes of KAFTA, see 'Korea–Australia Free Trade Agreement' (ABARES 2014).

Key agricultural outcomes under the Korea–Australia Free Trade Agreement

Commodity	Outcome
Beef	Removal of 40 per cent tariff on beef and 18 per cent tariff on bovine offal by 2028. Phasing out of import tariffs on edible offal, including from bovine animals, from the current applied rate of 18 per cent. The 72 per cent tariff on processed beef products will also be phased out.
Sugar	The 3 per cent tariff on raw sugar was locked in at zero on commencement of the agreement. Korea has in recent years unilaterally applied a 0 per cent tariff. Removal of 35 per cent tariff on refined sugar through equal annual reductions by 2031.
Cheese	Immediate duty-free quota, which started at 4 630 tonnes and grows until out-of-quota tariffs on cheeses listed in this table are eliminated:
– Cheddar cheese	Removal of 36 per cent tariff through equal annual reductions by 2026.
– Grated and powdered cheese and speciality cheeses	Removal of 36 per cent tariff through equal annual reductions by 2033.
– Mozzarella, cream cheese, processed cheese and all other cheeses	Removal of 36 per cent tariff through equal annual reductions by 2031.
Butter	Removal of 89 per cent tariff through equal annual reductions by 2028. Over this period, Australia will receive access to a tariff-free quota. The quota started at 113 tonnes, is now 115 tonnes and increases to 146 tonnes by the end of the tariff phase-out period. After 2028 Australia will have unlimited duty-free access.
Sheep and goat meat	Removal of 22.5 per cent tariff on sheep and goat meat through equal annual reductions by 2023.
Pig meat	Removal of 22.5 per cent tariff on fresh pig meat by 2028 and 25 per cent tariff on some frozen pig meat by 2018.

continued ...

Key agricultural outcomes of recent free trade agreements continued

Wine	The 15 per cent tariff on wine was eliminated on commencement of the agreement.
Horticulture	<p>The 24 per cent tariff on cherries, 8 per cent tariff on almonds and 21 per cent tariff on dried grapes were eliminated on commencement of the agreement.</p> <p>Removal of tariffs ranging from 27 per cent to 54 per cent on products such as macadamia nuts, fruit juices, mangoes, asparagus and lentils over three to 10 years.</p> <p>Elimination of tariffs during Australia's exporting seasons on potatoes for chipping (Australia's largest horticultural export with current tariff of up to 304 per cent) effective immediately.</p> <p>Phasing out of the 50 per cent tariff on oranges, 24 per cent tariff on fresh table grapes and 144 per cent tariff on mandarins.</p>
Wheat	The 1.8 per cent to 3 per cent tariff on wheat was eliminated on commencement of the agreement.
Malt and malting barley	<p>Immediate and growing duty-free quota for malt and malting barley and elimination of out-of-quota tariffs of 269 per cent on malt and 513 per cent on malting barley over 15 years by 2028.</p> <p>During that period, Australia will have access to a single tariff-free quota across both goods. The quota started at 10 000 tonnes and will increase to almost 13 000 tonnes by the end of the tariff phase-out period.</p>
Oilseeds	The 3 per cent tariff on cottonseed was eliminated on commencement of the agreement, and the 8 per cent and 10 per cent tariffs on canola oil products will be eliminated through equal annual reductions by 2023.
Seafood	Key products, such as frozen southern bluefin tuna (current tariff of 10 per cent) and rock lobster (20 per cent) will enter the Republic of Korea duty free by 2016.

Source: Australian Department of Foreign Affairs and Trade 2014, 'Korea–Australia Free Trade Agreement. Fact sheet: trade in goods', available at dfat.gov.au/trade/agreements/kafta/fact-sheets/Pages/fact-sheet-trade-in-goods.aspx

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