



Submission to the Department of Foreign Affairs and Trade (DFAT) Re: the 'Commencement of Negotiations on a Bilateral Free Trade Agreement (Comprehensive Economic Cooperation Agreement) between Australia and India'.

July 2011

The Australian Forest Products Association (AFPA) provides the following submission to the Department of Foreign Affairs and Trade (DFAT) regarding the '*Commencement of Negotiations on a Bilateral Free Trade Agreement (Comprehensive Economic Cooperation Agreement) between Australia and India*'. Thank you for the opportunity and please note that this submission updates, and builds on, the Australian Plantation Products & Paper Industry Council's previous submission (dated 28 March 2008).

AFPA was formed by the merging of the National Association of Forest Industries (NAFI) and the Australian Plantation Products and Paper Industry Council (A3P) on 14 April 2011, and is currently in a transitional phase. AFPA represents the Australian forestry, wood and paper products industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable use of Australia's forests and the profitable manufacturing and marketing of wood and paper products in Australia.

AFPA's Interest in the Indian FTA

AFPA is the national industry association representing the interests of all segments of the Australian forestry, wood and paper products industry. The Australian forestry, wood and paper products industry employ more than 75,000 people in plantation management, sawmills, panel board, and paper manufacturing plants, mainly in rural and regional areas. Each year they create and sell more than \$7 billion of products, produce more than 12 million cubic metres of logs, 4.7 million cubic metres of sawn timber, 1.7 million cubic metres of wood-based panels, and more than 3.2 million tonnes of paper and paperboard products. Australia has a trade deficit in wood and paper products of approximately \$2 billion per annum (2009/2010). Paper and paperboard products, the most highly manufactured component of industry's production, accounts for virtually the entire deficit.

Australia's commercial environment is completely exposed to international trade and is not a level playing field. Paper and wood products are internationally traded commodities. Australian paper and wood products manufacturers face significant international competition, and increased incidence of competition from producers selling below 'normal value' and foreign producers that have government support (ranging from direct financial support to tariff assistance and tax credits) that may not reflect the 'true' cost of inputs for competing products around the globe. Economic globalisation has increased this competition, and recently the global financial situation has added increased incentive for activities that constitute dumping.

Australian wood processors and paper manufacturers that have been directly involved in previous anti-dumping actions see the continued availability of a strong anti-dumping and countervailing measures regime, and the maintenance of safeguard provisions, as vital to the future of Australian industry.

AFPA is aware of the Government's desire for continued economic reform and preference for progressing multilateral trade liberalisation through intergovernmental initiatives such as the Doha WTO trade negotiations. In addition the Government still sees a role for strategic bilateral Free Trade Agreements (FTA), in the Indian FTA case, one that includes trade in goods and, services, as well as investment.

AFPA considers that a bilateral Indian FTA may offer some benefits (or potentially balance some existing trade policy provisions) to the Australian economy generally, and to the Australian wood products and paper industry specifically. However, given the changing nature of the Indian economy and the existing and future type of trade balance between the two countries, a FTA could also involve significant risks for Australian companies, particularly manufacturers.

As a strong initial statement AFPA seeks to ensure that the Indian FTA contains provisions for the continuation of a strong anti-dumping and countervailing measures regime, and maintenance of trade safeguard provisions in order to ensure a level playing field for both countries' industry. This is especially important in regard to those industries that are not as strongly represented in exporting to India but are subject to an import presence from Indian products.

This submission outlines the various ways in which the Australian forestry, wood and paper products industry might be impacted by changes to trade arrangements between Australia and India.

General Comments on the Existing Trade between Australia and India

To describe the current trading picture and the comparative size of the trade in wood and paper products, some of the key statistics of Australia's trade with India include (*from the Market Information and Research Section of DFAT*):

- Exports to India (2010) = \$16.4bn;
- Imports from India (2010) = \$1.97bn;
- Total trade with India (2010) = \$18.37bn
- Major Australian Exports (2010) to India = Coal, Gold, Copper ores and concentrates, and Crude Petroleum;
- Major Australian Imports (2010) from India = Pearls and gems, Jewellery, Medicaments (including veterinary), and Motor Vehicles;
- To show the comparative trade size, the total Australian trade in wood and paper products to all countries = \$6.5bn (35% of Indian trade) - exports = \$2.3bn and imports = \$4.2bn.

It is noted that there is scope for a rapidly increasing level of trade (both imports and exports) with India due to its regional location, rapid industrialisation and large population. One of the key issues of concern for the wood and paper products industry is with potential changes to the tariff system on both sides. It is the experience that Australian FTA's provide for 'the progressive reduction or elimination of tariffs over specified periods and the scheduling of market access commitments for services by each of the parties.' The wood and paper products industry recognises that it is a small player in international trade with the countries around the region; as a result there is a strong concern that an uneven playing field in certain traded products may result from the potential provisions in any resulting FTA.

Australia's wood and paper products trade with India

There is a relatively small but growing (and changing) trade between Australia and India in the wood and paper products sector. A very small amount of imports are concentrated in sawn-wood and exports are concentrated in round-wood (logs), recovered paper and miscellaneous forest products by value.

Table 1 below provides a summary of the volume and value of Australia's wood and paper products imported from, and exported to, India (where data is available).

