IR FOI 3001
Document 11

TREASURY MINISTERIAL BRIEF

21 May 2021 PDR No. MB21-000053

Treasurer

FITCH - VIEWS ON THE AUSTRALIA BUDGET

TIMING: Virtual interview to be held during the week commencing 24 May 2021.

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(If raised) **Is the Government concerned about China's actions against our exports?**

- We have a mutually beneficial trading relationship with China.
- We are concerned about trade disruption.
  - There has been significant impact on specific firms and sectors.
- But as outlined in the 2020-21 Budget, while this remains a risk, the impact of China's actions on Australia's overall economy has been limited.
  - **Note:** This is also the view of Fitch, who released a report in April finding that trade tensions with China had not had a material impact on Australia's economy over the last year and were unlikely to affect Australia's AAA credit rating.
  - Most goods targeted have so far been successfully re-directed to other export markets, albeit often at lower prices than if they had been sold into the China market.
- Australia's economy is flexible and Australian businesses are globally competitive and adaptable.
  - Our resilience is built on a flexible, open and dynamic market economy that fosters international openness, trade, investment and ideas.
- Our exports are also highly regarded internationally.

- The Government continues to work to maximise market access opportunities for Australian business across a broad range of countries, including:
  - the ‘Agriculture 2030’ package provides $87.7 million to help farmers diversify and increase their exports; and
  - the Enhanced Trade and Strategic Capability, which provides $198.2 million over four years to support Australian exporters.

S&P MEETING - (ECONOMIC) IMPACT OF CHINESE TRADE TENSIONS

- We have a mutually beneficial trading relationship with China.

- We are concerned about trade disruption.
  - There has been significant impact on specific firms and regions.

- But as outlined in the 2021-22 Budget, while this remains a risk, the impact of China's actions on Australia's overall economy has been limited.
  - **Note:** This is also the view of Fitch, who released a report in April finding that trade tensions with China had not had a material impact on Australia's economy over the last year and were unlikely to affect Fitch's AAA credit rating for Australia.
  - Goods potentially subject to trade restrictions were worth around 1.1 per cent of nominal GDP in 2019.
  - Most goods targeted have so far been successfully re-directed to other export markets, albeit often at lower prices than if they had been sold into the China market.
  - Budget baseline forecasts out to 2024-25 incorporate explicit industry-wide import restrictions by China on coal, barley, and wine. These explicit restrictions have not had a material impact on the forecasts for real GDP.

- Given global demand, we expect most Australian exports can generally be diverted, though sometimes at a discount.
  - For example, total coal export volumes are only down 7.8 per cent through the year in the March quarter, since Australian coal that otherwise would have gone to China has found purchasers in other markets, though often at discounts relative to competitors.
    - : Metallurgical coal export volumes in the March quarter 2021 were up through the year by 46.5 per cent to India, by 7.5 per cent to Japan, and by 34.5 per cent to South Korea.
    - : Thermal coal export volumes in the March quarter 2021 were up through the year by 1.1 per cent to Japan, by 23.3 per cent to South Korea, and by 231.0 per cent to India.

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TRADE TENSIONS WITH CHINA

Key Message:

- The Government is concerned about disruptions to trade. We continue to work to maximise market access opportunities for Australian businesses across a broad range of countries, including through our extensive FTA agenda. The flexibility of the Australian economy allows us to weather shocks.

Key Facts And Figures:

<u>AUSTRALIAN APPROACH TO CHINA TRADE RELATIOSHIP</u>

- China will remain important to Australia's economic future.
- Australia wishes to continue our mutually beneficial relationship with China on terms that meet the interests of both sides.
- The Government is proceeding with clear, national interest objectives in mind.
- We stand ready to engage in ministerial dialogue with China to resolve the various disruptions to trade.
- Australia is a reliable place to do business, a safe and welcoming destination, and an exporter of high quality, price-competitive goods and services that contribute to China's economic growth.

<u>What is the impact on the Australian economy of China's trade actions against Australia?</u>

- Both Australia and China have benefitted greatly from our trade relationship. Without this, we both lose.
  - Some of Australia's major exports are the building blocks of China's economy.
- Australia is concerned about the disruptions to trade.
- Affected sectors and businesses are concerned about their livelihoods.
- We have sought assurances from China that trade will occur in a timely, transparent, non-discriminatory and predictable manner.
  - The government will continue to stand behind our exporters and champion an open, rules-based global system that has served us so well.
- Any disruptions to trade will have a negative effect on the Australian economy.
  - Our economy is resilient. We have flexible markets, an educated and highly skilled workforce and we produce high quality products that are in demand globally.

<u>What are you doing to mitigate the damage from China's trade action?</u>

- The Government is deepening Australia's economic partnerships with a range of countries to ensure that Australian businesses are well-placed to reap the full benefits of a strong and growing region.

QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	Cate Rogers	**Contact Number**	
Division responsible	International Economics and Security Division Name		
Office Responsible	Treasurer	**Date of Update**	27 January 2021

TRADE TENSIONS WITH CHINA

- Since coming to office our two-way trade covered by free trade agreements has increased from 26 per cent to over 70 per cent, with the goal of reaching 90 per cent in coming years.
  - We have secured agreements with Indonesia, Japan, Korea, China, and the 11 nation Trans-Pacific Partnership. In November, Australia signed the Regional Comprehensive Economic Partnership (RCEP) Agreement between Australia and 14 other Indo-Pacific countries.
- We continue to work to maintain Australia's reputation as an attractive destination for investment that is in our national interest. We have made reforms to Australia's foreign investment framework so we can continue to be an attractive destination for foreign investment.
- We will always protect our national interests, first and foremost. And we will continue to stand up for our values and our long term security, prosperity, and sovereignty. We will work constructively with other countries – to identify common interests and build mutual respect.

Background:

- Australia's two-way trade with China was valued at $251 billion in 2019.
  - Australia's exports to China were valued at $169 billion (34.2% of Australia's total exports).
  - Imports from China were valued at $83 billion (19.5% of Australia's total imports).

China's Trade Actions

- Over the course of 2020 and early 2021, China has imposed several trade disruptive and restrictive measures on Australian exports s22
  - These include imposing anti-dumping import duties on barley and wine, suspending some forestry log imports and beef imports from some establishment, increased customs testing of lobster imports, and a reported ban on coal imports.
    - On 18 May, the Chinese government imposed anti-dumping and countervailing duties on barley imports of combined 80.5 per cent.
    - On 27 November 2020, China imposed provisional anti-dumping measures on Australian wine exports between 107 per cent and 212 per cent. The Australian Government is not aware of any evidence that Australian wine exporters have dumped their product in the Chinese market.
- Australian exports that are currently subject to China's actions and measures are a fraction of our total exports to China, which is less than 1.2 per cent of GDP (see table 2).

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[redacted]

Table 2: Value of export goods impacted by reported and announced import cessations

Commodity		Australian exports to China 2019 (A$m)	Australian total exports to world 2019 (A$m)	China's share of total exports (%)	Exports to China as a percentage of nominal GDP (%)
Coal	Thermal Metallurgical	13,706	63,940	21%	0.69%
Beef		2,672	10,810	25%	0.13%
Copper ore and concentrates		2,261	6,265	36%	0.11%
Wine		1,137	2,953	39%	0.06%
Cotton		1,116	1,570	71%	0.06%
Crustaceans		843	1,059	80%	0.04%
Barley		591	1,043	57%	0.03%
Wood (rough sawn)		603	640	94%	0.03%
Sugars, molasses and honey		95	1,620	6%	0.00%

Source: DFAT Composition of Trade Data, ABS 5206.0, Treasury calculations. Does not include wheat.

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TRADE TENSIONS WITH CHINA

If asked, estimates of trade-war with China costing 6% of Australia's GDP may be overstated

Professor Rod Tyers and his co-author published a article on the Conversation *An all-out trade war with China would cost Australia 6% of GDP*.

- The paper estimates that stopping 95% of trade with China would result in a 6 per cent cost to Australia's GDP, due to reduced exports and reduced investment in Australia.

- The modelling is based on simplified, strong assumptions that are not realistic. The paper assumes immediate stoppage of trade and unchanged monetary and fiscal policy. It also assumes a single good is produced and traded by each country. In reality, we produce a variety of high quality goods with potential to divert our trade and diversify our economy. Australian consumers can find substitutes. Producers can export to alternative markets and mobilise capital and labour to produce other goods.

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Office Responsible	Treasurer	**Date of Update**	27 January 2021

TRADE TENSIONS WITH CHINA

Key Message:

- The Government is concerned about disruptions to trade. We continue to work to maximise market access opportunities for Australian business across a broad range of countries, including through our extensive FTA agenda. The flexibility of the Australian economy allows us to weather shocks.

Key Facts And Figures:

<u>AUSTRALIAN APPROACH TO CHINA TRADE RELATIONSHIP</u>

- China will remain important to Australia's economic future.
  - Strong economic complementarities have long underpinned the relationship.
  - Australia is a reliable place to do business, a safe and welcoming destination, and an exporter of high quality, price-competitive goods and services that contribute to China's economic growth.
- Australia wishes to continue our mutually beneficial relationship with China on terms that meet the interests of both sides.
- There are a range of trade issues to work through with China (coal, barley, wine, meat, rock lobsters, logs, cotton).
  - We take compliance with importing country requirements seriously, just as we expect others to take our requirements seriously, but arrangements should not impede legitimate trade.
  - We continue to raise concerns about China's trade actions.
- The Government is proceeding with clear, national interest objectives in mind.
  - Our approach to working with China will be proactive, patient and principled.
- The Government will continue to advocate for and seek opportunities for our exporters and the business community, as we work through a range of trade challenges, including in the WTO.

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
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TRADE TENSIONS WITH CHINA

<u>What is the impact on the Australian economy of China's trade actions against Australia?</u>

- Both Australia and China have benefitted greatly from our trade relationship.
- Recent trade actions affecting Australia's exports have not yet had a material impact on the forecast economic recovery, despite significant impacts on specific firms and regions. However, ongoing global trade tensions present a key downside risk to the outlook. [MYEFO 2020-21].
- Our economy is resilient. We have flexible markets, an educated and highly skilled workforce and we produce high quality products that are in demand globally.
- The Government will continue to stand behind our exporters and champion an open, rules-based global system that has served us so well.

<u>What are you doing to mitigate the damage from China's trade action?</u>

- The Government is deepening Australia's economic partnerships with a range of countries to ensure that Australian businesses are well-placed to reap the full benefits of a strong and growing region.
- Since coming to office, our two-way trade covered by free trade agreements has increased from 26 per cent to now over 70 per cent, with the goal of reaching 90 per cent in coming years.
- We continue to work to maintain Australia's reputation as an attractive destination for investment that is in our national interest. We have made reforms to Australia's foreign investment framework so we can continue to be an attractive destination for foreign investment.
- We will always protect our national interests, first and foremost. And we will continue to stand up for our values and our long term security, prosperity, and sovereignty. We will work constructively with other countries – to identify common interests and build mutual respect.

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Contact Officer	s22 [redacted]	**Contact Number**	[redacted]
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	07 May 2021

TRADE TENSIONS WITH CHINA

Background:

- Two-way trade with China totalled $251 billion in 2019-20, representing 29 per cent of Australia's total trade (a 7 per cent increase on 2018-19). Exports to China were valued at $168 billion, representing 35 per cent of Australia's total exports (a 9 per cent increase on 2018-19).

- In 2020, two-way goods trade with China totalled $230.9 billion (1 per cent increase on 2019) – 35 per cent of Australia's total goods two-way trade. Australian goods exports to China totalled $13.4 billion in March 2021, up 16.8 per cent from February (5.5 per cent higher than a year ago).

- Over the past 12 months, China has imposed several measures that have been disruptive or restrictive to Australia's exports, mainly on coal and agricultural exports s22 [redacted]

- Australian exports that are currently subject to China's actions and measures are a fraction of our total exports to China, which is less than 1.2 per cent of GDP (see Table 2).

- On 6 May 2021, media reported iron ore prices had reached new record highs following China's suspension of a key bilateral economic dialogue with Australia given concerns the uptick in bilateral tensions could result in implications for the iron ore trade (see also QB21-000079 for commodity prices).

s22 [redacted]

Lowy interpreter and Fitch estimates of impacts of China's trade actions on Australia's economy

- On 21 April 2021, rating's agency Fitch published a report that assessed that trade tensions have not had a material impact on Australia's economy over the last year, economic co-dependencies mitigate near-term escalation risks and trade tensions were "unlikely" to affect Australia's AAA credit rating.

- On 8 April 2021, the Lowy Institute concluded that, while some industries (such as wine) have been particularly affected, the total economic impact of trade actions taken to date appeared limited given the diversion of targeted products to alternate markets and the booming iron ore trade.

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QTB Number	QB21-000063	**Adviser**	s22 [redacted]
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Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	07 May 2021

TRADE TENSIONS WITH CHINA

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Table 2: Value of export goods impacted by reported and announced import cessations

Commodity		Australian exports to China in 2019 (A$m)	Australian exports to world in 2019 (A$m)	China's share of total exports (%)	Exports to China as a percentage of nominal GDP (%)
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Wine		1,137	2,953	39	0.06
Cotton		1,116	1,570	71	0.06
Crustaceans		843	1,059	80	0.04
Barley		591	1,043	57	0.03
Wood (rough sawn)		603	640	94	0.03
Sugars, molasses and honey		95	1,620	6	0.00
Total		**23,024**	**88,849**	**34**	**1.1**

Source: DFAT Composition of Trade Data, ABS 5206.0, Treasury calculations. Does not include wheat.

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TRADE TENSIONS WITH CHINA

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Key Message:

- The Government is concerned about trade disruptions. We continue to work to maximise market access opportunities for Australian business across a broad range of countries, including through our extensive FTA agenda and by helping small business and farmers expand and diversify their export markets. Australia's flexible and dynamic economy allows us to weather shocks.

Key Facts And Figures:

<u>**AUSTRALIAN APPROACH TO CHINA TRADE RELATIONSHIP**</u>

- China will remain important to Australia's economic future.
  - Strong economic complementarities have long underpinned the relationship.
  - Australia is a reliable place to do business, a safe and welcoming destination, and an exporter of high quality, price-competitive goods and services that contribute to China's economic growth.
- Australia wishes to continue our mutually beneficial relationship with China on terms that meet the interests of both sides.
- There are a range of trade issues to work through with China (coal, barley, wine, meat, rock lobsters, logs, cotton).
  - We take compliance with importing country requirements seriously – just as we expect others to take our requirements seriously – but arrangements should not impede legitimate trade.
  - We continue to raise concerns about China's trade actions bilaterally and in the WTO.
- We stand ready to engage in ministerial dialogue with China to resolve various disruptions to trade.
- The Government is proceeding with clear, national interest objectives in mind.
  - Our approach to working with China will be proactive, patient and principled.
- The Government will continue to advocate for and seek opportunities for Australian exporters and business, including by championing an open, rules-based global system; deepening Australia's economic partnerships with a range of countries; and by supporting Australian business to diversify and increase their exports.

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Office Responsible	Treasurer	**Date of Update**		12 May 2021	

TRADE TENSIONS WITH CHINA

What is the impact on the Australian economy of China's trade actions against Australia?

- Our economy is resilient. We have flexible markets, an educated and highly skilled workforce and we produce high quality products that are in demand globally.
- While ongoing trade restrictions from China have had significant impacts on specific firms and regions, many goods targeted by the restrictions have so far been successfully re-directed to other export markets, with limited impacts on Australia's overall economic recovery. [Source: Budget 2021-22].
- The Government will continue to stand behind our exporters and champion an open, rules-based global system that has served us so well.

What are you doing to mitigate the damage from China's trade action?

- The Government is deepening Australia's economic partnerships with a range of countries to ensure that Australian businesses are well-placed to reap the full benefits of a strong and growing region.
- The Government has grown and diversified Australia's exports by signing nine free trade agreements since 2013, which now cover over 70 per cent of our two-way trade, compared with 26 per cent in 2013. We are pursuing further agreements with a goal of reaching 90 per cent coverage.
- The Government is committed to the Export Market Development Grants program which provides support to small and medium sized enterprises establishing or expanding their export business.
- The Government is providing $87.7 million to help farmers diversify and increase their exports.
- We continue to work to maintain Australia's reputation as an attractive destination for investment that is in our national interest. We have made reforms to Australia's foreign investment framework so we can continue to be an attractive destination for foreign investment.
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TRADE TENSIONS WITH CHINA

Background:

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- In 2020, two-way goods trade with China totalled $230.9 billion (1 per cent increase on 2019) – 35 per cent of Australia's total goods two-way trade. Australian goods exports to China totalled $13.4 billion in March 2021, up 16.8 per cent from February (5.5 per cent higher than a year ago).

- Over the past 12 months, China has imposed several measures that have been disruptive or restrictive to Australia's exports, mainly on coal and agricultural exports s22 [redacted]

- As outlined in the Budget 2021-22, ongoing global trade tensions and the potential for further trade actions present a key downside risk to the outlook. However, most goods targeted by restrictions have so far been re-directed to other export markets. Goods potentially subject to targeted or firm-specific trade cessations were worth around 1.1 per cent of nominal GDP in 2019 (see Table 2).

- The Budget baseline forecasts incorporate explicit industry-wide import restrictions by China on coal, barley, and wine. These explicit restrictions have not had a material impact on the forecasts for real GDP; however, they have had significant impacts on specific firms and regions and have put downwards pressure on the price of the affected export goods.
  - This assumption is consistent with ABARES and DISER forecasts, which feed into Treasury's rural and non-rural commodity exports forecasts.

- While Chinese restrictions have affected the price of some types of Australian coal, so far, most coal exports have been able to be re-directed to alternative markets. Consultation with market and industry participants, however, has highlighted that there is elevated uncertainty in the coal market, in particular around the duration of the Chinese restrictions on Australian coal, as well as around global environmental policies.

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TRADE TENSIONS WITH CHINA

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Lowy interpreter and Fitch estimates of impacts of China's trade actions on Australia's economy

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- On 8 April 2021, the Lowy Institute concluded that, while some industries (such as wine) had been particularly affected, the total economic impact of trade actions taken to date appeared limited given the diversion of targeted products to alternate markets and the booming iron ore trade.

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TRADE TENSIONS WITH CHINA

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TRADE TENSIONS WITH CHINA

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Key Message:

- The Government is concerned about trade disruptions. We continue to work to maximise market access opportunities for Australian business across a broad range of countries, including through our extensive FTA agenda and by helping small business and farmers expand and diversify their export markets. Australia's flexible and dynamic economy allows us to weather shocks.

Key Facts And Figures:

AUSTRALIAN APPROACH TO CHINA TRADE RELATIONSHIP

- China will remain important to Australia's economic future.
  - Strong economic complementarities have long underpinned the relationship.
  - Australia is a reliable place to do business, a safe and welcoming destination, and an exporter of high quality, price-competitive goods and services that contribute to China's economic growth.
- Australia wishes to continue our mutually beneficial relationship with China on terms that meet the interests of both sides.
- There are a range of trade issues to work through with China (coal, barley, wine, meat, rock lobsters, logs, cotton).
  - We take compliance with importing country requirements seriously – just as we expect others to take our requirements seriously – but arrangements should not impede legitimate trade.
  - We continue to raise concerns about China's trade actions bilaterally and in the WTO.
- We stand ready to engage in ministerial dialogue with China to resolve various disruptions to trade.
- The Government is proceeding with clear, national interest objectives in mind.
  - Our approach to working with China will be proactive, patient and principled.
- The Government will continue to advocate for and seek opportunities for Australian exporters and business, including by championing an open, rules-based global system; deepening Australia's economic partnerships with a range of countries; and by supporting Australian business to diversify and increase their exports.

QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	21 May 2021

TRADE TENSIONS WITH CHINA

What is the impact on the Australian economy of China's trade actions against Australia?

