
“China slaps up to 200% tariffs on Australian wine”

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The Article

* Note that the commentary only focuses on the **highlighted** paragraphs of the article below.

China slaps up to 200% tariffs on Australian wine

🕒 27 November 2020



China will impose taxes on Australian wine of up to 212%, starting on Saturday.

Its commerce ministry said these were temporary anti-dumping measures to stop subsidised imports of Australian wine.

The duties will range from 107% to 212%, intensifying trade tensions between the two countries.

In recent months, Beijing has targeted Australian imports including coal, sugar, barley and lobsters amid political tensions.

Officials in China have argued that some Australian wine is being sold cheaper there (dumped) than in its home market through the use of subsidies. Australia has rejected that assertion.

China is the biggest destination for Australia's wine exports, accounting for 39% in the first nine months of 2020, according to Wine Australia.

China has been carrying out a year-long investigation into anti-dumping, looking at wines being sold in China at prices alleged to be lower than in Australia.

Following the announcement on Friday, Treasury Wine Estates (TWE), one of the world's biggest winemakers saw its share price slump more than 13%.

TWE, the maker of Penfolds and Wolf Blass, has built up a powerhouse business selling into China which analysts estimate is worth A\$4bn (£2.2bn; \$3bn) alone after six years of robust growth.

Other Australian winemakers have been singled out alongside TWE, including Casella Wines and Australian Swan Vintage.

China's commerce ministry didn't specify how long the measures would last for.

'Extremely disappointed'

Australia's agriculture minister David Littleproud reacted to the announcement via Twitter, saying the government was "extremely disappointed".

"The Australian government categorically rejects any allegation that our wine producers are dumping product into China," he said.

"Australian wine is hugely popular both in China and across the globe due to its high quality and we are confident that a full and thorough investigation will confirm this."

Australia's trade minister Simon Birmingham said the new tariffs make Australian wine unviable and unmarketable in China.

"This is a very distressing time for many hundreds of Australian wine producers, who have built, in good faith, a sound market in China," he said.

Mr Birmingham has raised the idea of taking China to the World Trade Organisation (WTO) over the restrictions.

Growing tensions

Political relations between China and Australia have deteriorated this year to their lowest point in decades, experts say.

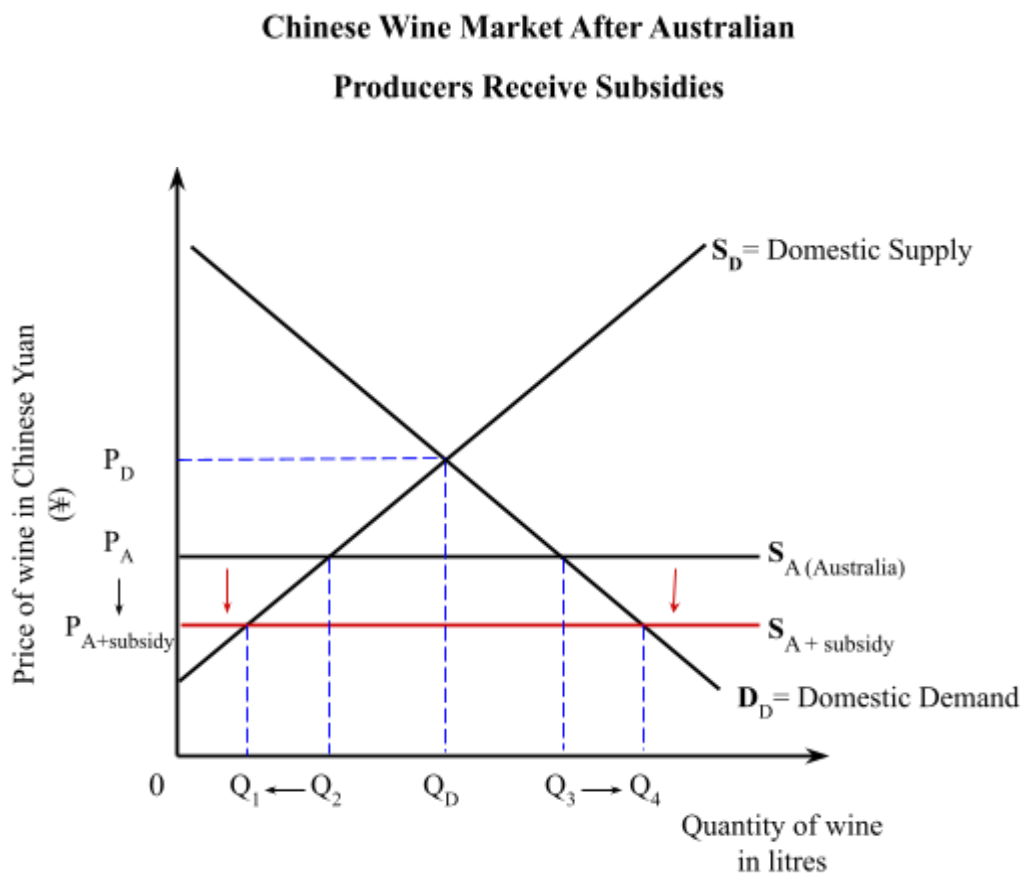
Australia backed a global inquiry into the origins of the coronavirus in April, and effectively singled out China, according to a top Chinese diplomat.

