**China imposes 80pc tariff on Australian barley for next five years amid global push for coronavirus investigation**

By reporter Dan Conifer

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China has imposed a massive 80 per cent tariff on Australian barley imports from today, saying the product has been imported against trade rules.

The import tax will remain in place for five years, and is expected to wipe out Australian sales into the lucrative market.

Typically, at least half of Australia's barley exports would be bound for China, trade that was estimated to be worth $1.5 billion in 2018 but due to drought fell to $600 million in 2019.

In a statement announcing the decision, China's Ministry of Commerce said its "domestic industry had suffered substantial damage".

"The Ministry of Commerce conducted an investigation in strict accordance with China's relevant laws and regulations."

It said the anti-dumping tariff would be 73.6 per cent, while the anti-subsidy tariff would be 6.9 per cent.

Barley is considered one of Australia's top three agricultural exports to China but since 2018 has been at the centre of dumping allegations.

Beijing's decision comes amid diplomatic tension between the countries and follows the Morrison Government leading the global push for a COVID-19 investigation.

On Monday night, Trade Minister Simon Birmingham left open the option of Australia appealing to the World Trade Organization (WTO), saying he was "deeply, deeply disappointed" by China's decision.

"Australia does not believe that the decision China's made is justified or defensible in accordance with anti-dumping practices," he said.

"Regardless of whether or not we pursue a WTO process, we will continue to lobby Beijing."

Senator Birmingham said he had still not heard from his Chinese counterpart, Zhong Shan, to discuss barley and the suspension of imports from four Australian abattoirs.

He said China had the power to change its mind on the tariff at any time, saying the decision would also affect China.

"Whist this is a blow for Australian farmers, it's also Chinese breweries and Chinese consumers, who will pay a price through paying more for barley through other [producers], or will end up getting substandard barley from other markets around the world," he said.

## Tariffs to affect 4.5 million tonnes a year

Mr Hosking, a Victorian grower, said the tariffs would affect shipments already at sea.

"There's been sales made, vessels loaded and some others are even on the water," he said.

"What the fate of those vessels will be I am not certain. If they do land in China, the assumption is they will be hit with an 80 per cent tariff, [so] I'd imagine they may find another destination for that grain."

Mr Hosking said an average of 4.5 million tonnes of barley is sold to China from Australia each year, much of it for the purpose of making beer.

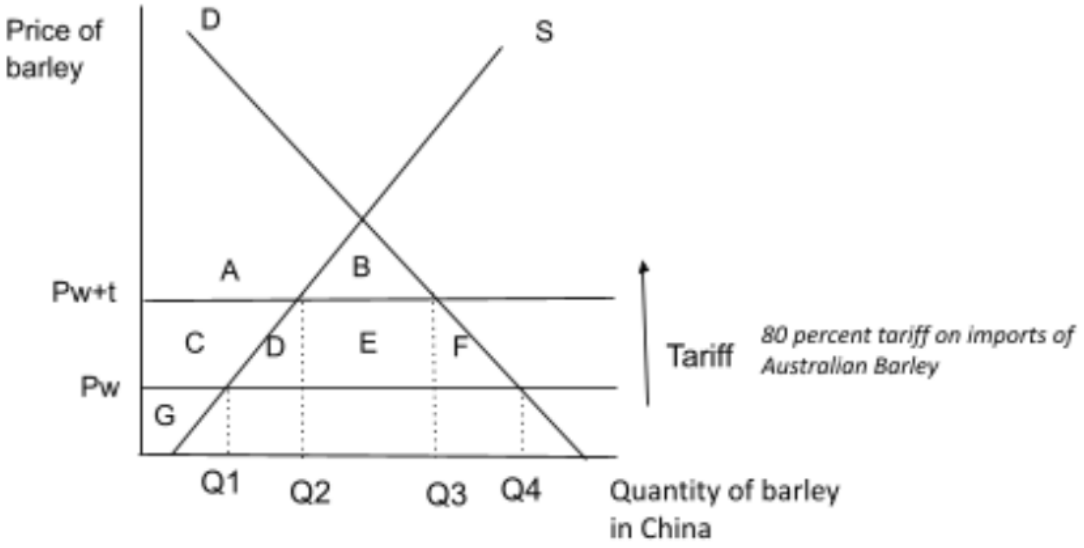
"We're looking at a big harvest," he said.