- Our economy is resilient. We have flexible markets, an educated and highly skilled workforce and we produce high quality products that are in demand globally.
- While ongoing trade restrictions from China have had significant impacts on specific firms and regions, many goods targeted by the restrictions have so far been successfully re-directed to other export markets, with limited impacts on Australia's overall economic recovery. [Source: Budget 2021-22].
- The Government will continue to stand behind our exporters and champion an open, rules-based global system that has served us so well.

What are you doing to mitigate the damage from China's trade action?

- The Government is deepening Australia's economic partnerships with a range of countries to ensure that Australian businesses are well-placed to reap the full benefits of a strong and growing region.
- The Government has grown and diversified Australia's exports by signing nine free trade agreements since 2013, which now cover over 70 per cent of our two-way trade, compared with 26 per cent in 2013. We are pursuing further agreements with a goal of reaching 90 per cent coverage.
- The Government is committed to the Export Market Development Grants program which provides support to small and medium sized enterprises establishing or expanding their export business.
- The Government is providing $87.7 million to help farmers diversify and increase their exports.
- We continue to work to maintain Australia's reputation as an attractive destination for investment that is in our national interest. We have made reforms to Australia's foreign investment framework so we can continue to be an attractive destination for foreign investment.
- We will always protect our national interests, first and foremost. And we will continue to stand up for our values and our long term security, prosperity, and sovereignty. We will work constructively with other countries – to identify common interests and build mutual respect.

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Contact Officer	s22 [redacted]	**Contact Number**	[redacted]
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	21 May 2021

TRADE TENSIONS WITH CHINA

Background:

- Two-way trade with China totalled $251 billion in 2019-20, representing 29 per cent of Australia's total trade (a 7 per cent increase on 2018-19). Exports to China were valued at $168 billion, representing 35 per cent of Australia's total exports (a 9 per cent increase on 2018-19).

- In 2020, two-way goods trade with China totalled $230.9 billion (1 per cent increase on 2019) – 35 per cent of Australia's total goods two-way trade. Australian goods exports to China totalled $13.4 billion in March 2021, up 16.8 per cent from February (5.5 per cent higher than a year ago).

- Over the past 12 months, China has imposed several measures that have been disruptive or restrictive to Australia's exports, mainly on coal and agricultural exports (see Table 1).

- As outlined in the Budget 2021-22, ongoing global trade tensions and the potential for further trade actions present a key downside risk to the outlook. However, most goods targeted by restrictions have so far been re-directed to other markets. Goods potentially subject to trade cessations were worth around 1.1 per cent of nominal GDP in 2019 (see Table 2). See below for impact estimates.

- The Budget baseline forecasts incorporate explicit industry-wide import restrictions by China on coal, barley, and wine. These explicit restrictions have not had a material impact on the forecasts for real GDP; however, they have had significant impacts on specific firms and regions and have put downwards pressure on the price of the affected export goods.

- While Chinese restrictions have affected the price of some types of Australian coal, so far, most coal exports have been able to be re-directed to alternative markets. Consultation with market and industry participants, however, has highlighted that there is elevated uncertainty in the coal market, in particular around the duration of the Chinese restrictions on Australian coal, as well as around global environmental policies.

s22 [redacted]

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	21 May 2021

TRADE TENSIONS WITH CHINA

s22 [redacted]

Public estimates of impacts of China's trade actions on Australia's economy

- On 21 April 2021, rating's agency Fitch published a report that assessed that trade tensions have not had a material impact on Australia's economy over the last year, economic co-dependencies mitigate near-term escalation risks and trade tensions were "unlikely" to affect Australia's AAA credit rating.
- On 8 April 2021, the Lowy Institute concluded that, while some industries (such as wine) had been particularly affected, the total economic impact of trade actions taken to date appeared limited given the diversion of targeted products to alternate markets and the booming iron ore trade.
- On 20 May 2021, the Perth USAsia Centre (Dr Jeffrey Wilson) estimated China's measures cost Australia $8 billion over the year starting April 2020.

s22 [redacted]

PAGE 5 OF THIS DOCUMENT HAS BEEN REMOVED AS OUTSIDE THE SCOPE OF THE REQUEST

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	21 May 2021

TRADE TENSIONS WITH CHINA

s22 [redacted]

Table 2: Value of export goods impacted by reported and announced import cessations

Commodity	Australian exports to China in 2019 (A$m)	Australian exports to world in 2019 (A$m)	China's share of total exports (%)	Exports to China as a percentage of nominal GDP (%)
Coal (Thermal and Metallurgical)	13,706	63,940	21	0.69
Beef	2,672	10,810	25	0.13
Copper ore and concentrates	2,261	6,257	36	0.11
Wine	1,137	2,953	39	0.06
Cotton	1,116	1,570	71	0.06
Crustaceans	843	1,059	80	0.04
Barley	591	1,043	57	0.03
Wood (rough sawn)	603	640	94	0.03
Sugars, molasses and honey	95	1,620	6	0.00
Total	**23,024**	**88,849**	**34**	**1.1**

Source: DFAT Composition of Trade Data, ABS 5206.0, Treasury calculations. Does not include wheat.

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	[redacted]
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	21 May 2021

TRADE TENSIONS WITH CHINA

IR FOI 3001
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Key Message:

- The Government remains concerned about trade disruptions. We continue to work to maximise market access opportunities for Australian business across a broad range of countries, including through our extensive FTA agenda and by helping small business and farmers expand and diversify export markets. Australia's flexible and dynamic economy allows us to weather shocks.

Key Facts And Figures:

- The Government will continue to stand behind our exporters and champion an open, rules-based global system that has served Australia so well.
- There are several trade issues to work through with China (coal, barley, wine, meat, lobster, logs, cotton).
  - We take compliance with importing country requirements seriously – just as we expect others to take our requirements seriously – but arrangements should not impede legitimate trade.
- We continue to raise concerns about China's trade actions bilaterally and in the WTO.
- Australia has lodged a complaint at the WTO regarding China's tariffs on Australian wine and barley.
  - Australia does not believe China's measures on barley and wine are consistent with its WTO obligations and we have initiated WTO dispute settlement proceedings to address these measures.
  - China has lodged a complaint at the WTO over Australia's anti-dumping and anti-subsidy measures linked to Chinese railway wheels, wind towers and stainless steel sinks.
    - Australia will vigorously defend the duties we have put in place.
- Our economy is resilient. We have flexible markets, an educated and highly skilled workforce and we produce high quality products that are in demand globally.
  - While ongoing trade restrictions from China have had significant impacts on specific firms and regions, many goods targeted by the restrictions have so far been successfully re-directed to other export markets, with limited impacts on Australia's overall economic recovery [Budget 2021-22].
  - Australia is a reliable place to do business, a welcoming destination, and an exporter of high quality, price-competitive goods and services that have contributed to China's economic growth.
- We wish to continue our mutually beneficial relationship on terms that meet the interests of both sides and stand ready to engage in ministerial dialogue to resolve various disruptions to trade.
  - The Government is proceeding with clear, national interest objectives in mind.
  - Our approach to working with China will be proactive, patient and principled.

QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	29 July 2021

TRADE TENSIONS WITH CHINA

<u>What are you doing to mitigate the damage from China’s trade action?</u>

- The Government will continue to advocate for and seek opportunities for Australian exporters and business, including by:
  - championing an open, rules-based global system;
  - deepening Australia’s economic partnerships with a range of countries; and
  - by supporting Australian business to diversify and increase their exports.
- The Government is deepening Australia’s economic partnerships with a range of countries to ensure that Australian businesses are well-placed to reap the full benefits of a strong and growing region.
- The Government has grown and diversified Australia’s exports by signing nine free trade agreements since 2013, which now cover over 70 per cent of our two-way trade, compared with 26 per cent in 2013. We are pursuing further agreements with a goal of reaching 90 per cent coverage.
- The Government is committed to the Export Market Development Grants program which provides support to small and medium sized enterprises establishing or expanding their export business.
- The Government is providing $87.7 million to help farmers diversify and increase their exports.
- We continue to work to maintain Australia's reputation as an attractive destination for investment that is in our national interest. We have made reforms to Australia’s foreign investment framework so we can continue to be an attractive destination for foreign investment.
- We will always protect our national interests, first and foremost. And we will continue to stand up for our values and our long term security, prosperity, and sovereignty. We will work constructively with other countries – to identify common interests and build mutual respect.

QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	29 July 2021

TRADE TENSIONS WITH CHINA

Background:

- China remained Australia's largest export market and source of imports in 2020, with two-way trade valued at $244.8 billion, representing 31 per cent of total two-way trade. Two-way trade with China was over triple the value of Australia's second largest trading partner (the United States).

- Goods and services exports to China decreased by 6 per cent to $158.7 billion in 2020, representing 36 per cent of Australia's total exports. Exports to China were over triple the value of Australia's next largest export market (Japan).

- ABS preliminary data shows China remained our largest merchandise export destination in 2020-21, with goods exports valued at $166 billion, 10 per cent higher than in 2019-20. China also has remained our largest merchandise import source, with preliminary figures showing goods imports valued at $87 billion, 8 per cent above the 2019-20 value.

- Over the past 15 months, China has imposed several measures that have been disruptive or restrictive to Australia's exports, mainly on coal and agricultural exports s22

- As outlined in the Budget 2021-22, ongoing global trade tensions and the potential for further trade actions present a key downside risk to the outlook. However, most goods targeted by restrictions have so far been re-directed to other markets. Goods potentially subject to trade cessations were worth around 1.1 per cent of nominal GDP in 2019 (see Table 2).

- In May 2021, China's National Development and Reform Commission (NDRC) said China would seek to encourage new iron ore supply domestically and internationally in response to rising iron ore prices. However, diversifying its iron ore imports has been China's policy for some time.

Coal exports

- The Budget 2021-22 outlook noted that while China's restrictions have affected the price of some types of Australian coal, so far, most coal exports have been able to be re-directed to alternative markets.
  - Consultation with market and industry participants, however, has highlighted that there is elevated uncertainty in the coal market, in particular around the duration of the Chinese restrictions on Australian coal, as well as around global environmental policies.

- Almost no coal has been exported to China in 2021, and exports to China in December 2020 were down 95.0 per cent through the year (tty) for metallurgical coal, and down 96.2 per cent tty for thermal coal.

- Export volumes to all countries in May 2021 were up by 6.2 per cent tty for metallurgical coal, and up by 4.2 per cent tty for thermal coal, since Australian coal that otherwise would have gone to China has found purchasers in other markets, though often at discounts relative to competitors.
  - Metallurgical coal export volumes in May 2021 were up tty by 98.2 per cent to India, by 52.6 per cent to Japan, and by 85.7 per cent to South Korea.
  - Thermal coal export volumes in May 2021 were up tty by 39.8 per cent to South Korea, by 31.1 per cent to Taiwan and by 3014.4 per cent to India.

QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	29 July 2021

TRADE TENSIONS WITH CHINA

- Trade restrictions have meant that some Australian coal exporters receive a discounted price relative to other exporters with access to the China market. Partly because of these discounted prices, metallurgical coal export values were down by 3.6 per cent tty in May 2021. Thermal coal export values were up by 10.2 per cent tty due to strong demand ex-China.

Rural exports

- Several of Australia's agricultural exports have been subject to tariffs, bans, or delayed customs clearances during 2020. Of the affected commodities, China has only ratified industry-wide tariffs on barley and wine.
  - The tariff on barley has effectively eliminated Australian barley as a feasible option for Chinese importers. As a result, barley exports to China have effectively ceased.
  - Despite China's trade restrictions, overall Australian barley export volumes were up 225.1 per cent tty in May 2021 due to higher production owing to favourable seasonal conditions in 2020.
    - Australian barley has instead been sold into alternative markets – for some exports this has occurred without the price premium historically paid by Chinese buyers.
    - For example, 26.5 per cent of Australian barley export volumes went to Saudi Arabia in May 2021, up from no exports to Saudi Arabia in May 2020.
  - In its March 2021 Agricultural Commodities report, ABARES noted that producers are expected to shift planted area from barley to alternative crops (such as wheat) over the medium-term if the tariff remains in place.
  - Australian wine export volumes were down 8.2 per cent through the year in May 2021 mostly due to China's tariffs, with exports to China down 95.9 per cent.

Public estimates of impacts of China's trade actions on Australia's economy

- On 8 April 2021, the Lowy Institute concluded that, while some industries (such as wine) had been particularly affected, the total economic impact of trade actions taken to date appeared limited given the diversion of targeted products to alternate markets and the booming iron ore trade.
- On 21 April 2021, rating's agency Fitch published a report that assessed that trade tensions have not had a material impact on Australia's economy over the last year, economic co-dependencies mitigate near-term escalation risks and trade tensions were "unlikely" to affect Australia's AAA credit rating.
- On 20 May 2021, the Perth USAsia Centre (Dr Jeffrey Wilson) estimated China's measures cost Australia $8 billion over the year starting April 2020.
- In June 2021, ASPI published a report titled *'What if..? Economic cconsequences for Australia of a US-China conflict over Taiwan'*. The report estimated that in the event of a blockade on Australia's trade with China, the loss of the China market and fall in commodity prices could equate to a loss of 12 per cent of GDP.

PAGES 5 AND 6 OF THIS DOCUMENT HAVE BEEN REMOMOVED AS OUTSIDE THE SCOPE OF THE REQUEST

QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	29 July 2021

TRADE TENSIONS WITH CHINA

s22

[redacted]

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Source: DFAT Composition of Trade Data, ABS 5206.0, Treasury calculations. Does not include wheat.

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	[redacted]	**Contact Number**	[redacted]
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	29 July 2021

TRADE TENSIONS WITH CHINA

IR FOI 3001
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Key Message:

- The Government remains concerned about trade disruptions. We continue to work to maximise market access opportunities for Australian business across a broad range of countries, including through our extensive FTA agenda and by helping small business and farmers expand and diversify export markets. Australia's flexible and dynamic economy allows us to weather shocks.

Key Facts And Figures:

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QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	17 August 2021

TRADE TENSIONS WITH CHINA

<u>What are you doing to mitigate the damage from China's trade action?</u>

- The Government will continue to advocate for and seek opportunities for Australian exporters and business, including by:
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QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	17 August 2021

TRADE TENSIONS WITH CHINA

Background:

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s22 [redacted]

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Contact Officer	[redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	17 August 2021

TRADE TENSIONS WITH CHINA

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QTB Number	QB21-000063	**Adviser**	[redacted]
Contact Officer	[redacted]	**Contact Number**	[redacted]
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	17 August 2021

TRADE TENSIONS WITH CHINA

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- In July 2021, the University of Adelaide published a paper titled '*Economic coercion by China: The impact on Australia's merchandise exports*', which found that trade has dropped dramatically with China – comparing April-June 2020 to the same period in 2021 (and excluding iron ore, which is masking a lot of the trade drop), exports have declined by 48 per cent across our top 20 exports to China.

PAGES 6 AND 7 OF THIS DOCUMENT HAVE BEEN REMOVED AS OUTSIDE THE SCOPE OF THE REQUEST

QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	17 August 2021

TRADE TENSIONS WITH CHINA

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Source: DFAT Composition of Trade Data, ABS 5206.0, Treasury calculations. Does not include wheat.

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	17 August 2021

TRADE TENSIONS WITH CHINA

IR FOI 3001
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Key Message:

- The Government remains concerned about trade disruptions. We continue to work to maximise market access opportunities for Australian business across a broad range of countries, including through our extensive FTA agenda and by helping small business and farmers expand and diversify export markets. Australia's flexible and dynamic economy allows us to weather shocks.

Key Facts And Figures:

- The Government will continue to stand behind our exporters and champion an open, rules-based global system that has served Australia so well.
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QTB Number	QB21-000063	**Adviser**	s22
Contact Officer	s22	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	23 August 2021

TRADE TENSIONS WITH CHINA

<u>What are you doing to mitigate the damage from China's trade action?</u>

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QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	[redacted]	**Contact Number**	[redacted]
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	23 August 2021

TRADE TENSIONS WITH CHINA

Background:

- China remained Australia's largest export market and source of imports in 2020, with two-way trade valued at $244.8 billion, representing 31 per cent of total two-way trade. Two-way trade with China was over triple the value of Australia's second largest trading partner (the United States).

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- In May 2021, China's National Development and Reform Commission (NDRC) said China would seek to encourage new iron ore supply domestically and internationally in response to rising iron ore prices. Diversifying its iron ore imports has been China's policy for some time.

- In August 2021, Chinese media outlet *The Global Times* reported Chinese steel exports to Australia had dropped 'more than 50 per cent in recent months' and implied this would hurt Australia's economy through increased construction costs and a lower iron ore price. However, this potential fall in steel exports reflects China's broader policies to reduce emissions and curb steel prices – it is not targeted at Australia specifically.

Coal exports

- The Budget 2021-22 outlook noted that while China's restrictions have affected the price of some types of Australian coal, so far, most coal exports have been able to be re-directed to alternative markets.
  - Consultation with market and industry participants, however, has highlighted that there is elevated uncertainty in the coal market, in particular around the duration of the Chinese restrictions on Australian coal, as well as around global environmental policies.

- Almost no coal has been exported to China in 2021, and exports to China in December 2020 were down 95.0 per cent through the year (tty) for metallurgical coal, and down 96.2 per cent tty for thermal coal.

- Export volumes to all countries in May 2021 were up by 6.2 per cent tty for metallurgical coal, and up by 4.2 per cent tty for thermal coal, since Australian coal that otherwise would have gone to China has found purchasers in other markets, though often at discounts relative to competitors.

TRADE TENSIONS WITH CHINA

  - Metallurgical coal export volumes in May 2021 were up tty by 98.2 per cent to India, by 52.6 per cent to Japan, and by 85.7 per cent to South Korea.

  - Thermal coal export volumes in May 2021 were up tty by 39.8 per cent to South Korea, by 31.1 per cent to Taiwan and by 3014.4 per cent to India.

- Trade restrictions have meant that some Australian coal exporters receive a discounted price relative to other exporters with access to the China market. Partly because of these discounted prices, metallurgical coal export values were down by 3.6 per cent tty in May 2021. Thermal coal export values were up by 10.2 per cent tty due to strong demand ex-China.

Rural exports

- Several of Australia's agricultural exports have been subject to tariffs, bans, or delayed customs clearances during 2020. Of the affected commodities, China has only ratified industry-wide tariffs on barley and wine.

  - The tariff on barley has effectively eliminated Australian barley as a feasible option for Chinese importers. As a result, barley exports to China have effectively ceased.

  - Despite China's trade restrictions, overall Australian barley export volumes were up 225.1 per cent tty in May 2021 due to higher production owing to favourable seasonal conditions in 2020.

    : Australian barley has instead been sold into alternative markets – for some exports this has occurred without the price premium historically paid by Chinese buyers.

    : For example, 26.5 per cent of Australian barley export volumes went to Saudi Arabia in May 2021, up from no exports to Saudi Arabia in May 2020.

  - In its March 2021 Agricultural Commodities report, ABARES noted that producers are expected to shift planted area from barley to alternative crops (such as wheat) over the medium-term if the tariff remains in place.

  - Australian wine export volumes were down 8.2 per cent through the year in May 2021 mostly due to China's tariffs, with exports to China down 95.9 per cent.

s22 [redacted]

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	23 August 2021

TRADE TENSIONS WITH CHINA

s22 [redacted]

Public estimates of impacts of China's trade actions on Australia's economy

- On 8 April 2021, the Lowy Institute concluded that, while some industries (such as wine) had been particularly affected, the total economic impact of trade actions taken to date appeared limited given the diversion of targeted products to alternate markets and the booming iron ore trade.

- On 21 April 2021, rating's agency Fitch published a report that assessed that trade tensions have not had a material impact on Australia's economy over the last year, economic co-dependencies mitigate near-term escalation risks and trade tensions were "unlikely" to affect Australia's AAA credit rating.