Since then, Australian imports have been under the spotlight while Chinese students and tourists were warned against travelling to Australia citing fears of racism.

Commentary

The article reports on China imposing up to 212% tariff on Australian wine, calling it “... *temporary anti-dumping measures to stop subsidized imports* ...”. Dumping is a practice of selling goods in international markets at prices below their production costs and internationally considered unfair and illegal, whereas tariff refers to a government-imposed tax on imported goods.

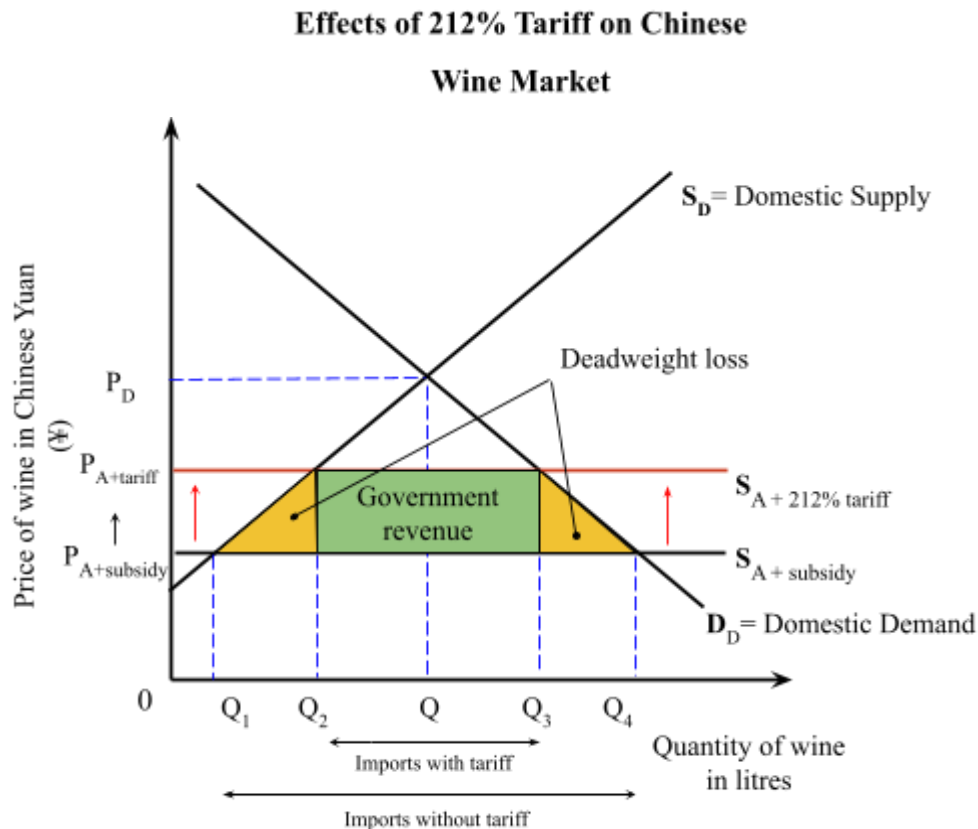
According to the 5th and 7th highlighted paragraphs of the article, it seems that Chinese officials have based their move on a year-long investigation of Australian wine dumping, which they think are due to government subsidies. If it is true, then this enables the Australian producers to produce and export at prices lower than their normal production costs, outcompeting the Chinese producers. The diagram below illustrates this scenario:



Before Australia subsidized its producers, $0Q_3$ was being demanded and supplied at P_A in the Chinese wine market, imports being Q_2Q_3 and $0Q_2$ domestically produced. After the subsidy, Australian producers are able to produce and export at lower prices ($P_{A+\text{subsidy}}$) than before (P_A), so S_A shifts downwards to $S_{A+\text{subsidy}}$, where overall consumption increases ($0Q_3 \rightarrow 0Q_4$). Hence, domestic supply reduces ($0Q_2 \rightarrow 0Q_1$) since they cannot compete with cheaper Australian wine anymore, and imports increase ($Q_2Q_3 \rightarrow Q_1Q_4$).

The Australian producers gain significant benefits because now they produce more, making more profit. Concurrently, to produce more they will need more workers, so it creates more jobs in their economy. Consumers are also better off, consuming more variety of wine at lower prices. Besides, world efficiency improves because now Q_1Q_2 is being produced by more efficient Australian producers. However, domestic producers are worse off because their production reduces to $0Q_1$ bringing them less profit. This also means that unemployment rises in the economy since some local producers will have to close their businesses, and therefore, the Chinese government is also worse off because they have to deal with higher unemployment and moreover, the tax revenue they used to collect from those businesses vanishes.

This practice is considered illegal because it gives an unfair advantage to Australian producers. Therefore, to protect the domestic industry and avoid unemployment, China's Commerce Ministry has chosen to impose really high protective tariffs on Australian wine. The potential effect of this tariff is shown below:



Before the tariff imposition, $0Q_4$ of wine was being demanded and supplied at $P_{A+Subsidy}$, where $0Q_1$ was domestically supplied and Q_1Q_4 was imported. After “... a year-long investigation ...”, a tariff of 212% (worst-case-scenario) is imposed on imports, resulting in extra cost to Australian producers. Hence, imports fall from $Q_1Q_4 \rightarrow Q_2Q_3$, and domestic supply increases from $0Q_1 \rightarrow 0Q_2$. As a result, the price of wine increases from $P_{A+subsidy} \rightarrow P_{A+tariff}$, and quantity supplied/demanded falls from $0Q_4 \rightarrow 0Q_3$. The government receives the tax revenue of a shaded (green) rectangular area; and additionally, there occur deadweight losses (loss of economic efficiency) because of the shift of production from more efficient Australian producers to less efficient domestic producers (▲) and a fall in overall consumption (▾).

The biggest winners are domestic producers, who increase their production up to $0Q_2$ making more profit. The Chinese government also wins because they gain huge tariff revenues, which then can be spent on balancing the current account or on other economic

sectors. The worst is for Australian producers because they lose their market share in China - a market "... *accounting for 39% ...*" of Australia's wine exports, according to the article. Undeniably, this results in huge revenue losses and more unemployment in the Australian economy. Consumers are also worse off because they must pay higher prices, and there are fewer varieties of wine available in the market. Lastly, the fact that Australian producers can produce at cheaper prices might be simply because of their comparative advantage, which means they can produce at lower opportunity costs than their competitors. And if so, the tariff imposed will lead to misallocation of world resources, because now part of the production will be supplied by less efficient Chinese producers.

Additionally, as the 4th highlighted paragraph states, China has targeted several other Australian products apart from wine. Hence, in the long run, China can expect retaliation policies from Australia, which might lead to a trade war between the two.

To conclude, this tariff might help the Chinese economy protect its domestic industry, create more employment, gain huge tariff revenues and balance its current account in the short run; however, they must consider that Australia in its turn might react by imposing protectionist policies against China affecting its long-term economy, which might outweigh the current benefits.

Reference to Article:

BBC NEWS (2020). *China slaps up to 200% tariffs on Australian wine*. *BBC News*. [online] 27 Nov. Available at: <https://www.bbc.com/news/business-55097100> [Accessed 23 Mar. 2021].