"It could have been 5 million this year, but under this regime, it's very unlikely any will go to China: it will find other destinations."

Commentary 1 – China's imposition of tariff on Australian Barley

China has imposed a "massive eighty percent" tariff (tax added to the price on imported goods) on the imports of Australian barley. The tariff is imposed due to an anti-dumping investigation into Australia barley with China claiming that dumping (subsidisation of a good to a price below production costs) of Australian barley has created "damage" to its "domestic industry", leading to declines in production of barley and therefore, reduction in the revenue of Chinese farmers.

Tariff on imports of barley from Australia to China




As seen in diagram, prior to the tariff, barley was sold at world price Pw. At Pw, the quantity demanded for barley from Chinese consumers at Q4 is larger than the quantity supplied by domestic Chinese producers at Q1. As a result, to meet the supply shortfall, the quantity (Q4-Q1) of barley is imported. China's tariff on barley increases the price of barley from Pw to Pw+t, where increased price on barley results in greater producer revenue that incentivises domestic producers to allocate more resources to barley production from Q1 to Q2. Increased price also reduces affordability of barley, therefore decreasing domestic demand from Q4 to Q3 which results in total imports decreasing from Q4-Q1 to Q3-Q2 and the government receiving revenue of (Q3-Q2) x ((Pw+t) - Pw) = 'E'.

With the implementation of the tariff, domestic Chinese consumers are worse off as they pay a higher price for barley shown by the increase in price from (Pw to Pw+t). As a result, Chinese consumers are left with less disposable income for each unit of barley purchased relative to before. Moreover, given that barley is used as an input in the production process for “breweries”, producers may have to raise prices to compensate for their higher production costs, thereby potentially creating cost-push inflation which results in lower consumer purchasing power. This is seen in the reduction of consumer surplus from A+B+C+D+E+F to A+B.

Chinese producers of barley are better off as they earn a higher revenue at (Pw+t*Q2). The tariff also helps to support infant firms, protecting the growth of these firms by reducing competition. The protection may create greater derived labour demand in China's barley industry, which reduces structural unemployment (mismatch of labour demand and supply) previously caused by dumping. Given low PED of barley due to it being a primary commodity, this implies that any changes in demand or supply would greatly influence farmer revenue. Therefore, protection of vulnerable farmers helps to ensure they earn a higher revenue and reduces their chances of shutting down. Producers’ gain is seen by increase of producer revenue from ‘G’ to ‘G+C’.

Resulting from changes in consumer and producer surplus, alongside government’s revenue gain, the total welfare loss (reduction in the social surplus) is D+F. This is likely to reduce allocative efficiency as maximum social benefit is not achieved. Moreover, the higher price may divert barley imports and allocation of scarce resources away from Australia to alternative higher-cost producers. If Chinese switch to an alternative country for imports of barley, they are likely to receive “substandard barley” or would have to pay a “higher price”, creating trade diversion and a global misallocation of resources.

Furthermore, the tariff may also protect inefficient Chinese producers who are producing with higher opportunity cost (value of second-best alternative) in comparison with efficient Australian producers. Given lower competition, there is likely to be reduced pressure for domestic firms to seek the lowest cost method of production, which may result in technical inefficiency whereby output is not maximised from inputs as resources are allocated to high-cost production.

As less is demanded for Australian barley, this may reduce the supply of Chinese currency Yuan in international trade for Australian dollar. In the long run, this would shift the supply of Chinese currency Yuan towards the left, leading to appreciation of Yuan. Appreciation of Yuan indicates that imports of foreign goods become cheaper, and exports become more expensive. Given the Marshall Lerner condition of (PEDx+PEDy > 1) is fulfilled, this may boost imports (M) in (X-M), resulting in reduction of economic growth. In the long run, this may drive a current account deficit. In addition, China is also susceptible to retaliatory policies from Australia. The tariff may heighten “diplomatic tension”, which may lead to more tariffs imposed on each other, inflicting enduring welfare losses on both countries.

Though the barley tariff attempts to protect Chinese producers by increasing the price level of barley imports, as more resources are diverted towards higher-cost producers, this may engender allocative and technical inefficiency, and erodes China’s collective growth.