- On 20 May 2021, the Perth USAsia Centre (Dr Jeffrey Wilson) estimated China's measures cost Australia $8 billion over the year starting April 2020.

- In June 2021, ASPI published a report titled *'What if..? Economic cconsequences for Australia of a US-China conflict over Taiwan'*. The report estimated that in the event of a blockade on Australia's trade with China, the loss of the China market and fall in commodity prices could equate to a loss of 12 per cent of GDP.

- In July 2021, the University of Adelaide published a paper titled '*Economic coercion by China: The impact on Australia's merchandise exports*', which found that trade has dropped dramatically with China – comparing April-June 2020 to the same period in 2021 (and excluding iron ore, which is masking a lot of the trade drop), exports have declined by 48 per cent across our top 20 exports to China.

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QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	23 August 2021

TRADE TENSIONS WITH CHINA

s22 [redacted]

Table 2: Value of export goods impacted by reported and announced import cessations

Commodity	Australian exports to China in 2019 (A$m)	Australian exports to world in 2019 (A$m)	China's share of total exports (%)	Exports to China as a percentage of nominal GDP (%)
Coal (Thermal and Metallurgical)	13,706	63,940	21	0.69
Beef	2,672	10,810	25	0.13
Copper ore and concentrates	2,261	6,257	36	0.11
Wine	1,137	2,953	39	0.06
Cotton	1,116	1,570	71	0.06
Crustaceans	843	1,059	80	0.04
Barley	591	1,043	57	0.03
Wood (rough sawn)	603	640	94	0.03
Sugars, molasses and honey	95	1,620	6	0.00
Total	**23,024**	**88,849**	**34**	**1.1**

Source: DFAT Composition of Trade Data, ABS 5206.0, Treasury calculations. Does not include wheat.

QTB Number	QB21-000063	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	International Economics and Security Division		
Office Responsible	Treasurer	**Date of Update**	23 August 2021

IR FOI 3001
Document 20

 s22 [redacted]

Business Indicators, Australia (5676.0)

December quarter 2020

Release: Monday 01/03/21, 11:30 AEDST *Next release: Tuesday 01/06/21, 11:30 AEST*

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- **Manufacturing inventories fell 3.2% (down $1,525m),** led by **Beverage and Tobacco Manufacturing**, which fell 14.8% (down $561m). This result was driven by a number of beer producers depleting stocks, consistent with strong sales this quarter. In addition, winemakers decreased production and held less product in anticipation of less export demand due to increased tariffs imposed by China this quarter.

s22 [redacted]

s22 [redacted]

2021-22 Budget Issues Brief no. 13

COMMODITY PRICES AND TERMS OF TRADE

Key message

s22 [redacted]

- While the ongoing trade restrictions with China have had significant impacts on specific firms and regions, most goods targeted by the restrictions have so far been successfully re-directed to other export markets, though often at lower prices.

s22 [redacted]

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- **Thermal coal** prices have increased around 68 per cent since the 2020–21 Budget, currently around US$98 per tonne, due to cold weather in east-Asia, higher demand from India and Japan, and tight seaborne supply.
  - The thermal coal price is assumed to remain around US$93 per tonne FOB over the forecast period, 83 per cent higher than the 2020–21 Budget assumption of around US$51 per tonne FOB.
  - Consultation with market and industry participants, however, has highlighted that there is elevated uncertainty in the coal market, in particular around the duration of the Chinese restrictions on Australian coal, as well as around global environmental policies.

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Trade tensions

- There are currently a range of complex trade issues between Australia and China, including actions both formal (tariffs, suspensions, increased testing) and informal (quotas, informal instructions to Chinese buyers).

- Over the past 12 months, China has imposed several measures that have been disruptive or restrictive to Australia's exports, mainly on coal and agricultural exports.

- The Budget baseline forecasts incorporate explicit industry-wide import restrictions by China on coal, barley, and wine. These explicit restrictions have not had a material impact on the forecasts for real GDP; however, they have had significant impacts on specific firms and regions and have put downwards pressure on the price of the affected export goods.

  – This assumption is consistent with ABARES and DISER forecasts, which feed into Treasury's rural and non-rural commodity exports forecasts.

- Ongoing global trade tensions and the potential for further trade actions present a key downside risk to the outlook. However, most goods targeted by restrictions have so far been re-directed to other export markets. Goods potentially subject to targeted or firm-specific trade cessations were worth around 1.1 per cent of nominal GDP in 2019 (see Table 5)

Coal exports

- No coal has been exported to China in 2021, and exports to China in December 2020 were down 95.1 per cent through the year for metallurgical coal, and down 96.2 per cent through the year for thermal.

- Total coal export volumes are only down 7.8 per cent through the year in the March quarter, since Australian coal that otherwise would have gone to China has found purchasers in other markets, though often at discounts relative to competitors

  – Metallurgical coal export volumes in the March quarter 2021 were up through the year by 46.5 per cent to India, by 7.5 per cent to Japan, and by 34.5 per cent to South Korea.

  – Thermal coal export volumes in the March quarter 2021 were up through the year by 1.1 per cent to Japan, by 23.3 per cent to South Korea, and by 231.0 per cent to Indian.

- Trade restrictions have meant that some Australian coal exporters receive a discounted price relative to other exporters with access to the Chinese market. Partly because of these discounted prices, total coal export values were down 26.3 per cent through the year in the March quarter 2021.

Rural exports

- Several of Australia's agricultural exports have been subject to tariffs, bans, or delayed customs clearances during 2020. Of the affected commodities, China has only ratified industry-wide tariffs on barley and wine.
  - The tariff on barley has effectively eliminated Australian barley as a feasible option for Chinese importers, and exports to China effectively ceased after the tariff's introduction.
  - Despite trade restrictions from Australian barley export volumes were up 176 per cent through the year in March quarter 2021. This was due to higher production resulting from favourable seasonal conditions in 2020.
  - Australian barley exports have instead been sold into alternative markets, but for some barley without the price premium that was historically paid by Chinese buyers.
  - According to ABARES, producers are expected to shift planted area from barley to alternative crops (such as wheat) over the medium-term, if the tariff remains in place.
  - Australian wine export volumes were down 17.4 per cent through the year in the March quarter 2021 principally due to the Chinese restrictions with exports to China down 91.7 per cent.

Table 5: Value of export goods impacted by reported and announced import cessations

Commodity		Australian exports to China in 2019 (A$m)	Australian exports to world in 2019 (A$m)	China's share of total exports (%)	Exports to China as a percentage of nominal GDP (%)
Coal	Thermal Metallurgical	13,706	63,940	21	0.69
Beef		2,672	10,810	25	0.13
Copper ore and concentrates		2,261	6,257	36	0.11
Wine		1,137	2,953	39	0.06
Cotton		1,116	1,570	71	0.06
Crustaceans		843	1,059	80	0.04
Barley		591	1,043	57	0.03
Wood (rough sawn)		603	640	94	0.03
Sugars, molasses and honey		95	1,620	6	0.00
Total		**23,024**	**88,849**	**34**	**1.1**

Source: DFAT Composition of Trade Data, ABS 5206.0, Treasury calculations. Does not include wheat.

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TREASURY MINISTERIAL SUBMISSION

15 July 2021 PDR No. MS21-001735

Treasurer

DELOITTE ACCESS ECONOMICS BUSINESS OUTLOOK: JUNE 2021

Timing: The Deloitte Access Economics June Business Outlook will be released on 18 July.

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s22 [redacted]
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Contact Officer:
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Consultation: Budget Policy Division, Commonwealth-State Relations Division

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THE SCOPE OF THE REQUEST

Australian Government
The Treasury

TSY/AU

Treasury Economic Note

ABARES

02 March 2021

Agricultural Commodities — March 2021

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The agricultural sector has adapted well to COVID-19, but ABARES notes a number of challenges facing the sector. China's expected recovery from African swine fever is expected to ease global demand for red meat. **Import tariffs** imposed by China on Australian barley are expected to lead to less area being planted to the crop, although Australian barley exports are expected to remain competitive internationally. Exports of wine to China are expected to decrease due to **anti-dumping measures** introduced in late November 2020. Exports to other countries are expected to increase in the second half of 2020-21, but not by enough to offset the loss of the Chinese market. **The cost of fruit and vegetables** is expected to increase during the second half of 2020-21 as a smaller-than-usual workforce, due to the pandemic, restricts production volumes.

ABARES estimates and forecasts

Table 1: Gross value of farm production

$billion	2019-20s	2020-21f	2021-22f
Total Farm	61.1	65.9	63.3
Growth (%)	0.2	7.8	-4.0
Crops	27.6	35.0	31.6
Growth (%)	-8.1	26.9	-9.6
Livestock	33.5	30.9	31.6
Growth (%)	8.3	-7.8	2.4

Source: ABARES Agricultural Commodities major indicators.
s ABARES estimate; f ABARES forecast.

Table 2: Farm export values

$billion	2019-20s	2020-21f	2021-22f
Total Exports	48.4	46.3	49.2
Growth (%)	-0.4	-4.2	6.1
Crops	21.4	24.1	25.3
Growth (%)	-5.9	12.5	5.1
Livestock	26.9	22.2	23.9
Growth (%)	4.3	-17.5	7.3

Source: ABARES Agricultural Commodities major indicators.
s ABARES estimate; f ABARES forecast.

s22 [redacted]
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Next Release: *16 June 2021*

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Document 27

Australian Government
Department of Agriculture, Water and the Environment
ABARES

Agricultural forecasts and outlook

March quarter 2021

Agricultural Commodities Report, Vol 10.4

ALL PAGES OF THIS DOCUMENT OTHER THAN THE TITLE PAGES AND PAGES 5, 6, 46, 47, 49, 50 AND 70 TO 75 HAVE BEEN REMOVED AS OUTSIDE THE SCOPE OF THE REQUEST

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Web awe.gov.au

s22 [redacted]

s22 [redacted] Despite recent tariffs on barley and wine, China is still expected to remain Australia's most significant agricultural trading partner. These developments, along with macroeconomic and production uncertainties, will provide the backdrop for a likely more difficult environment in which to grow trade value. Using existing market access and recognising the role of market diversification as a risk management strategy will be important to ensure export growth.

Australian crop and livestock export prices, 2000–01 to 2025–26

f ABARES forecast. **z** ABARES projection.

The sector is not expected to increase the total volume of agricultural production over the medium term. The volume of production, while variable year-to-year, has been fairly stable over the decade to 2020–

21. s22 [redacted]

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Coarse grains

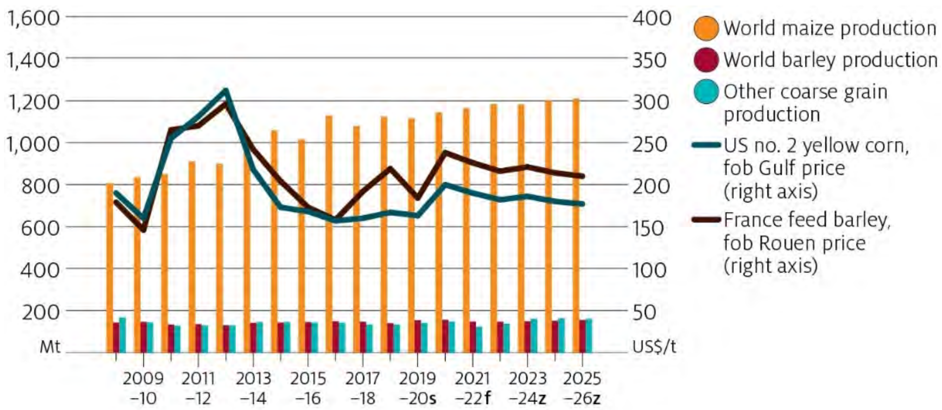
Peter Lock

Tight coarse grain supplies to support prices

The world indicator price for corn is expected to decrease by 5% to US$190 per tonne in 2021–22. World corn production is expected to increase in 2021–22, but consumption is expected to remain flat. World consumption of corn has been largely unchanged throughout the COVID-19 pandemic with decreasing industrial use offset by increasing demand for animal feed. Over the medium term to 2025–26, above average corn prices are expected to be driven by increasing demand for corn as animal feed and as an input to biofuel, combined with ongoing competition from soybeans for arable land.

The world indicator price for barley is expected to decrease by 2% to US$226 per tonne in 2021–22. World barley consumption is expected to fall at a faster rate compared with global production in 2021–22. Above average world barley prices are being supported by export controls imposed by the Russian Federation and Argentina, as well as by demand from China for barley sourced from countries other than Australia. Prohibitive import tariffs imposed by China on Australian barley in 2020 have reduced the pool of barley that is available to Chinese consumers from global markets. Over the medium term, ongoing strong demand by China is expected to continue to support global prices. The world indicator price is expected to remain elevated but fall from current levels to US$211 per tonne in 2025–26, as global supply chains adjust to China's shift in demand away from Australia towards the Black Sea Region, Europe and South America.

World coarse grain supply and prices, 2008–09 to 2025–26z



f ABARES forecast **s** ABARES estimate **z** ABARES projection.
Sources: ABARES; IGC; USDA

Australian coarse grain prices

Falling barley production to support domestic prices

Australian barley prices are expected to rise in 2021–22, increasing by 3% to $243 (US$182) per tonne because of falling domestic production and stable demand for exports. In the absence of any further external shocks and with relatively stable seasonal conditions, Australian barley prices are projected to increase by a further 4% to $252 (US$186) per tonne over the outlook period to 2025–26. Australian prices are also projected to remain below prices received by major competitors because of restricted access to the Chinese animal feed and malt markets.

Increasing grain sorghum production to lead to lower prices

Australian grain sorghum prices are expected to fall by 6% to $300 (US$225) per tonne in 2021–22 because of the return to average seasonal production from drought-induced lows, and a fall in demand for animal feed due to increased pasture and fodder availability. Over the outlook period, domestic prices are projected to continue to fall to $253 (US$187) per tonne in 2025–26 as a result of increased competition with other feed grains in the domestic market and limited opportunities to expand exports.

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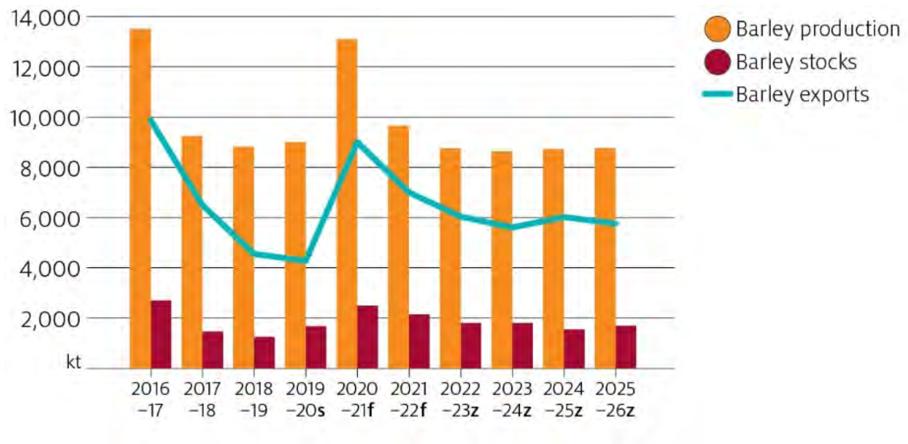
Structural adjustment to affect Australian production over the outlook period

Australian production of barley is expected to fall by 19% in 2021–22 to 9.7 million tonnes. Although barley production is expected to remain above the 10-year average to 2020–21 (9.3 million tonnes), import tariffs imposed by China on Australian barley are expected to result in a reduction in area planted in trade-exposed regions, particularly Western Australia. Assuming these tariffs remain in place over the outlook period, area planted to barley is expected to fall below 4.0 million hectares by 2025–26—the lowest since 2013–14—with production ranging between 7.4 and 9.3 million tonnes, subject to seasonal rainfall. Despite this projected structural change, production within this range is projected to remain more than sufficient to meet domestic needs when dry conditions return.

Domestic consumption for barley is forecast to fall by 10% from 3.3 million tonnes in 2020–21 to 3.0 million tonnes in 2021–22 and fluctuate around this level over the outlook period. Improved seasonal conditions in 2020–21 across south-eastern Australia and timely rainfall across southern and central Queensland are expected to support sufficient pasture growth for animal herds and result in reduced use of barley as supplemental animal feed.

Australian production, stocks and export of barley, 2016–17 to 2025–26z



f ABARES forecast. **s** ABARES estimate. **z** ABARES projection.
Sources: ABARES; ABS

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Australian exports remain competitive on international markets

Exports of barley from Australia are expected to fall in 2021–22, declining 22% to 7 million tonnes. This reflects a decline in domestic production from 2020–21 levels.

Despite being subject to China's prohibitive import tariffs, barley exports from Australia are expected to remain competitive in international markets. As a result of the reorganisation of global barley supply chains to meet Chinese demand, Australian export prices have fallen below those of major competitors in the Black Sea Region and Europe. Australian barley has become more competitive in alternative markets, particularly in Saudi Arabia, which is the second largest importer of barley for animal feed after China. Malting grade Australian barley has also become competitive in new markets, including Mexico for use in beer production.

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Wine and wine grapes

Peter Collins and Charley Xia

Average prices of wine grapes and wine exports to fall

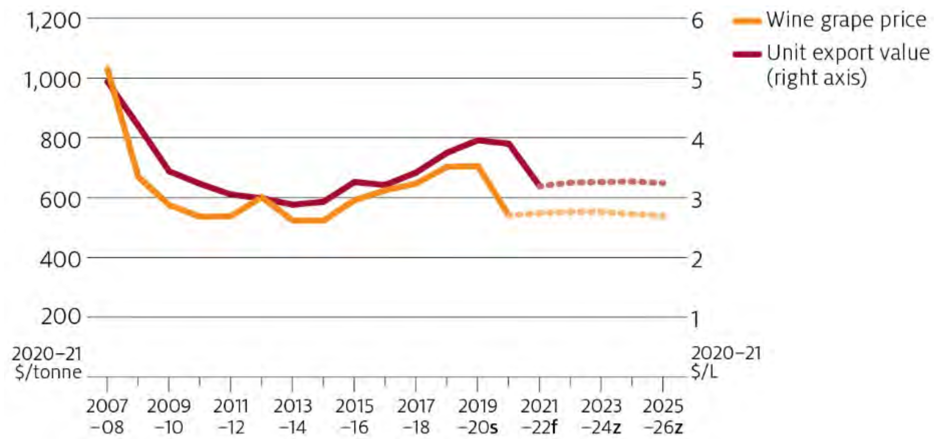
The average price of Australian wine grapes is forecast to fall from $694 per tonne in 2019–20 to $540 per tonne in 2020–21. The major reason for this is the loss of China as a significant export market for Australian wines. This is also expected to constrain prices over the remainder of the projection period. The price is expected to rise slightly to $556 per tonne in nominal terms in 2021–22.

Wine grape and wine production are forecast to increase in 2020–21 on the back of improved seasonal conditions after below average production in 2019–20. Labour has proved to be less of an issue for wine and wine grape producers in 2020–21 than it has for other horticultural industries. Australian wine production is expected to remain around 1.2 million litres over the projection period to 2025–26. This represents a return to 2006–07 and 2014–15 levels – before the China export boom.

Wine exports are forecast to fall in 2020–21 following the sudden loss of China as a significant market. The impact of that market loss is forecast to keep exports relatively constant between 2021–22 and 2022–23 before rising slightly at the end of the projection period. The average export price of wine will be lower over the projection period compared with the 3 years to 2019–20. This is expected to hold down the average price of Australian wine grapes.

The recovery of the world economy in response to vaccine rollouts for COVID-19 is expected to provide a modest boost to demand for Australian wine, lifting exports and wine grape prices in nominal terms towards the end of the projection period. However, wine grape prices are still expected to remain below $600 per tonne over the projection period to 2025–26, about 15% to 20% lower than in 2019–20.