Table 1: Australian Wood and Paper Products Imports from and exports to India (2009-10)

Product	2009-10	
	Volume (kt)	Value (\$m)
Imports from		
Sawn-wood	NA	0.043
Exports to		
Round-wood (Logs)	42.2	3.85
Recovered Paper	47.5	10.89
Miscellaneous forest products	NA	5.03
Total	NA	\$19.8

Source: ABARE Australian Forest and Wood Products Statistics, Sep and Dec Quarters 2010

AFPA's membership is diverse and member organisations operate at different points along the value-chain for wood and paper products. As such they have differing perspectives and priorities in relation to trade issues and the proposed India FTA. The nature and perspectives of the three main groupings of AFPA members are outlined briefly below.

Pulp and Paper Manufacturers

Australian paper manufacturers produce the full range of paper types (packaging, newsprint, tissue, and printing & writing) primarily for the domestic market using mostly locally grown fibre and recovered paper but also some imported fibre. As most paper grades are internationally traded commodities, Australian manufacturers face very strong competition from large scale producers around the world. Given the fierce nature of competition in paper markets, Australian producers are very susceptible to adverse impacts from non-tariff barriers, including direct subsidies, enjoyed by producers in a number of countries in our region. Capital subsidies may be explicit or may be a result of poor financial regulation.

Paper manufacturing capacity in countries such as China and Indonesia has increased dramatically. Increases have not occurred in India on the same scale to date but, given the nature of the Indian economy and the broader economic trends, it is highly likely that there will be a dramatic modernisation and expansion in India's pulp and paper manufacturing capacity in the near future. There is some concern that this type of production expansion

may result in world oversupply of paper and increased occurrences of dumping and predatory pricing. An associated concern is the potential use of certain countries by large international companies to establish and operate processing facilities to produce goods for sale into Australia, potentially to circumvent existing trade measures put in place to control predatory behaviour.

Australian paper manufacturers would hope to see these concerns addressed in any potential FTA and seek to ensure that a FTA provides for a strong anti-dumping and countervailing measures regime and maintenance of safeguard provisions. AFPA would also urge the Government to use any trade negotiations with India as a mechanism for improving business and financial regulations and continuing to raise concerns about environmental issues such as deforestation and illegal logging.

Sawn Timber Manufacturers

Australian sawn timber manufacturers process domestically grown plantation logs into sawn wood which is used primarily in structural applications in the domestic housing market. In the future, wood supply and processing capacity in Australia is forecast to continue to increase and in turn so is the potential to export sawn timber. India represents a potential market for sawn timber, particularly material suitable for use in house construction, although currently very small and under-developed.

Australian sawn timber producers would like to have access to Asian markets generally but potentially face significant non-tariff barriers such as building codes, standards and associated regulation. To date, the industry has not identified specific non-tariff barriers of this type in the Indian market. An FTA between Australian and India should seek to promote international standardisation in the interests of more efficient trade between nations, and building codes, standards and associated regulation should be a key area in this regard.

Plywood, Veneer and Panels Manufacturers

Australian plywood and panels manufacturers process domestically grown plantation logs into plywood and panel products which is used primarily in structural and fit-out applications in the domestic housing and commercial markets. Again an FTA between Australian and India should seek to promote international standardisation in the interests of more efficient trade between nations, and building codes, standards and associated regulation should be a key area in this regard.

AFPA supports the existence of an effective anti-dumping and countervailing system, advocates a level playing field in international trade and the ability for domestic industry to redress potential predatory and anti-competitive behaviour by international companies, and sees in the Indian FTA another opportunity to support a level playing field in international trade with an important neighbour like India.

Forest Growers/Managers & Log Exporters

Plantation growers invest in, and manage, plantations with the aim of supplying logs to the market which best meets their objectives in terms of price, volume, reliability and other factors. In order to maximise their returns growers would like to have open access to as many markets as possible for their logs and other products. Because of India's rapidly expanding wood products and paper manufacturing industry and concerns over the

sustainability of its alternative wood supplies, India is potentially a significant log market for Australian growers. Meeting increasing Indian demand from sustainable sources would be infinitely preferable to putting additional pressure on Indian forests, the tropical rainforests of South East Asia and Africa or the boreal forests of Russia.

There is a perception amongst some plantation growers and log exporters in Australia and New Zealand that they may be disadvantaged in some Asian markets relative to other countries because of discriminatory tariffs and non-tariff barriers. AFPA notes a history of higher average Indian tariff duties on wood and paper products compared to Australian tariffs on imports of wood and paper products which are very low and zero in many instances.

In addition the FTA would provide the opportunity to implement improved processes for the recognition and adoption of quarantine protocols and standards. Australian exporters of logs to India have concerns about the scientific justification of the requirements placed on them by Indian quarantine authorities and the consistency of quarantine treatment of log imports to India from countries with which Australia competes.

More specifically it is suggested that hardwood logs with bark removed represent a low bio-security risk and where treatment may be required this will be more effective at the destination in India than in the country of origin. It is understood that logs are being imported into India from other countries without treatment and without any justification for imposing different requirements on logs from Australia.

On the flip-side Australian plantation growers also have significant concerns about any trade agreement which may lead to a lessening of the quarantine barrier which protects the Australian plantation resource.

Conclusion

AFPA sees an opportunity to address the issues raised, balance trade and strengthen our trading ties with India through the proposed FTA. Given the forest products and paper industry's diverse range of interests in the proposed Australia-Indian Free Trade Agreement, I would be grateful if you would keep AFPA (Gavin Matthew, Manager Resources on (02) 6285 3833 or <mailto:gavin.matthew@ausfpa.com.au>) informed of developments and continue to involve AFPA in the proposed industry consultation process.

Australian Forest Products Association

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