Average wine grape prices in Australia and unit export values, 2007–08 to 2025–26



f ABARES forecast. **s** ABARES estimate. **z** ABARES projection.
Sources: ABARES; ABS

Medium term scenarios for forecasts

Medium-term forecasts from 2022–23 to 2025–26 for Australian wine and wine grapes are based on the average outcomes of 4 possible seasonal climate scenarios. A very dry season in the wheat-sheep zone is likely to occur in one of the 4 years. Each scenario places this dry season in a different year, with other years assumed to receive rainfall of deciles 3 to 4. For a more detailed explanation see the Agricultural overview.

The range of outcomes forecast to result from each scenario are then averaged. Unless otherwise indicated, these average forecasts – or their ranges – are discussed in this note.

Upside and downside scenarios are also considered. The upside scenario combines a faster economic recovery from the COVID-19 pandemic with another high rainfall year in 2021–22. A very dry year is still assumed in 2022–23. Because it follows an assumed wetter year, negative effects on production are reduced. The downside scenario combines a slower than expected economic recovery with very dry years in 2021–22 and 2025–26.

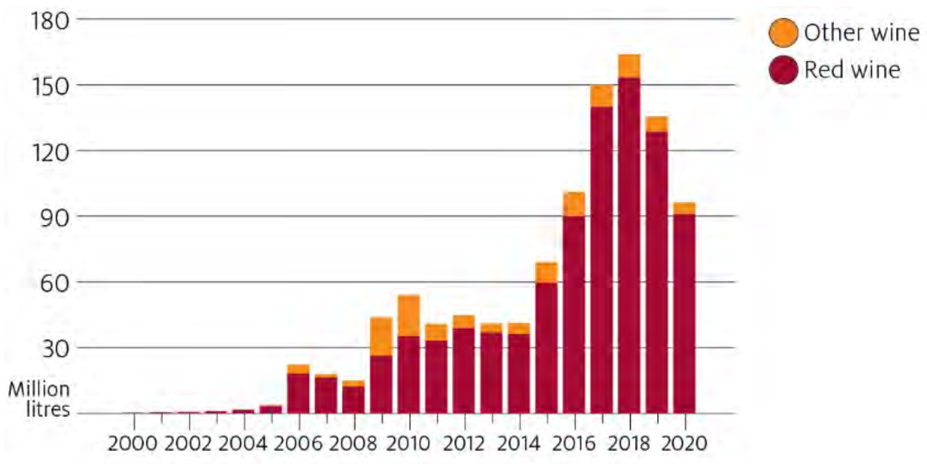
China trade disruption

The loss of China as an export market will shape the Australian wine industry over the projection period.

Australian wine exports to China were negligible before jumping to 22 million litres in 2006 and 41 million litres in 2014. Over the next 4 years, these exports grew dramatically, to peak at 164 million litres in 2018. In that year, 19% of the 859 million litres of wine exported from Australia went to China. Between 2014 and 2018, Australian exports of red wine to China increased by 117 million litres to 153 million litres and comprised 93% of all wine exports to China.

Much of the 117 million litre increase in exports of red wine to China between 2014 and 2018 came from increased Australian production. Some came from diversion of bottled red wine from other export markets, which in turn was backfilled by exports of bulk red wine. However, the extent of Australia's trade diversion from third markets to China was small. Red wine exports to the United States fell by just 12 million litres and the United Kingdom by 1 million litres over this period, and volumes diverted from other, smaller export markets were too insignificant to make up the increase in exports to China.

Australian wine exports to China, 2000 to 2020



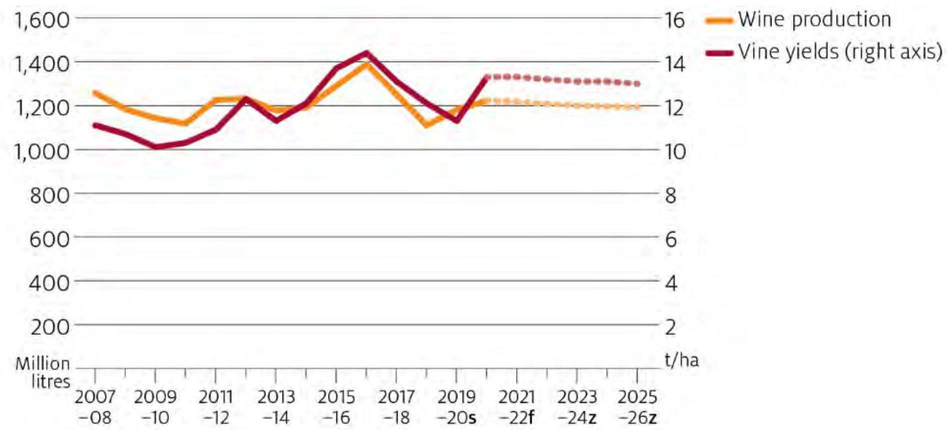
Sources: ABARES; ABS

On 27 November 2020, the Chinese Ministry of Commerce announced that from 28 November 2020 Chinese imports of Australian wine will be subject to anti-dumping security deposits. These duties are sufficiently high to curtail exports of Australian wine to China. The average price of wine exported to China was around 17% higher than the average price of wine exported to all other markets. Given that around 60% of Australian wine is exported, the loss of the China market is expected to flow through to the price wineries pay for wine grapes.

Production and exports in the absence of China

After 2 years of below average production, wine grape and wine production are forecast to recover to longer-term averages in 2020–21 at around 1.5 million tonnes of wine grapes and around 1.2 billion litres of wine. The recovery is a result of more favourable seasonal conditions. Negligible exports to China combined with low prices are forecast to keep wine grape and wine production in Australia at around these levels over the projection period to 2025–26. This is 14% below the 1.4 billion litre peak of wine production reached in 2016–17 during the China export boom. Red wine represents most of the recent variation in wine production. The forecast production levels are expected to be achieved by maintaining the bearing area of vines at around the same level as the last 5 years and by managing yields.

Wine production and average vine yield in Australia, 2007–08 to 2025–26

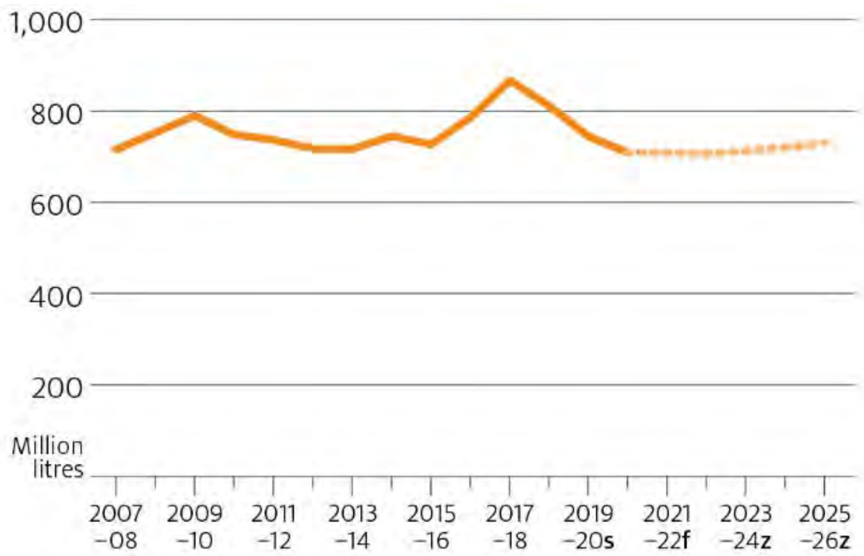


f ABARES forecast. **s** ABARES estimate. **z** ABARES projection.
Sources: ABARES; Wine Australia

The Australian wine industry is forecast to remain export focused and continue to export around 60% of production. The volume of wine exports is expected to be around 709 million litres in 2020–21 and rise slightly over the latter part of the projection period to 730 million litres in 2025–26 as the world economy recovers. The export volume forecast for 2020–21 is down from 744 million litres in 2019–20. This contrasts with a peak of 867 million litres in 2017–18 at the height of the export boom to China.

From the second half of 2020–21, the United Kingdom, the United States, Canada and New Zealand are expected to be the major destinations for Australian wine exports. All export markets other than China are expected to absorb around 15% more wine from Australia annually in the first part of the projection period than these markets imported in 2019 and 2020. Expansion into these alternative markets is assumed to extend through the projection period.

Wine exports from Australia, 2007–08 to 2025–26



f ABARES forecast. **s** ABARES estimate. **z** ABARES projection.
Sources: ABARES; ABS

The recovery of wine production in 2020–21 to a longer-term average, and the loss of China as a major export market in December 2020, are expected to result in a slight increase in wine stocks in 2020–21. Wine stocks fell in each of the previous 3 years as sales outpaced production during the drought. With lower projected production and exports over the medium term, stocks are forecast to remain relatively stable over most of the projection period, falling slightly in 2025–26.

The value of wine exports is forecast to fall to $2.8 billion in 2020–21, down from $2.9 billion in 2019–20 and from the peak of $3 billion in 2018–19 during the export boom to China. This is due to the forecast fall in the volume of exports and an expected fall in the average unit value of wine exported from Australia following the loss of China as a major export market in December 2020. In the 5 years to 2019, the average unit value of wine exported to all markets, including China, was $3.28 per litre. The average unit value of wine exported to all markets, excluding China, was $2.73 per litre. The exclusion of China deducts 17% from the average unit value because the average unit value of wine exported to China over the 5 years to 2019 was $6.24 per litre.

From 2021–22 until 2023–24 the value of wine exports is forecast to be around 14% to 17% lower than in 2020–21, at between $2.3 billion and $2.4 billion. It is expected to increase slightly to around $2.6 billion towards the end of the period as the world economy recovers after the rollout of vaccines for COVID-19.

Adjustment to new wine blends

The composition of forecast falls in Australian production and exports is expected to change over the period to 2025–26. Following the loss of China as a major market, substitution by winemakers is expected towards lower-valued wines. It is likely that some grapes formerly used to produce high-value wine will be blended with other grapes to produce lower-value wine. It is expected this will happen relatively quickly because China was lost as a major export market before wineries started making wine from the 2020–21 wine grape harvest.

The expected fall in the share of high-value wines in production and exports could be mitigated if marketing campaigns designed to sustain demand for high-value wine are successful. However, such campaigns take time to generate benefits for the industry. It will also be difficult to replace a market the size of China. These forecasts assume minimal success in growing demand for high-value wine over the projection period.

Alternative scenarios

The upside scenario has very much above average rainfall early in the projection period, followed by 1 year of very much below average rainfall and 3 years of just below average rainfall. The economic outlook is more positive, with a rapid recovery in the world economy following vaccine rollouts for COVID-19.

Wine grape and wine production are higher in the upside scenario than in the forecast in all years of the projection period. The year with very much below average rainfall comes after 2 years of well above average rainfall, so well-stocked water storages can reasonably be expected to buffer wine and wine grape production. Wine grape prices would be expected to be higher than in the baseline scenario with the more favourable economic outlook likely to drive higher export demand for wine.

The downside scenario assumes well below average rainfall in 2021–22 and 2025–26, with just below average rainfall in the intervening years. The well below average rainfall early in 2021–22 follows a year of well above average rainfall that would replenish water storages, but not to the same degree as the 2 years of above average rainfall in the upside scenario. Consequently, wine and wine grape production are forecast to be more adversely affected by the well below average rainfall early in the period than in the upside scenario.

Similarly, well below average rainfall in 2025–26 would have a more significant adverse impact on production of wine and wine grapes. This is because it follows 3 years of just below average rainfall.

The economic environment in the downside scenario is assumed to be difficult, with ongoing outbreaks of COVID-19 leading to measures that restrain economic activity. Economic activity would be dampened for much of the period, with some recovery late in the projection period. This delayed recovery would delay increases in export demand for wine and rises in the price of wine grapes until late in the projection period. This late rise in demand would provide a partial buffer to lower production caused by unfavourable rainfall late in the projection period.

Opportunities and challenges

Overcoming low industry growth after losing China as a market

The loss of China as a major export market for Australian wine looks set to usher in a period of low growth in the wine industry, similar to between 2006–07 and 2014–15. Overcoming this low growth is likely to be challenging.

Trend growth in domestic wine sales slowed after 2009–10 so the small-size of Australia's domestic market may provide only limited opportunities for industry growth. The sheer size of the global wine market means it will most likely provide the best opportunity for future growth. But the industry may be challenged to identify opportunities to expand exports to existing major export destinations.

For example, the United States remains one of Australia's largest wine export markets, but the volume of Australian wine exported to the United States has trended down since 2009. In 2019 it was around

103 million litres lower than in 2009, a 42% fall, and the value of these exports fell by 37%. Similarly, the volume of Australian wine exports to the United Kingdom has trended down since 2008, and in 2019 was 37 million litres less than in 2008, a 14% reduction. The value of these exports dropped by 54%. This was the result of a shift away from bottle wine exports towards bulk containers of wine, with bottling undertaken in the United Kingdom.

The best opportunities for growth may lie with a group of low volume but exceedingly high value markets such as Singapore, Malaysia and the United Arab Emirates. The value of these markets for Australia's wine industry has grown rapidly, and may represent the best opportunity to sell high-value wine formerly exported to China.

A boost from wine tourism

Interstate travel remains problematic and the peak summer holiday season has passed, but intrastate winery tours will remain a popular weekend leisure activity for the rest of the year. This is especially the case for the many wineries in close proximity to major urban centres. These provide a positive opportunity for wine tourism and cellar door sales. These activities were curtailed by COVID-19 restrictions and their revival will provide a welcome boost to wine sales.

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Australian Government
The Treasury

TSY/AU

Treasury Economic Note

ABARES

15 June 2021

Agricultural Commodities — June 2021

s22 [redacted]

ABARES notes that **the market outlook for agricultural commodities is mostly positive**, but there are a number of challenges and uncertainties facing the sector. s22 [redacted] The sector has responded to **disruptions of exports to China** by diversifying markets, although ABARES notes that this transition has been faster and lower cost for barley exports than for wine. s22 [redacted]

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s [redacted] Macroeconomic Conditions Division

Contact Officer: s22 [redacted]
Next Release: *14 September 2021*

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Australian Government
Department of Agriculture, Water and the Environment
ABARES

Agricultural forecasts and outlook

June quarter 2021

Agricultural Commodities Report, Vol 11.2

UNDER EMBARGO UNTIL 12:01 AM WED 16 JUNE 2021

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Telephone 1800 900 090
Web awe.gov.au

s22 [redacted]

[redacted] The largest impacts on commodity prices during 2020–21 were unrelated to the pandemic and occurred as a result of reduced market access to China and the continuation of the effects of African swine fever on Chinese pork production. Exceptions included a fall in demand for textiles and travel which reduced demand for wool, cotton and vegetable oils. As the global economic outlook continues to improve, markets for wool, cotton and vegetable oils are forecast to continue recovering.

s22 [redacted]

s22 [redacted]

s22 [redacted]

s22 [redacted]

[redacted] Lower grain exports are due to production falling from record levels, while lower wine exports are largely attributable to the fall in prices following China's imposition of prohibitive tariffs on Australian wine.

s22 [redacted]

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[redacted] Trade tensions with China remains a risk to livestock product exports.

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[redacted]

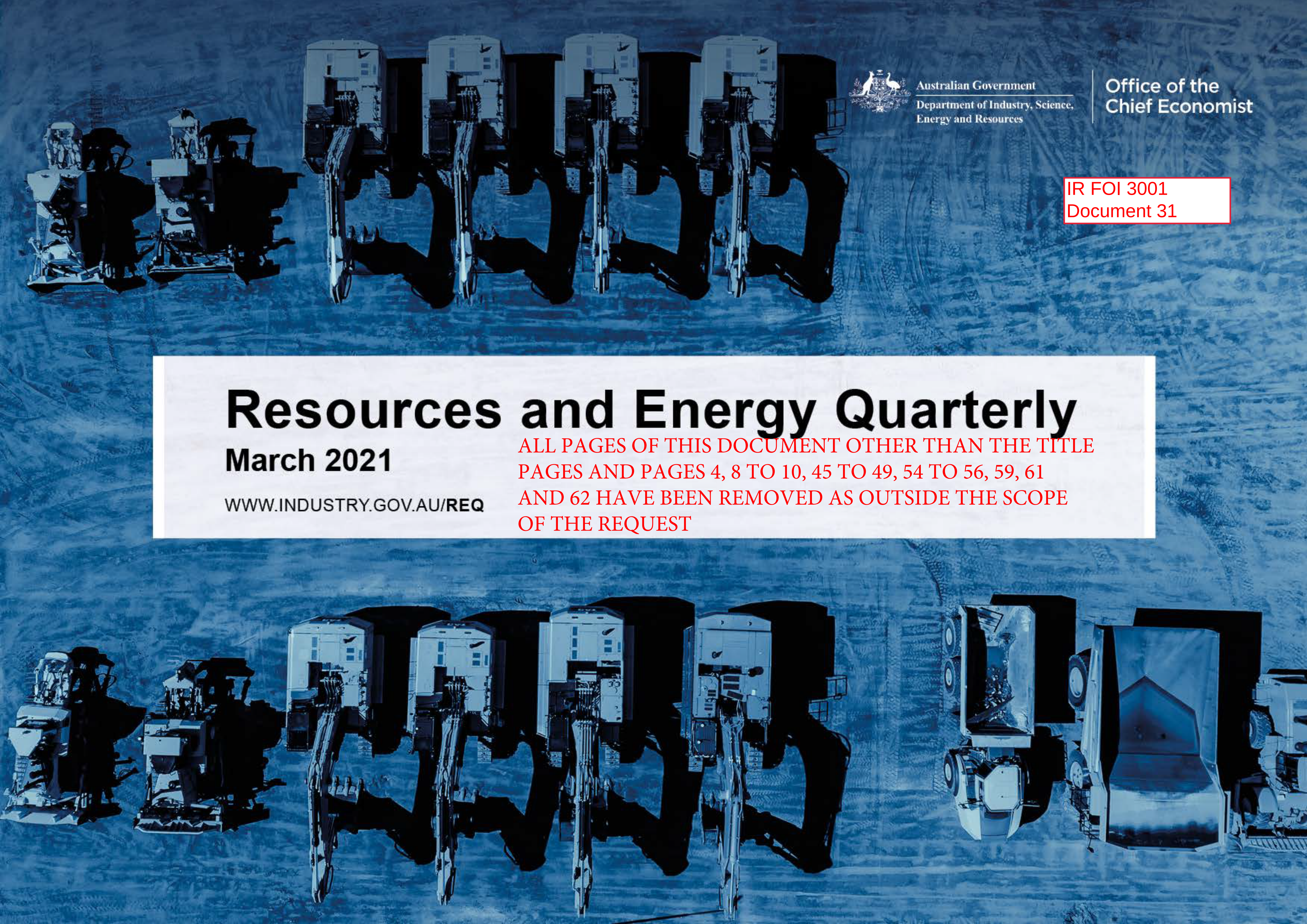
Department of Industry, Science, Energy and Resources **26 March 2021**

Resources and Energy Quarterly – March 2021

s22 [redacted]

Australia's **metallurgical coal** export earnings are forecast to fall from $34 billion in 2019-20 to $23 billion in 2020-21, impacted by China's informal import restrictions and the resulting lower prices for Australian coal, partially recovering to $26 billion in 2021-22 and $29 billion in 2022-23 as mines resume operations and newly-formed supply chains outside of China strengthen. This amounts to a upwards revision of $0.2 billion in 2020-21 and a downwards revision of $1 billion in 2021-22 compared with the December report, due to the impact of China's recent import policy and the resulting shifts in prices for Australian exports. Metallurgical coal export volumes are forecast at 173 million tonnes in 2020-21, a fall of 2.3 per cent compared to 2019-20, largely due to China's informal restrictions persisting into 2021, although partially offset by rising exports to other countries. Volumes are then expected to recover to 185 million tonnes in 2021-22 and 188 million tonnes in 2022-23. The newly-formed supply chains are expected to persist through the outlook period. Metallurgical coal spot prices are forecast to increase from an average of US$133 per tonne in 2021 to US$155 per tonne by 2023, although both are well below the 2019 average of US$179 per tonne.

s22 [redacted]



Australian Government
Department of Industry, Science, Energy and Resources

Office of the Chief Economist

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Document 31

Resources and Energy Quarterly

March 2021

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Foreword

Australia's resource and energy exports are forecast to hit a record $296 billion in 2020–21, a strong result, in the context of the COVID-19 pandemic. A modest decline to $288 billion (in real terms) is likely in 2021–22, at which point earnings stabilise over the remainder of the outlook period.

Every March edition of the *Resources and Energy Quarterly* provides an extended five-year outlook, rather than the usual two-year horizon. This allows us to consider additional structural factors beyond near-term cyclical and one-off issues. One-off issues have been quite prominent in recent years: the COVID-19 pandemic and China trade issues being the most significant. Both may also present structural implications. Another structural issue expected to gain momentum over the five-year outlook period is the global energy transition, particularly regarding batteries for electric vehicles.

s22 [redacted]

Higher commodity prices, Australia's relative success at containing COVID-19, and signs that China's informal import restrictions have not been as significant as initially expected by markets, have seen the Australian dollar strengthen further in recent months. The stronger Australian dollar has partly diminished the impact of higher US dollar commodity prices on export earnings, but will also act to contain any inflationary pressures.

Coal markets have quickly adjusted to the Chinese trade disruptions on Australian coal. As China switched to buying cargoes (from Indonesia, Russia, Colombia, South Africa, Canada and the United States) normally destined for other consuming nations in the region (such as India, Japan and South Korea), Australian exporters have filled the void. However, the exercise has had an impact on prices, with the bottom line for Australian coal exporters being that they are receiving lower premiums for their coal. If this is sustained, it could raise broader questions around production levels at some of higher-cost mines.

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One downside risk to the forecasts is for substantial delays in the successful rollout of effective COVID-19 vaccines to a large number of the world's working population. Another downside risk is the extent of further disruption to Australian resource and energy commodity trade with China.

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[redacted]

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The extent of further official and unofficial Chinese government restrictions on imports of some Australian resource and energy commodities poses a downside risk to the forecasts. Australian exporters of coal and copper concentrates and ores have been able to pivot to other markets; a colder-than-normal Northern Hemisphere assisted thermal coal exporters in this pivot. At present, a high degree of uncertainty exists around the extent to which China's informal import restrictions will persist through the outlook period.

Our projections suggest that by the end of the outlook period (2025–26), a surge in exports earnings of metals used in technologies central to the world energy transition — copper, lithium and nickel — will replace the fall in thermal coal earnings arising from that transition.

1.4 Prices

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[redacted]

Australian metallurgical coal prices have regained some of the losses incurred as a result of China's informal import restrictions. Australia's dominant position in the seaborne market has meant that our exporters have sold coal to replace the (mainly North American and Russian) cargoes bought by China typically sold elsewhere. A price lift is likely in the forecast period, as ex-Chinese usage recovers further. Winter demand from Asian coal-fired power utilities combined with output cuts to help lift thermal coal prices to pre-COVID-19 levels. Prices are likely to be flat in the outlook period, as supply matches demand (Figure 1.4).

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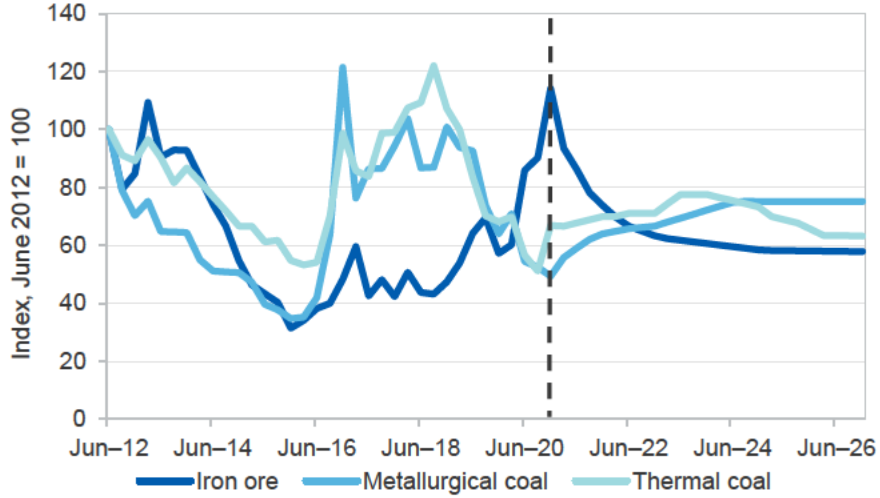
Figure 1.4: Bulk commodity prices



Notes: Prices are in US dollars, and are the international benchmark prices

Source: Bloomberg (2021); Department of Industry, Science, Energy and Resources (2021)

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[redacted]

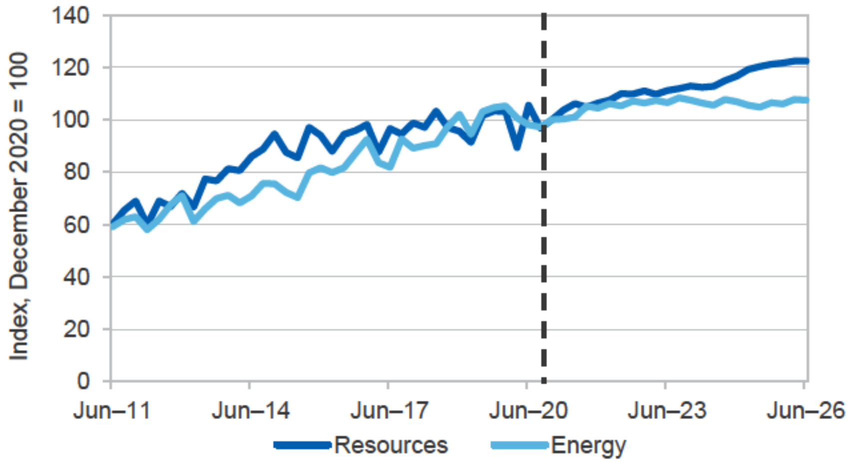
1.5 Export volumes

Weaker Australian export volumes, driven by resource exports

The OCE's Resources and Energy Export Volumes Index (preliminary estimate) rose by 2.8% in the March quarter 2021 from the December quarter, and was 8.9% higher than a year before (Figure 1.6). Within this total, resource commodity volumes rose by 15.9% in the year to the March quarter 2021, while energy commodity volumes fell by 0.4%. The volume of energy exports was affected by the slowdown in Asian economic activity (due to COVID-19) and China's informal import restrictions on our coal.

In volume terms, resources exports are likely to show further significant growth over the outlook period. Economic growth and industrial production is rebounding amongst our main trading partners, increasing their demand for our ferrous and non-ferrous metals. The global energy transition will also see strong demand for new technology commodities such as copper, lithium and nickel. Energy export volumes are forecast to recover pandemic losses during 2021, and then tend to level out. However, this volume recovery will likely not be sufficiently strong to offset lower energy prices and thus see export earnings surpass pre-COVID-19 levels.

Figure 1.6: Resource and energy export volumes



Source: Department of Industry, Science, Energy and Resources (2021)

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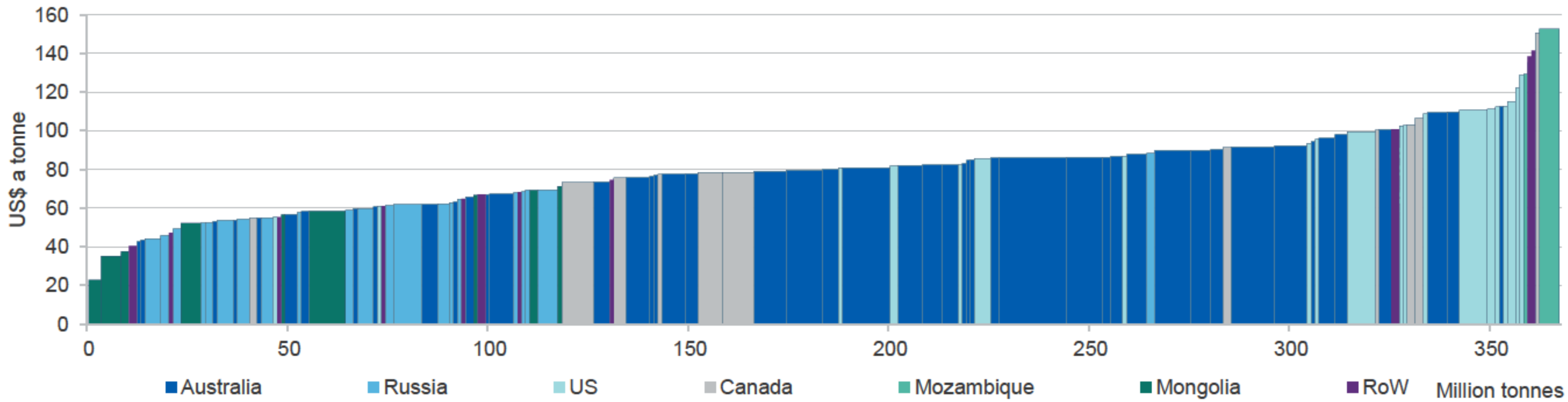
Mongolia's exports remain subject to conditions in China

Mongolian exports are estimated to have fallen by around 15% in 2020, largely due to COVID-19 containment measures impacting exports to China. Mongolian exports have subsequently recovered with the resumption of normal trade, and are expected to resume at pre-COVID-19 levels (around 30 million tonnes per year) from 2021. Exports are then expected to increase over the outlook period, reaching 32 million tonnes by 2026. Exports will be supported by recent tariff cuts in China under the Asia-Pacific Trade Agreement and by the completion of a key railway connecting mines in Mongolia with buyers in northern China.

Exports from Canada could partly fill China's Australia gap

Canada exported 31 million tonnes of metallurgical coal in 2020, around 10% below its typical export levels (Figure 5.4). However, only around 10% of this was shipped to China, leaving Canada relatively exposed to the weakness of non-Chinese markets. Exports to China are now increasing as Canadian production is drawn to the fill the space created by China's informal import restrictions on Australian coal.

Figure 5.3: Metallurgical coal (including hard coking, PCI and semi-soft) global cost curve, FOB, 2020



Notes: FOB is Free on Board. RoW is rest of world.

Source: AME Group (2021); Department of Industry, Science, Energy and Resources (2021)

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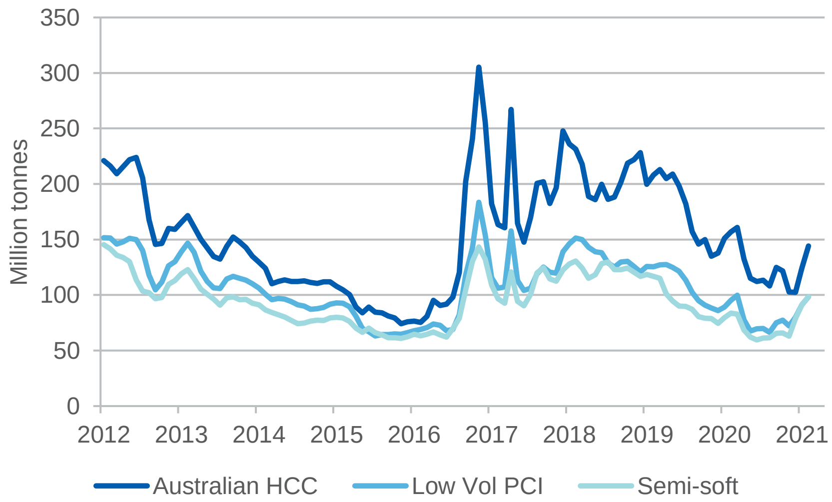
5.5 Prices

Metallurgical coal prices volatile on China uncertainty

Metallurgical coal prices lifted sharply in January, effectively reversing the fall which followed China's informal restrictions on Australian metallurgical coal imports in October 2020. The price for Australian premium low-volatile hard coking coal rose by around 60% in January as suppliers locked into new demand sources and buyers and sellers reorganised supply chains. Prices were also boosted by fears over weather disruptions at Queensland ports, with cyclone season often peaking in the late summer.

Price rebounds for Australian coal have led to broader price pressure on Asian seaborne metallurgical coal. Demand has risen in Japan, India and the EU, where steel output is recovering from the effects of the COVID-19 pandemic. However, prices have shown signs of softening again in recent weeks, adding to volatility in early 2021.

Figure 5.5: Metallurgical coal prices, monthly

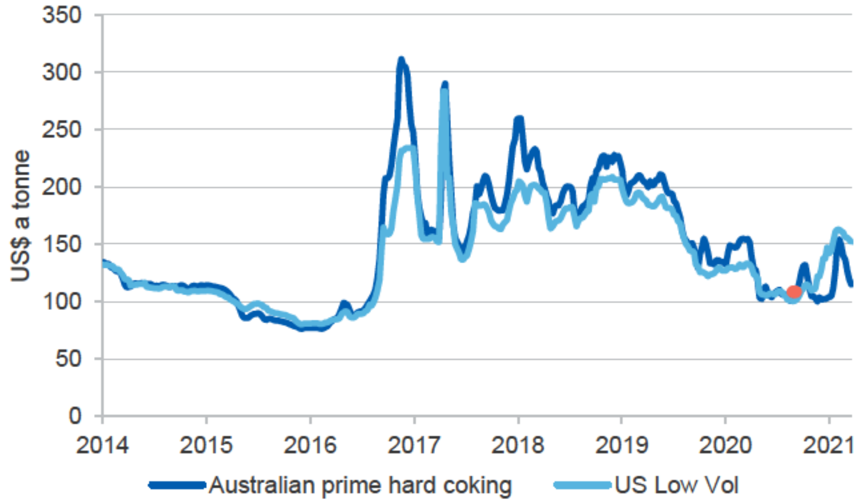


Notes: HCC stands for hard coking coal. PCI stands for pulverized coal for injection.

Source: Platts (2021)

Metallurgical coal prices have diverged significantly since China's informal restrictions on Australian coal. The move led to lower prices for Australian coal relative to coal sourced elsewhere (Figures 5.5 and 5.6), though prices for Australian output have subsequently recovered as supply chains adjusted and Australian coal found new markets.

Figure 5.6: Metallurgical coal prices - Australian Prime Hard vs US Low Vol, FOB



Source: IHS (2021). Low vol = low volatile coking coal. Red marker indicates approximate timing of informal import restrictions from China.

The recovery in metallurgical coal prices is expected to resume during 2021, as steelmaking continues to rebound. The premium Australian HCC price is forecast to average US$136 a tonne in 2021 and US$145 a tonne in 2022, rising to US$166 by 2026. Despite this growth, prices are expected to remain well below the 2019 average (Figure 5.7).

The most significant upside risk to prices is likely to be potential for extreme weather events over autumn, which has potential to disrupt shipping from Queensland. Any disruption to supply is likely to have stronger than usual effects given the strong growth currently occurring in global steelmaking as the world economy recovers.

Figure 5.7: Australian premium HCC spot price, quarterly

Source: Platts (2021); Department of Industry, Science, Energy and Resources (2021)

5.6 Australia

Metallurgical coal export earnings are set to fall in 2020–21

Australia is the world's largest exporter of metallurgical coal, accounting for around half of global seaborne supply. Australian metallurgical coal exports are expected to fall to 173 million tonnes in 2020-21 (Figure 5.8), largely due to China's informal restrictions on imports of Australian coal persisting into 2021. Some of this loss is likely to be offset by rising exports to India, Bangladesh, Pakistan and the Middle East, with newly formed supply chains expected to persist through the outlook period.

The most significant shift in supply chains is likely to take place between Australia and Mongolia. Australia was the largest exporter to China over the first half of 2020 as China closed its border with Mongolia due to COVID-19. This shift reversed late in the year as China imposed informal import restrictions on Australian coal and resumed trade with Mongolia. Metallurgical coal prices have become 'two-tiered', with Chinese import restrictions reducing the price of Australian output relative to output s22 [redacted] However, prices for Australian output showed signs of recovery in January-February, amidst concerns over potential summer weather disruptions and market speculation around a potential easing in Chinese import restrictions.

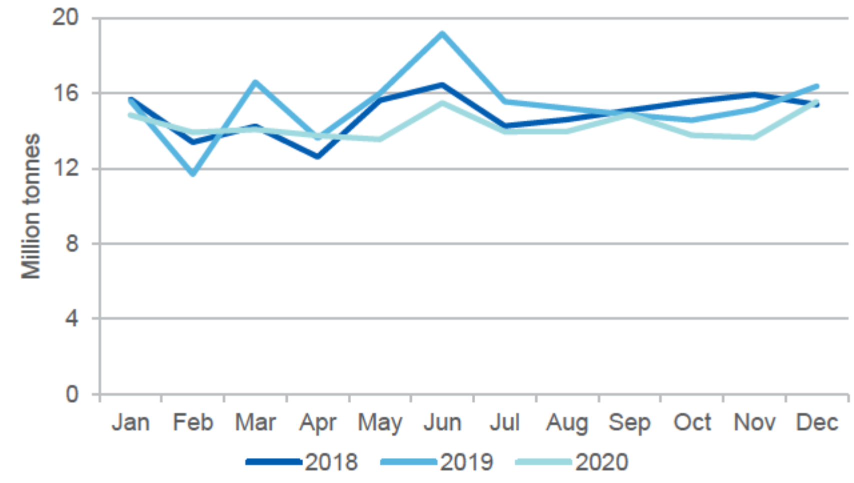
Conditions are mixed among individual mines. BHP production edged down from 20 million tonnes in the first half of 2020, to 19 million tonnes in the second half. BHP has not revised its production guidance (of 40-44 million tonnes for 2020-21), but it is expected that output for the year will fall into the lower half of the range. Whitehaven has lifted its production to 7.2 million tonnes in the second half of 2020, a slight rise from the equivalent part of 2019. Production was temporarily affected by smoke and dust at its Narrabri project, but has largely returned to normal.

Illawarra Metallurgical Coal lifted its output by 11% (to 3.3 million tonnes) in the second half of 2020, relative to the same period in 2019. Output appears to be benefiting from the company's return to a three-longwall configuration, which improves its capacity to mine two coal seams at once.

Australia's exports are recovering overall following several mine closures enacted after prices fell in the early part of 2020. These include Peabody's Wambo mine in NSW, which closed in July and August, and several Glencore mines which halted output in September and October. The re-opening of these mines (and solid production elsewhere) is expected to see exports lift in 2021 relative to 2020. This lift in supply is likely to match growing demand as steel production and industrial activity recover in Europe, the US and Asia.

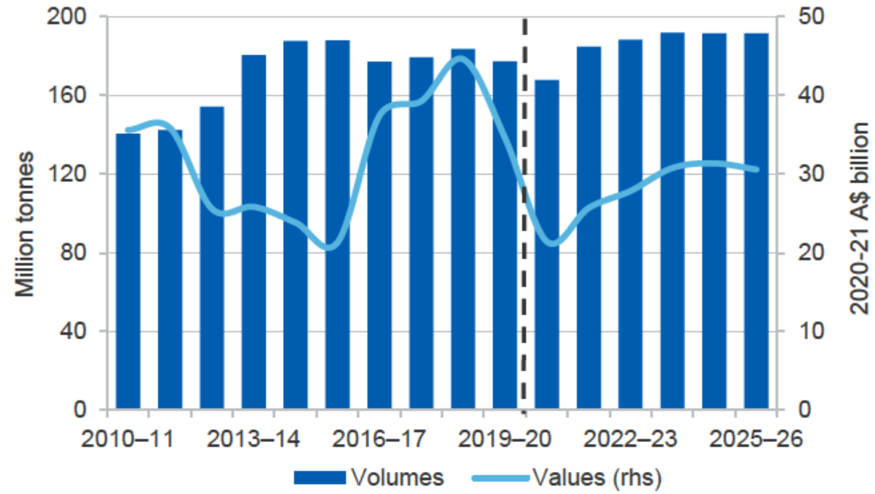
Metallurgical coal export earnings are expected to fall to $23 billion in 2020–21, impacted by China's informal import restrictions and by the subsequent lowering in prices for Australian coal (Figures 5.7 and 5.9). However, a recovery is expected through the outlook period, as mines resume operations, newly formed supply chains strengthen and demand grows in India, Europe and South Asia. This recovery is expected to lift export volumes back to 191 million tonnes, and export earnings up to $31 billion (in real terms) by 2026.

Figure 5.8: Australia's metallurgical coal exports, monthly



Source: ABS (2021)

Figure 5.9: Australia's metallurgical coal exports



Source: ABS (2021) International Trade, Australia 5454.0; Department of Industry, Science, Energy and Resources (2021)

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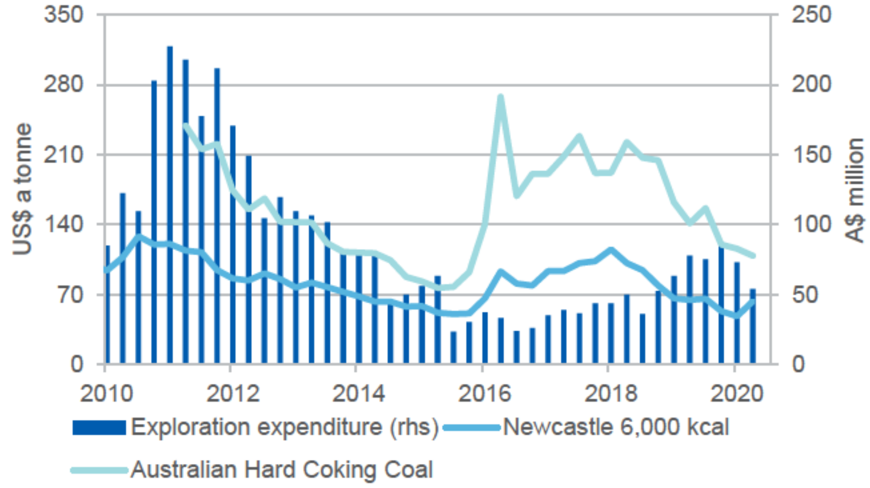
Revisions to the outlook for Australian metallurgical coal exports

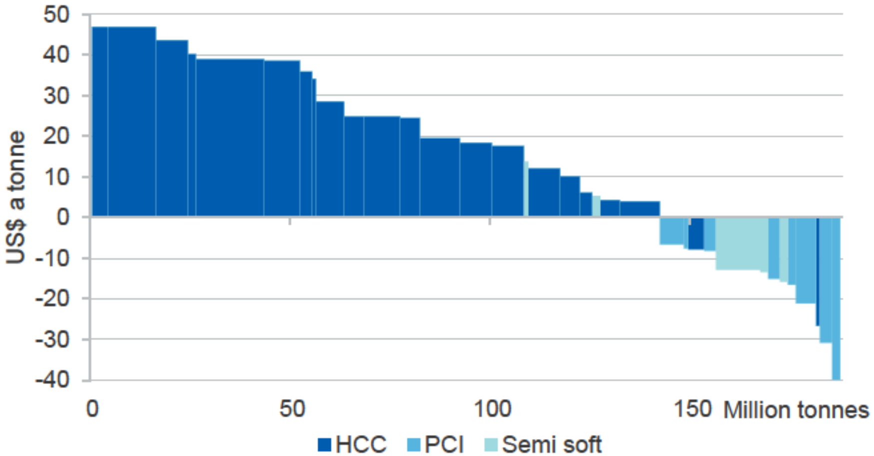
Australia's forecast metallurgical coal export earnings have been revised up by $0.2 billion in 2020–21, but down by $1 billion in 2021–22 (in nominal terms) since the December *Resources and Energy Quarterly*. The result reflects the impact of China's recent import policy and the resulting shifts in prices for Australian exports.

Figure 5.10: Australian coal exploration expenditure and prices



Source: ABS (2021); IHS (2021); Platts (2021)

Figure 5.11: Export margins of Australian metallurgical coal mines



Notes: 'Semi soft' is semi-soft coking coal; PCI is pulverized coal for injection; HCC is hard coking coal. Price assumptions are HCC = US$120 a tonne; PCI = US$70 a tonne; semi soft = US$65 a tonne. Mines are categorized into HCC, PCI and semi soft. If a mine produces a more than one type, they are categorised according to their dominant product for simplicity.

Source: AME (2021); Department of Industry, Science, Energy and Resources (2021).

6.1 Summary

- Thermal coal spot prices have recovered following production cuts in major exporting countries and recent growth in demand as Asian economies emerged from COVID-19 containment measures. The Newcastle benchmark price is forecast to average US$64.50 a tonne in 2021, rising slowly to US$73 a tonne by 2023, before easing to around US$60 a tonne by 2026.
- Import restrictions imposed by China on Australian coal have contributed to a decline in exports, from 213 million tonnes in 2019-20 to 206 million tonnes in 2020–21. However, exports are projected to rise to 231 million tonnes by 2025–26, as supply chains adjust and global markets increasingly prioritise high-quality coal (see *Australia section*).
- Australia’s thermal coal export values are forecast to fall from $21 billion in 2019–20 to $15 billion in 2020–21. Earnings are expected to remain largely steady at this level out to 2025–26.

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6.3 World imports

China’s import price premium remains high as import restrictions persist

Coal use in China remained relatively robust through 2020 and into the early part of 2021. China’s thermal coal imports in the December quarter 2020 were around 10% higher than the same period in 2019, reflecting greater output from most of the country’s larger power generators. Coal use is expected to flatten out in China over the outlook period. The Chinese Government’s latest Five-Year plan reiterated commitments to reach peak emissions by 2030 and attain carbon neutrality before 2060.

However, imports will also be subject to other forces affecting domestic coal use in China. China saw a wave of new coal plant constructions following a policy change in 2014, which delegated coal plant approvals to regional governments. In 2016, the Chinese Government revised the policy again, curbing coal plant constructions to prevent overcapacity. In early 2020 the policy was tweaked further, with the National Energy Administration simplifying its process for coal plant approvals. This is likely to see coal plant constructions progress more rapidly over the next few years. However, many of these new plants are replacements for old capacity, and the greater efficiency of the newer plants will likely curb any growth in coal use. In 2020, China’s State Council released new guidelines intended to more strictly control new plant approvals.

China’s reliance on coal power will thus persist for several decades, with the majority of its coal plants still relatively new. However, it is expected that future plant approvals will remain largely confined to replacement for older capacity. Domestic coal output in China is expected to remain strong, curbing import growth over the outlook period (Figure 6.1). China’s coal mining industry produces more than 3 billion tonnes of coal per year, accounting for around half of global coal output. Despite the impacts of COVID-19 containment measures in the early months of the year, China’s domestic coal mining appears to have maintained its typical output over 2020. This led to downward price pressure on the seaborne market.

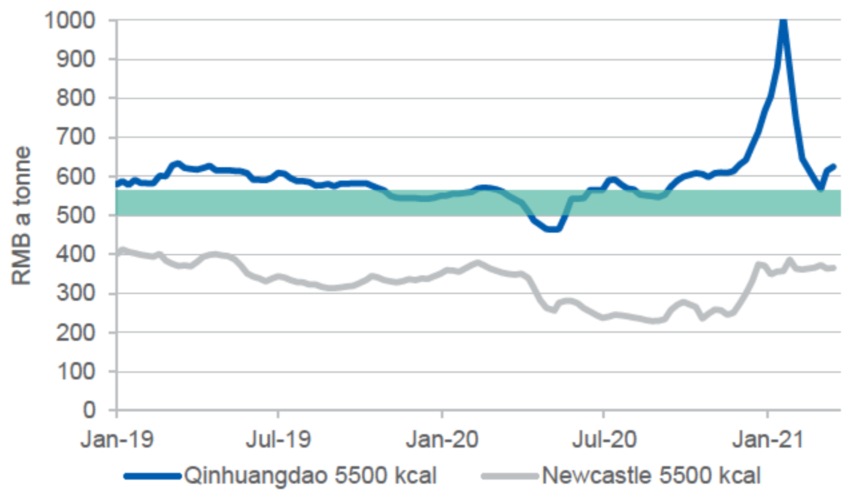
Australia's thermal coal exports to China declined in 2020, despite a rise in the early part of the year. China has actively sought to manage coal import levels over the past few years; in part to provide support for its domestic coal industry and in part to pursue energy security goals. However, the restrictions on Australian exports have had effects on domestic coal prices and availability in China.

In January 2021, China's National Development and Reform Commission (NDRC) released a regulatory plan which includes a target to stabilise China's domestic prices within a price band of 500 to 570 Renminbi (RMB), equivalent to US$76–87 a tonne at the current exchange rate. Prices in this range are understood to be broadly acceptable to China's power generators and industrial consumers, and also ensure sufficient margins for domestic coal miners. The NDRC typically eases import restrictions when the domestic benchmark prices exceed RMB570 a tonne, and tightens restrictions when the price goes below RMB500. The price range is shown as a green zone in Figure 6.2.

As this chart shows, China's informal import restriction on Australian coal has resulted in significant price pressure for Chinese consumers, with costs for China's domestic product lifting to around double the price of the equivalent Australian coal (see comparison with QHD prices in Figure 6.2). If there was a continuation of this policy, it is likely to see domestic coal prices remain elevated in China through 2021 and potentially beyond.

In the short-term, China's thermal coal demand is expected to lift in 2021 and 2022 in line with economic growth. While significant new power generation is expected to come from hydro, gas and renewable sources, a number of coal-fired power plants are well progressed in their construction. This may not flow through significantly to imports, partly due to the scale of China's domestic output and partly because the high-efficiency low-emissions technology used in newer coal plants is expected to improve their efficiency relative to the plants they are replacing.

Figure 6.2: China's domestic vs Australian thermal coal export price



Notes: The 'green zone' is a price band from 500-570RMB. Qinhuangdao (QHD) prices are a key benchmark for coal prices in northeastern China. The Newcastle benchmark series (traded in USD) is converted to RMB at 18 November 2020 exchange rate. Note that the Newcastle series excludes freight costs which typically add around US$10/t or 66 RMB.

Source: Bloomberg (2021)

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6.4 World exports

World thermal coal exports fell by about 13% in 2020, with producers cutting their aggregate output significantly. However, there were significant divergences in individual coal markets over the year, with the biggest impact being on high-cost suppliers (including the United States and Columbia) in the Atlantic Basin market, where demand and prices dropped particularly sharply.

Coal exports are expected to partially recover in the Atlantic Basin and Asia Pacific markets in 2021 as the COVID-19 vaccines roll out, allowing economies to gradually return to normal. Electricity use is expected to lift over 2021, reaching normal levels by the second half of the year. The impact of emissions reduction commitments, change in Chinese coal import settings and the development of India coal reserves by private companies all remain uncertain, creating complex scenarios for thermal coal exporters.

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The Chinese Government’s informal import restrictions on Australian coal has led to a shift to buying Indonesian coal by Chinese importers. This demand led to a brief shortage of thermal coal in the domestic Indonesian market, resulting in a deferral in deliveries to China and capped a volatile year for Indonesian coal exporters.

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6.5 Prices

International thermal coal prices recover as COVID-19 impacts recede

Thermal coal prices fell sharply in early 2020, but rebounded in November and early December. In early 2021, prices are roughly on-par with their pre-COVID-19 pandemic levels. Recent price growth has been driven in part by cold weather in Northeast Asia, and in part by supply cuts among the most price-sensitive producers. Australian exports from the Port of Newcastle also faced disruption in early 2021 due to equipment problems (see *Australia section*). Although prices have mostly recovered in aggregate terms, differentials have shifted in favour of non-Australian sources due to import restrictions imposed by China.

The benchmark Australian thermal coal spot price — Newcastle 6,000 kcal/kg — rose strongly in December and January, reaching around US$80 as Korean power companies increased their spot market bids (see Figure 6.7). Prices subsequently stabilised and have eased slightly, though they remain well above the 2020 average.

As weather conditions normalise, price pressure will likely ease. However, ongoing economic recovery through 2021 may result in more favourable conditions for thermal coal prices over the rest of the year. Recent net zero emissions commitments by large coal consumers are expected to place a long-term constraint on potential growth in coal prices.

6.6 Australia

Australian thermal coal exporters face volatile conditions in 2021

Australian thermal coal exports faced difficult conditions in 2020, affected initially by a broad decline in global energy use, and subsequently by China's unofficial restriction on imports of Australian coal. Chinese import restrictions resulted in the largest ever fall in exports (15% year on year) in the September quarter 2020, and has subsequently affected prices for Australian product (Figure 6.8). In the December quarter, exports remained weak, but recovered by around 6% in quarterly terms.

Thermal coal exports have been supported by the relatively high quality of Australian product, which has facilitated its diversion to other markets. Despite this, export revenue recorded its largest fall for more than 30 years in 2020. Signs are more positive in early 2021, with earnings recovering and volumes picking up, as coal previously destined for China's ports was successfully diverted.

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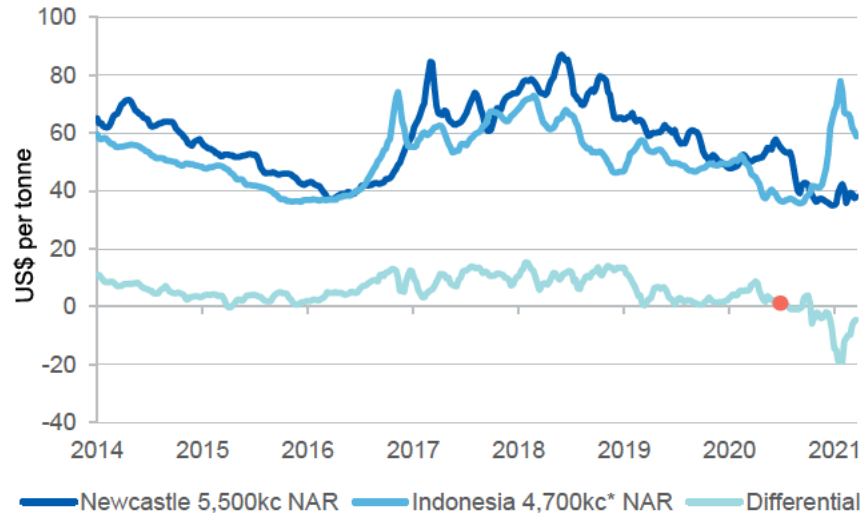
Figure 6.8: Thermal coal prices — Australian vs Indonesian



Source: IHS (2021). NAR = Net as received. Red marker indicates approximate timing of Chinese informal import restrictions.

Thermal coal export earnings are forecast to decline by $6 billion to $15 billion in 2020–21, remaining largely steady over subsequent years as growing volumes offset ongoing weakness in prices.

Revisions to the outlook for Australian thermal coal exports

Since the December release, the thermal coal export earnings forecast for 2020–21 has been revised up marginally in nominal terms (from $14.6 billion to $14.9 billion) reflecting a moderate lift in prices over recent months. The forecast for 2021–22 is largely unchanged from the December *Resources and Energy Quarterly*.

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Department of Industry, Science, Energy and Resources 25 June 2021

Resources and Energy Quarterly – June 2021

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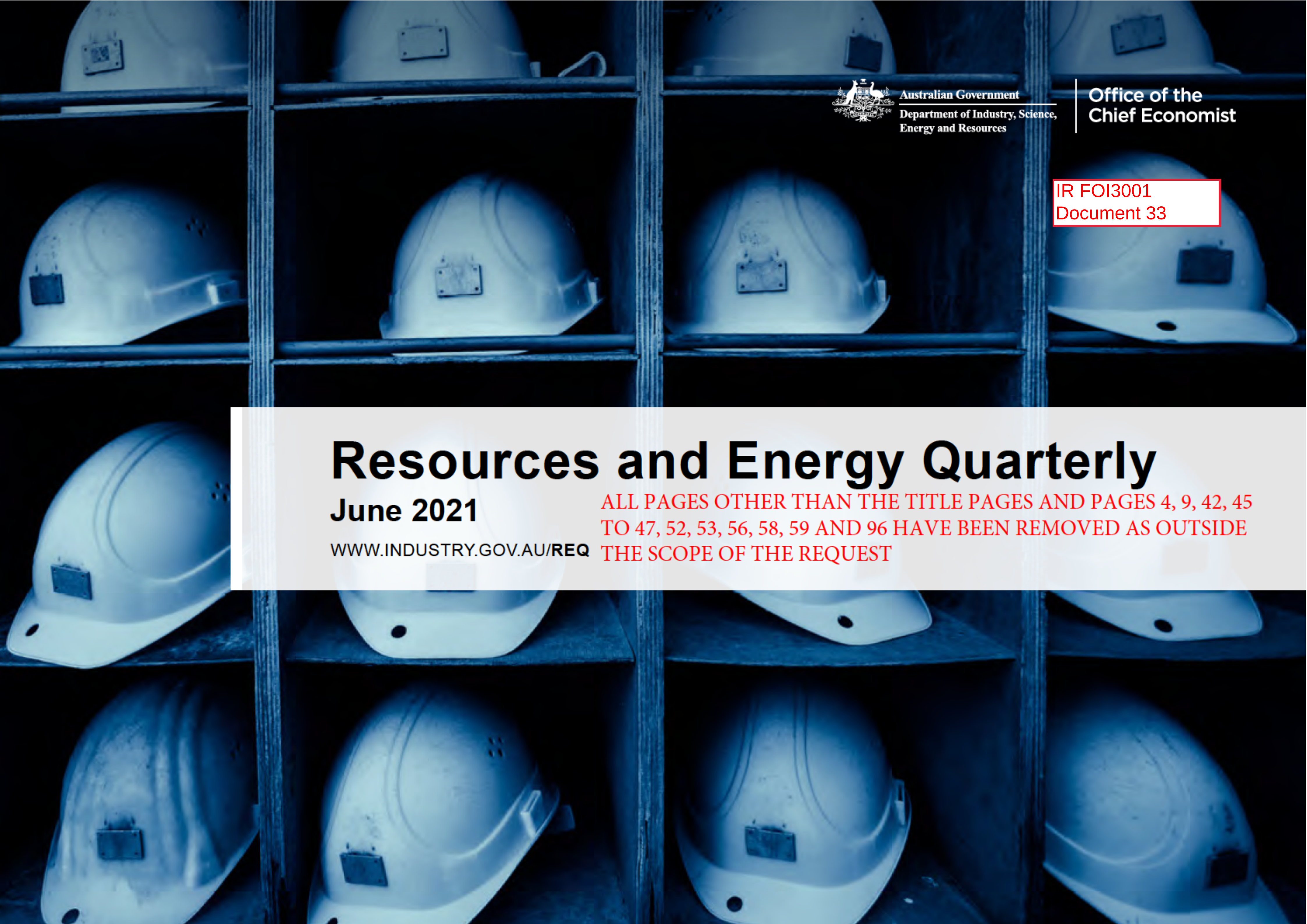
Australia's **metallurgical coal** export earnings are forecast to fall from $34 billion in 2019–20 to $22 billion in 2020–21, partly impacted by China's informal import restrictions and the resulting lower prices for Australian coal, partially recovering to $30 billion in 2021–22 and $32 billion in 2022–23 as mines resume operations and newly-formed supply chains outside of China strengthen. This amounts to a downwards revision of $0.3 billion in 2020–21 compared with the March report, due to the impact of China's import restrictions and the resulting shifts in prices for Australian exports. Export values have been revised up by $4 billion in 2021–22, due to higher prices for Australian producers. Metallurgical coal export volumes are forecast at 171 million tonnes in 2020–21, compared to 177 million tonnes in 2019–20, largely due to China's informal restrictions persisting into 2021.However, this was partially offset by rising exports to other countries. Volumes are then expected to recover to 183 million tonnes in 2021–22 and 186 million tonnes in 2022–23. Metallurgical coal spot prices are forecast to increase from an average of US$143 per tonne in 2021 to US$157 per tonne by 2023, although both are well below the 2019 average of US$179 per tonne.

Export earnings from **thermal coal** are forecast to decrease from $20 billion in 2019–20 to $17 billion in 2020–21, before recovering to $21 billion in 2021–22 due to modest growth in Australian export volumes and prices. Export earnings are expected to fall to $17 billion in 2022–23 due to lower prices. Compared to the March report, this is an upwards revision of $4 billion in 2021–22 and $1 billion in 2022–23 due to a stronger than forecast lift in prices.. Export volumes are forecast to edge down from 213 million tonnes in 2019–20 to 194 million tonnes in 2020–21, driven by Chinese import restrictions and weather disruptions, before recovering to 208 million tonnes in 2021–22 and 212 million tonnes in 2022–23 as supply chains adjust and electricity demand recovers in Asian economies. Coal use is expected to continue to decline in OECD countries in 2022, while pollution and carbon emission control policies are expected to reduce import demand growth in South Korea, Taiwan and Japan. Thermal coal



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Resources and Energy Quarterly

June 2021

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Further information

For more information on data or government initiatives please access the report from the Department's website at: www.industry.gov.au/oce

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Coal markets continue to adjust to China's informal import restrictions on Australian coal. Thermal coal prices have surged in China, as a critical shortage emerges ahead of the Northern Hemisphere summer — when cooling demand raises the need for increased power output. Australia's high calorie thermal coal has fared better than lower calorie grades which have seen greater discounting. Yet prices have increased across all grades in the face of supply shortages. Surging demand from steel producers has seen Australian metallurgical coal prices regain all of the losses incurred as a result of China's informal import restrictions.

There are downside risks to these extremely strong export earnings forecasts. These include a potential for a spike in global inflation and a sharper than expected tightening of monetary policy by major central banks, and a risk of delays in the rollout of COVID-19 vaccines to the world's working population. Another downside risk is the extent of further disruption to Australian resource and energy commodity trade with China, which took 45% of such Australian exports in 2020.

1.4 Prices

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Surging demand from steel producers has seen Australian metallurgical coal prices regain all of the losses incurred as a result of COVID-19 and China’s informal import restrictions. Australia’s dominant position in the seaborne market has meant that our exporters have been able to sell coal to replace the (mainly North American and Russian) cargoes bought by China that have typically been sold elsewhere. Prices are expected to be firm in 2021–22, as ex-Chinese usage recovers further. Thermal coal prices have risen, with premium Australian coal hitting its highest level in more than ten years. With economic activity rebounding, power utilities are scrambling to rebuild stocks before cooling demand peaks in summer. Prices are likely to ease back in the outlook period, as supply gains match rising demand (Figure 1.4).

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- Australia's exports are forecast to rise from a 2020–21 low of 171 million tonnes to reach 186 million tonnes by 2022–23. Supply chains disrupted by China's informal import restrictions have largely reorganised, albeit with some loss of revenue (see *Australia section*).
- Australia's metallurgical coal export values are forecast to reverse most of their recent decline, rebounding from $22 billion in 2020–21 to almost $32 billion by 2022–23.

5.2 World trade

World metallurgical coal trade picked up in 2021, supported by strong conditions in the global steel market. However, China's informal import restrictions on Australian metallurgical coal have created a large price differential between Australian product and coal from other producers, such as the United States and Canada. This differential is likely to persist through the outlook period, reducing the benefit of stronger market conditions for Australian exporters.

Metallurgical coal trade will also face ongoing uncertainty as a result of the COVID-19 pandemic, with new waves of infection spreading out across India (a large steel producer) and potentially elsewhere in Asia. However, vaccinations are also now rolling out at scale across large parts of the world, creating some prospect for a return to normality by 2022–23.

As industrial production recovers outside China, demand for metallurgical coal is likely to rebalance, narrowing the price differential on Australian output and adding to revenue for Australian exporters. Over the outlook period, metallurgical coal demand is expected to grow in India (though the latest COVID-19 outbreak presents risks to this), Japan, South Korea and Europe.

5.3 World imports

China's imports are levelling off as prices lift

Since the imposition of informal import restrictions on Australia, Chinese steelmakers have sought to shift their supply chains, though coastal mills have proven less successful in reducing import dependency. As a result, import patterns have changed, with China's imports of US metallurgical coal reaching a new record in February 2021. China previously imposed 25% tariffs on imports of US coal, but removed these tariffs in March 2020, before the imposition of import restrictions on Australia.

Chinese coal imports from Mongolia have also increased in recent months (Figure 5.1), despite limitations on truck crossings, which were imposed by China due to COVID-19 cases in Mongolia. Rail infrastructure between Mongolia and China has been upgraded (largely with Chinese funds), and this is expected to lock in changes to the supply chain over the longer term.

Imports from Canada and Russia to China have increased somewhat in recent months, and are expected to increase further. But logistics were temporarily hampered by an unusually cold winter and difficult weather conditions in parts of the northern hemisphere. Large inventories (which were run up prior to the import restrictions) have enabled many mills to keep operating without significant disruption, though these inventories are likely to run short over the coming few quarters.

Chinese steelmaking now faces high raw material costs, with iron ore prices repeatedly breaking records (see *Iron ore chapter*) and prices for non-Australian metallurgical coal also rising steadily, as China monopolises non-Australian exports. The large price differential has created opportunities for arbitrage, with miners reselling product intended for Brazil and Europe into Chinese markets. The capacity and willingness of steel mills to continue paying these costs represents a potential risk factor for non-Australian metallurgical coal prices, with overall Chinese imports expected to edge down in the second half of 2021.

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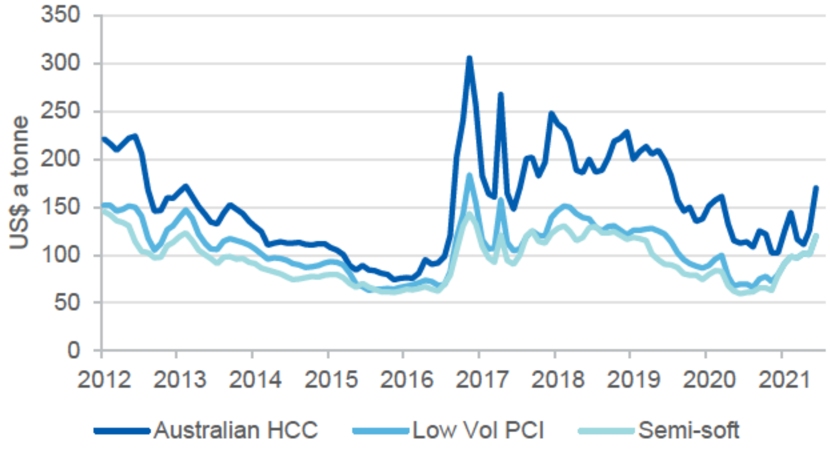
5.5 Prices

Metallurgical coal prices volatile on China uncertainty

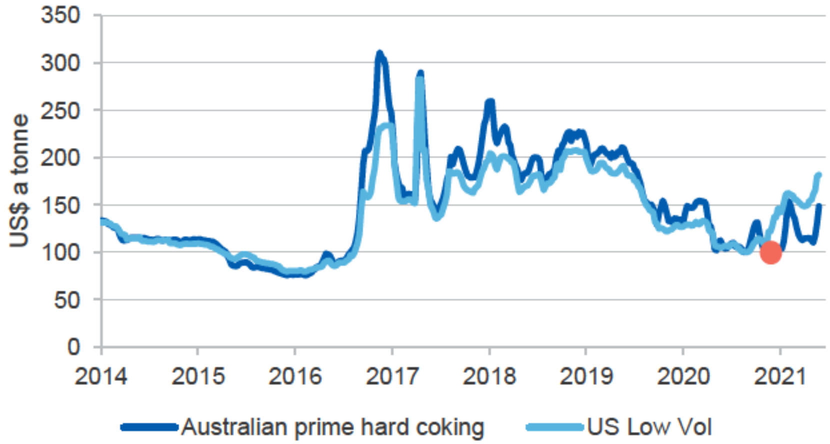
Metallurgical coal prices were volatile in April and May, with prices for Australian product discounted across seaborne markets (Figures 5.5 and 5.6). High price differentials between Australian and non-Australian metallurgical coal have led to a wave of arbitrage and exchange between various Chinese and non-Chinese steelmakers.

Figure 5.5: Metallurgical coal prices, monthly



Notes: HCC stands for hard coking coal. PCI stands for pulverized coal for injection.
Source: Platts (2021)

Figure 5.6: Metallurgical coal prices - Australian Prime Hard vs US Low Vol, FOB



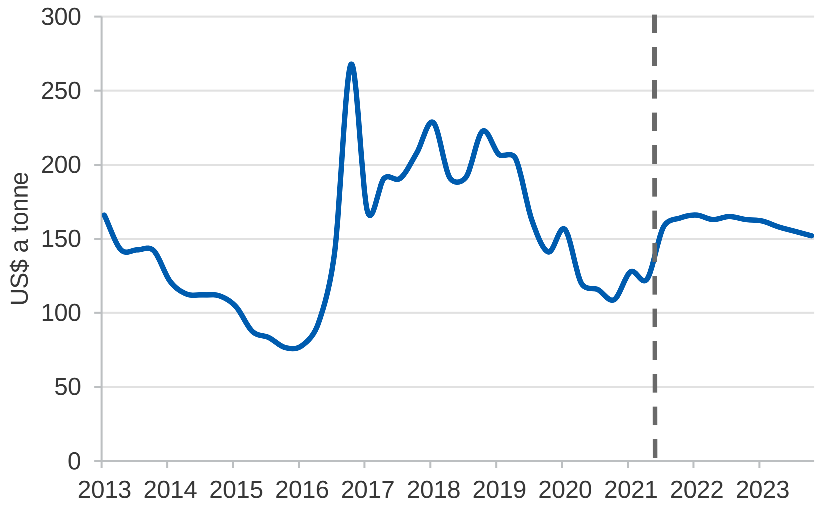
Source: IHS (2021). Low vol = low volatile coking coal. Orange marker indicates approximate timing of informal import restrictions from China.

Metallurgical coal prices are expected to remain relatively low and volatile over the second half of 2021. Some upward price pressure is expected as steelmaking continues to rebound. The premium Australian HCC price is forecast to average US$143 a tonne in 2021, rising to US$157 a tonne in 2023 (Figure 5.7).

Potential weather events over autumn remain the most significant upside risk to prices, with weather around this time regularly disrupting shipping from Queensland. Prices for Australian metallurgical coal would also rise should Chinese import restrictions be relaxed.

On the downside, potential cuts in Chinese steelmaking remain a prospect. Any such cuts would likely take price pressure off non-Australian metallurgical coal, reducing the price differential and potentially enabling some cost rebalance between China and ex-China markets.

Figure 5.7: Australian premium HCC spot price, quarterly



Source: Platts (2021); Department of Industry, Science, Energy and Resources (2021)

5.6 Australia

Metallurgical coal export earnings are estimated to have fallen in 2020–21

Australian metallurgical coal exporters have yet to gain the full benefit of strong global markets, due largely to China’s informal import restrictions on Australian coal exports. Restrictions have also sharpened competition between individual Australian producers seeking more access to the ex-China market, with large-volume exporters gaining a strong advantage over high-cost producers who faced losses during 2020.

Adding to possible future pressure on Australian suppliers, India has announced that it will seek to diversify its metallurgical coal import sources in the future, prioritising higher imports from Russia, Mongolia and the US. This follows a surge of Australian exports to India in the wake of China’s information restrictions on Australian exports. India’s policy reflects a desire to reduce potential vulnerability in its supply chains, which have sometimes been exposed by flooding of Queensland coalfields.

Australian metallurgical coal exporters have largely succeeded in diversifying their own supply chains, building new markets in South Korea, Vietnam, and Brazil. These new supply chains are expected to hold over the outlook period, as companies increasingly factor in the risk of over-dependency on single markets. China is also actively expanding its permanent rail links with suppliers in Mongolia, and may also draw more from Russia over the longer-term, which is currently expanding coal transport infrastructure in its eastern states.

Exports to Brazil reached 2.3 million tonnes over the three months to February (around 60% higher than a year before). Discounts for Australian exports have resulted in price-sensitive mills in Brazil substituting between Australian and US supply. Sales have also risen to South East Asia and Europe. European steelmakers had previously responded slowly to Australian metallurgical coal price reductions, but now appear to be shifting, as long-term contracts come up for renewal and opportunities grow for mills to switch their coal blends.

Metallurgical coal export earnings are estimated at $22 billion in 2020–21, impacted by China's import restrictions and by the subsequent lowering in prices for Australian coal (Figures 5.8 and 5.9). However, recovery is expected through the outlook period, as mines resume operations and newly formed supply chains strengthen amidst a broader global economic recovery. Export volumes are forecast to rise back to 186 million tonnes, with export earnings reaching $32 billion by 2022–23.

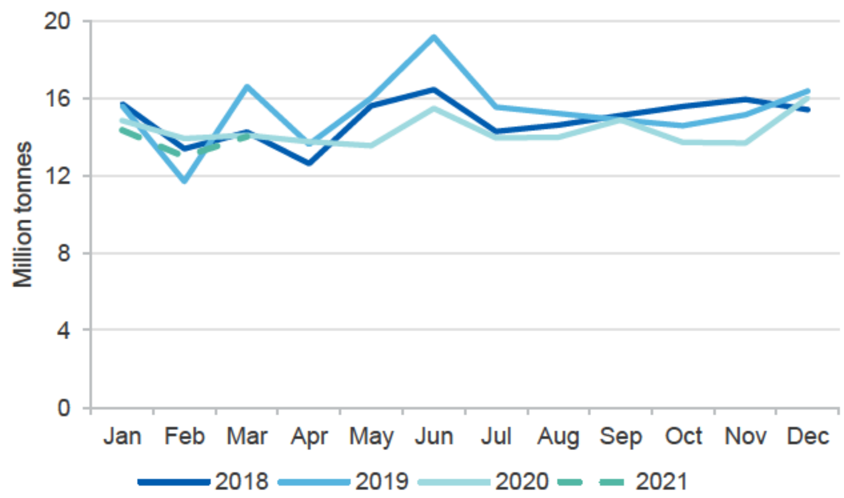
Coal exploration expenditure has declined

Australia's coal exploration expenditure decreased by 32% year-on-year to $51 million in the March quarter 2021, likely reflecting uncertainty over thermal coal markets and recent volatility in prices. Exploration still remains higher than the lows recorded over 2016 and 2017 (Figure 5.10).

Revisions to the outlook for Australian metallurgical coal exports

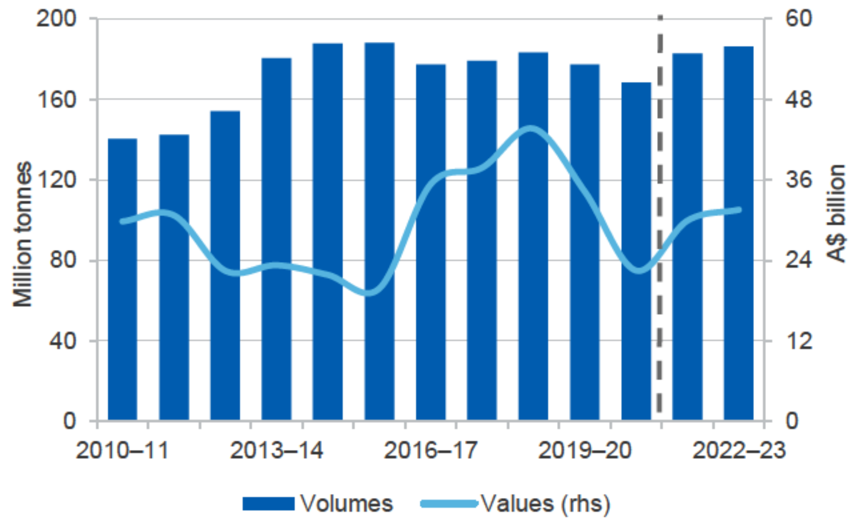
Australia's forecast metallurgical coal export earnings have been revised up by $3.8 billion in 2021–22 (in nominal terms) since the March *Resources and Energy Quarterly*.This result largely reflects the increase in metallurgical coal prices for Australian producers.

Figure 5.8: Australia's metallurgical coal exports, monthly



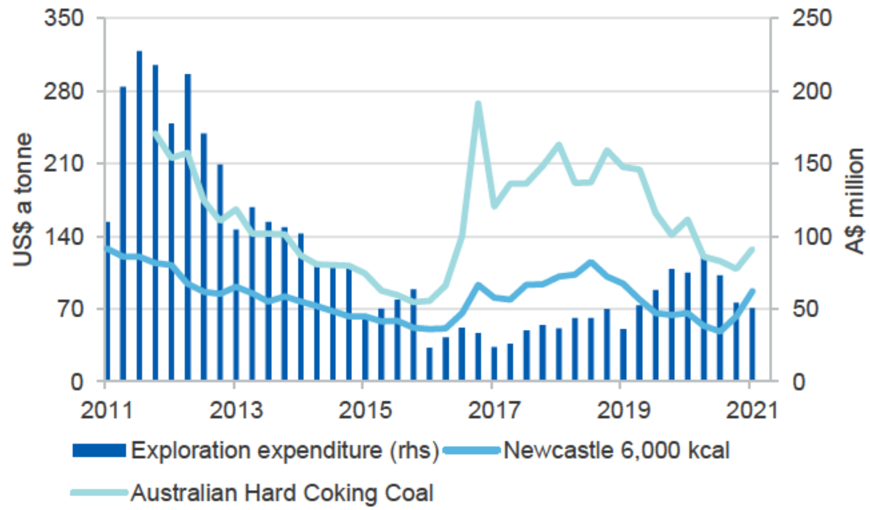
Source: ABS (2021)

Figure 5.9: Australia's metallurgical coal exports



Source: ABS (2021) International Trade, Australia 5454.0; Department of Industry, Science, Energy and Resources (2021)

Figure 5.10: Australian coal exploration expenditure and prices



Source: ABS (2021); IHS (2021); Platts (2021)

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[redacted] China's informal import restrictions on Australian coal are also driving growing price differentials between Australian coal and coal of equivalent quality produced elsewhere.

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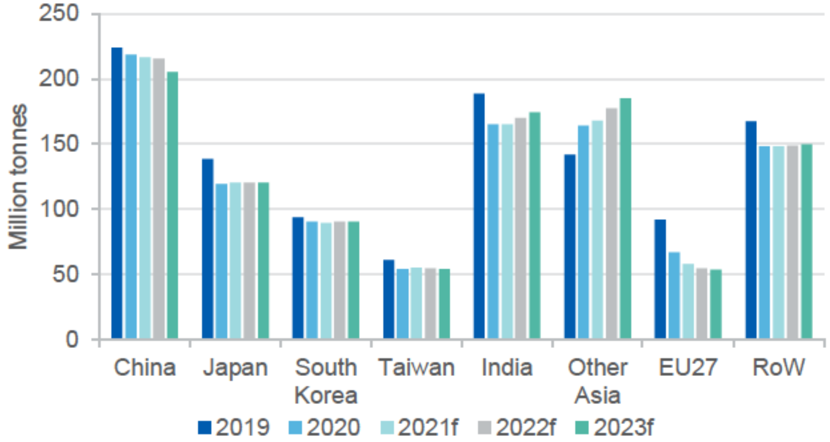
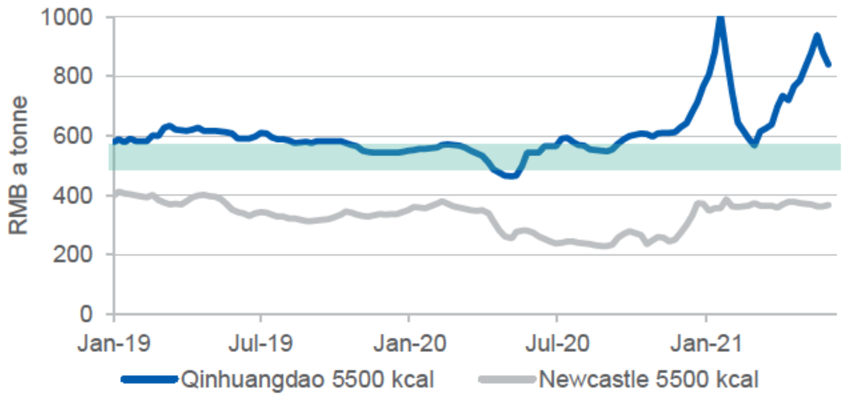
Figure 6.1: Thermal coal imports



Note: **f** Forecast;. ROW = Rest of World.

Source: IHS (2021); IEA (2021) Coal Market Report; Department of Industry, Science, Energy and Resources (2021)

Figure 6.2: China's domestic vs Australian thermal coal export price



Notes: The 'green zone' is a price band from 500-570RMB. Qinhuangdao (QHD) prices are a key benchmark for coal prices in northeastern China. Note that the Newcastle series excludes freight costs which typically add around US$10/t or 66 RMB.

Source: Bloomberg (2021)

6.3 World imports

China's import price premium remains high as import restrictions persist

China's thermal coal imports fell by around one-fifth over the year to April 2021, and are expected to come under further pressure over the next few years despite some recent tightness in domestic supply. Domestic production of coal in China topped 970 million tonnes in the March quarter 2021, up by 16% through the year. In April, China's National Development and Reform Commission ordered coal producers to increase their output in order to contain surging prices (Figure 6.2) and allow for inventory build ahead of the summer period, when electricity use is expected to increase.

As Chinese domestic coal output rises, imports will account for a gradually smaller share of Chinese coal supply. Australian coal exports to China were effectively nil over the March quarter 2021, which added considerably to China's domestic coal prices. However, imports from other nations are partially filling the gap, with Indonesia becoming China's largest coal supplier. Chinese import volumes from Russia also rose by 23% over the year to the March quarter. However, with the overall Chinese import market likely to decline over time, the opportunity to these exporters may eventually lose steam, with Australia's exporters potentially gaining an advantage through having re-organised their supply chains sooner.

India's coal imports have moderated

Higher prices have led to Indian buyers deferring some of their planned restocking, leading to a fall in imports in the first quarter of 2021. This follows a brief rise at the end of 2020, when power station imports surged to meet expected demand. However, this rise has subsequently reversed, with demand falling back and domestic supply providing a larger share of overall inputs in the March quarter.

Australian supply has increased its share of the Indian market as supply chains redirected and costs for the lower calorific grades have come down relative to other countries (Figure 6.3).

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Indonesia's exports are on a recovery path

Indonesian coal exporters faced difficult conditions as global demand fell in 2020. Indonesian exports are dominated by lower grades of thermal coal, which are typically harder hit in downturns. However, the targeting of Chinese import restrictions at Australia has created new opportunities for Indonesian suppliers, effectively cushioning them from COVID-19 related price weakness. Indonesian exports have faced other issues, including unusually high rainfall, which has disrupted supply. However, this has also led to stronger price growth, creating an incentive for quick expansion in Indonesian supply when weather conditions improve.

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6.5 Prices

International thermal coal prices are likely to be peaking

Thermal coal prices have picked up over recent quarters (Figure 6.7), as global supply conditions tightened up: utilities restocked after the cold winter, and production cuts among price-sensitive miners further reduced supply.

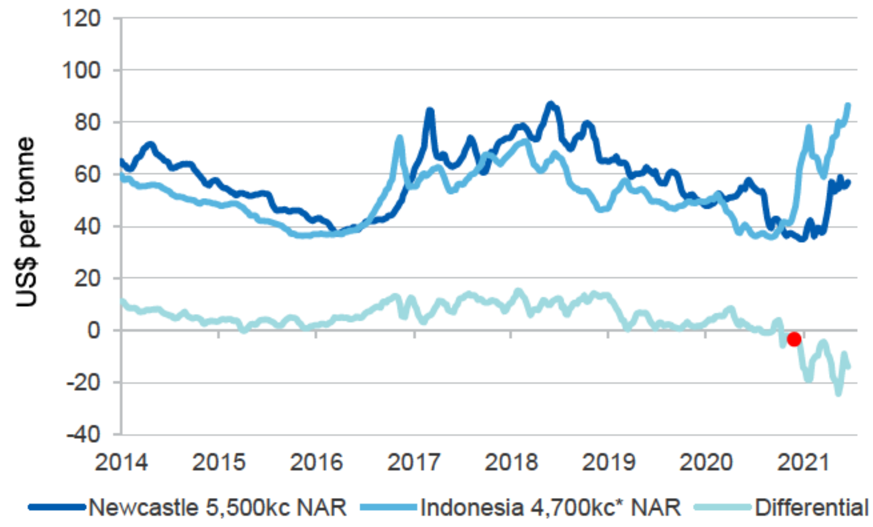
Most of this price growth has occurred for the higher-grade calorific coals, with lower calorific coal becoming somewhat oversupplied in some markets following the informal import restrictions imposed on Australian coal by China.

The Japanese Fiscal Year 2021-22 6322kcal GAR thermal coal contract reference price has now been agreed, and is set to increase by 60% from the previous year's level. The new price — US$109.97 per metric tonne FOB Newcastle — is likely to be used as a reference price for contract prices of other grades of coal, and will be good news for coal producers, many of whom have faced months of losses due to low seaborne prices.

Prices for the benchmark Australian thermal coal spot price — Newcastle 6,000 kcal/kg — have lifted from around US$80 a tonne at the end of 2020 to more than US$100 a tonne at the time of writing. However, this rally is expected to partly unwind over the remainder of 2021, as inventories normalise and temporary drivers of price gains ease. Prices are forecast to ease to around US$80 a tonne by the end of 2021, and then to US$67 a tonne by the final quarter of the outlook period.

Prices across the Asia-Pacific market are expected to remain more favourable than in the Atlantic market, which will provide some relief to Australian exporters.

Figure 6.7: Thermal coal prices — Australian vs Indonesian



Source: IHS (2021). NAR = Net as received. Red dot indicates timing of Chinese restrictions.

6.6 Australia

Australian thermal coal exporters face volatile conditions in 2021

Australian coal exporters faced volatile conditions over 2020, culminating in informal import restrictions imposed by China in early November 2020. This particularly affected the 5,500kcal grades, which were the most common Chinese import from Australia.

Australian 5,500kcal coal found markets in India and the rest of South Asia, but these markets have been impacted by recent COVID-19 outbreaks. Australian Producers faced material price reductions over 2020 with a reversal in premiums enjoyed over other exporters. Prices have nonetheless increased in recent months and spiked in recent weeks as utilities scramble to build inventories ahead of the Northern Hemisphere summer, when power is needed for cooling.

Australian 6,000kcal coal has recently fared much better than the lower calorie grades. Supply problems in the NSW Hunter Valley and in South Africa have helped push prices of premium coal up. Most of the higher grade coal is traditionally exported to Japan and not China.

Prospective coal mines continue to face issues with financing, insurance, and market uncertainty. In April 2021, the NSW Government provided $100 million in compensation to China Shenhua Energy Company, effectively buying back rights to the Watermark project and bringing an end to the proposed thermal coal project.

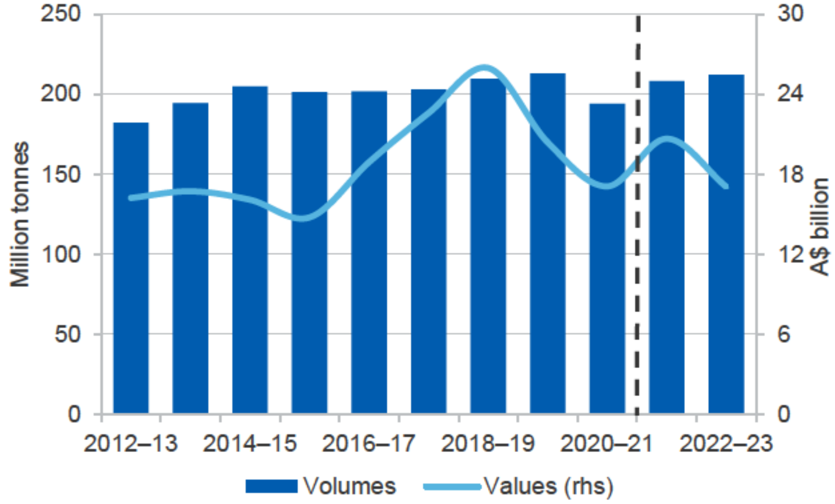
On balance, it is expected that coal exports will lift slightly during the outlook period, rising from around 194 million tonnes in 2020–21 to 212 million tonnes by 2022–23 (Figure 6.8). Export values are forecast to pick up from $17 billion in 2020–21 to $21 billion in 2021–22, before easing back to $17 billion in 2022–23.

This outlook may improve if supplies from other sources (notably Indonesia) face ongoing weather disruptions, or should China decide to lift its informal import restrictions.

Revisions to the outlook for Australian thermal coal exports

Export revenue for thermal coal has been revised up by $4 billion in 2021–22, but down by $1 billion in 2022–23. The result reflects recent rapid price growth driven by a mixture of supply disruptions and unpredictable weather, which led to increased coal demand around Asia. It has also been driven by unexpectedly high (60% growth) in this year's Japanese Fiscal Year settlement price.

Figure 6.8: Australia's thermal coal exports



Source: ABS (2021); Department of Industry, Science, Energy and Resources (2021)

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10.5 Australia's exports and production

Export values increased in the March quarter 2021

Australia's gold exports were $6.9 billion in the March quarter 2021, up 17% on the March quarter 2020, driven by increased export volumes (up 14%, to 82 tonnes).

Analysing country moves, Australia exported $218 million of gold to China (excluding Hong Kong) in March 2021. This is an important turnaround, as Australia has not exported gold to China since January 2020. Gold exports to India recorded a large jump in the first three months of 2021, up from $0 in the March quarter 2020 to $1.2 billion in the March quarter 2021.

Australian gold exports to India had not reached one billion a year since 2014. With this large rise in export earnings in the March quarter 2021, India is likely to become a major export destination for Australian gold in the coming years. Gold exports to Singapore rose by 258% year-on-year in the March quarter 2021, to $1.4 billion, as the country is increasingly becoming a major hub for gold imports and exports to the ASEAN market.

Australia's gold exports to the United Kingdom (UK) and Switzerland fell by 68 and 67% in the March quarter 2021, to $817 and $171 million, respectively. The decline in export earnings from the UK and Switzerland markets is consistent with a strong outflow of global gold-backed ETFs in the March quarter 2021.

Australia's gold exports are estimated to have increased by 15% to $28 billion in 2020–21, driven by high gold prices and China's removal of gold import restrictions (Figure 10.5). Gold prices rose by 27% in 2020 to average US$1,770 an ounce, and are forecast to average US$1,771 an ounce in 2021.

The People's Bank of China — China's central bank in control of gold imports — has given domestic and international banks permission to import gold into the country from mid-April 2021. The decision is likely to boost Australian gold exports to China, as Australia is a major source of China's gold imports. Around 150 tonnes of gold are likely to have been shipped to China in April and May 2021.

Gold exports to the UK, US and Switzerland are expected to fall in the last quarter of 2020–21, due to further increase in gold-backed ETFs outflows. Offsetting these falls, gold exports to China and India are expected to resume normality, as the Chinese government opens to gold imports from Australia, and the Indian government lowers gold import duties.

Australian gold exports increase in 2021–22, and slightly lower in 2022–23

Australia's gold export earnings for 2021–22 are forecast to increase by 3.0% to $29 billion in 2021–22, before falling to $28 billion in 2022–23 (Figure 10.5). The decline is expected to be driven by lower US and Australian dollar gold prices (see *Section 10.4 prices*).

COMMODITY PRICES AND MINING EXPORTS

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Key Messages:

s22 [redacted]

- Coal prices have risen strongly recently as seaborne supply has tightened and demand for Australian coal from outside of China has been robust, partly due to cold weather in East Asia. However the price increases for Australian lower-grade thermal coal and metallurgical coal have not been as large as those of non-Australian coal due to targeted Chinese restrictions.

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QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	02 February 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 and are currently around s47(1)(b) [redacted] (last updated 2 February 2021).
    - **Thermal coal** prices have been volatile. During the COVID pandemic thermal coal prices fell strongly. They have grown recently and the current spot price is around s47(1)(b) [redacted] (last updated 2 February 2021), above the MYEFO assumption of US$61 per tonne.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	[redacted]
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	02 February 2021

COMMODITY PRICES AND MINING EXPORTS

Key Messages:

s22 [redacted]

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s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	15 February 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 before falling to a low of s47(1)(b) [redacted] s47(1)(b) [redacted] in November 2015, with prices currently around s47(1)(b) [redacted] (last updated 15 February 2021).
    - **Thermal coal** prices have been volatile. During the COVID pandemic thermal coal prices fell strongly. They have grown recently and the current spot price is s47(1)(b) [redacted] (last updated 15 February 2021), above the MYEFO assumption of US$61 per tonne.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	15 February 2021

COMMODITY PRICES AND MINING EXPORTS

Key Messages:

s22 [redacted]

- Coal prices rose in late 2020 and early 2021 as seaborne supply tightened and demand for Australian coal from outside of China was strong, partly due to cold weather in East Asia. However, prices for metallurgical coal has fallen recently as demand has eased. Prices for Australian lower-grade thermal coal and metallurgical coal continue to be affected by Chinese import restrictions.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	11 March 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 before falling to a low of s47(1)(b) [redacted] in November 2015, with prices currently around s47(1)(b) [redacted] (last updated 10 March 2021).
    - **Thermal coal** prices have been volatile. During the COVID pandemic thermal coal prices fell strongly. They have grown recently and the current spot price is s47(1)(b) [redacted] (last updated 10 March 2021), above the MYEFO assumption of US$61 per tonne.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	11 March 2021

COMMODITY PRICES AND MINING EXPORTS

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Key Messages:

s22 [redacted]

- Coal prices rose in late 2020 and early 2021 as seaborne supply tightened and demand for Australian coal from outside of China was strong, partly due to cold weather in East Asia. However, prices for metallurgical coal has fallen recently as demand has eased. Prices for Australian lower-grade thermal coal and metallurgical coal continue to be affected by Chinese import restrictions.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	15 March 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 before falling to a low of s47(1)(b) [redacted] in November 2015, with prices currently around s47(1)(b) [redacted] (last updated 15 March 2021).
    - **Thermal coal** prices have been volatile. During the COVID pandemic thermal coal prices fell strongly. They have grown recently and the current spot price is s47(1)(b) [redacted] (last updated 15 March 2021), above the MYEFO assumption of US$61 per tonne.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**		s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**		
Division responsible	Macroeconomic Conditions Division			
Office Responsible	Treasurer		**Date of Update**	15 March 2021

COMMODITY PRICES AND MINING EXPORTS

Key Messages:

s22 [redacted]

- Coal prices are higher than late-2020 as seaborne supply tightened and demand for Australian coal from outside of China was strong. Prices for metallurgical coal have risen again recently as demand has strengthened as buyers outside of China have begun restocking. Prices for Australian lower-grade thermal coal, which is preferred by China, and metallurgical coal continue to be affected by Chinese import restrictions.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	24 May 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 before falling to a low of s47(1)(b) [redacted] in November 2015, with prices currently s47(1)(b) [redacted] FOB (last updated 24 May 2021).
    - **Thermal coal** prices have been volatile in 2020-21. During the COVID pandemic thermal coal prices fell strongly. They have grown recently and the current spot price is s47(1)(b) [redacted] s47(1)(b) [redacted] (last updated 24 May 2021), above the Budget assumption of US$93 per tonne FOB.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	[redacted]
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	24 May 2021

COMMODITY PRICES AND MINING EXPORTS

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Key Messages:

s22 [redacted]

- Australian metallurgical coal prices have risen to near 2-year highs and prices for Australian thermal coal have reached near 3-year highs recently as demand from outside of China has strengthened and global seaborne supply remains tight. The prices of Australian metallurgical and lower-grade thermal coal remain affected by trade restrictions.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	10 June 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 before falling to a low of s47(1)(b) [redacted] in November 2015, with prices currently s47(1)(b) [redacted] FOB (last updated 9 June 2021).
    - **Thermal coal** prices have been volatile in 2020-21. During the COVID pandemic thermal coal prices fell strongly. They have grown recently and the current spot price is s47(1)(b) [redacted] s47(1)(b) [redacted] last updated 9 June 2021), above the Budget assumption of US$93 per tonne FOB.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	10 June 2021

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COMMODITY PRICES AND MINING EXPORTS

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Key Messages:

s22 [redacted]

- Australian metallurgical coal prices have risen to near 2-year highs and prices for Australian thermal coal have reached 10-year highs recently as demand from outside of China has strengthened and global seaborne supply remains tight. The prices of Australian metallurgical and lower-grade thermal coal remain affected by trade restrictions.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	15 June 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 before falling to a low of s47(1)(b) [redacted] in November 2015, with prices currently s47(1)(b) [redacted] FOB (last updated 15 June 2021).
    - **Thermal coal** prices have been volatile in 2020-21. During 2020, thermal coal prices fell and remained below s47(1)(b) [redacted] for around 6 months. They have grown strongly since late November and the current spot price is at a 10-year high of s47(1)(b) [redacted] (last updated 15 June 2021), above the Budget assumption of US$93 per tonne FOB.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	15 June 2021

PAGE 2 OF THIS DOCUMENT HAS BEEN REMOVED AS OUTSIDE THE SCOPE OF THE REQUEST

COMMODITY PRICES AND MINING EXPORTS

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Key Messages:

s22 [redacted]

- Australian metallurgical coal prices have risen to 2-year highs and prices for Australian thermal coal have reached near 13-year highs recently as demand from outside of China has strengthened and global seaborne supply remains tight. The prices of some Australian coal remain affected by trade restrictions.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	[redacted]
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	29 July 2021

COMMODITY PRICES AND MINING EXPORTS

s22 [redacted]

- **Coal** accounts for around one-fifth of mining exports. India, China and Japan have historically been Australia's largest markets for metallurgical coal, and Japan is our largest market for thermal coal.
  - Australia is a major price-maker in global coal markets. Weather-related and other logistical disruptions to Australia's coal sector can have significant impacts on global coal prices. In addition, Chinese policy continues to be a source of volatility, through its effects on demand and Chinese domestic coal supply.
    - **Metallurgical coal** prices peaked at s47(1)(b) [redacted] in 2011 before falling to a low of s47(1)(b) [redacted] in November 2015, with prices currently s47(1)(b) [redacted] FOB (last updated 28 July 2021).
    - **Thermal coal** prices have been volatile in 2020-21. During 2020, thermal coal prices fell and remained below s47(1)(b) [redacted] for around 6 months. They have grown strongly since late November and the current spot price is at an almost 13-year high of s47(1)(b) [redacted] (last updated 28 July 2021), above the Budget assumption of US$93 per tonne FOB.

s22 [redacted]

QTB Number	QB21-000079	**Adviser**	s22 [redacted]
Contact Officer	s22 [redacted]	**Contact Number**	
Division responsible	Macroeconomic Conditions Division		
Office Responsible	Treasurer	**Date of Update**	29 July 2021