



Submission on proposed Comprehensive Economic Cooperation Agreement between Australia and India (Australia/India Free Trade Agreement)

This submission is made by TFS Corporation Ltd (TFS) in response to a consultation process on the proposed Australia/India Free Trade Agreement.

We understand that the coverage of any such agreement would include the trade in goods, trade in services as well as investment. Accordingly this would have broad relevance to the commercial activities of TFS.

TFS is a publicly-listed company that has sandalwood holdings in the Kimberley and a processing plant at Mount Romance in Albany in WA's South West. The plantation in the North is Indian sandalwood (*Santalum Album*) whilst in the South West it is native Australian Sandalwood (*Santalum Spicatum*).

In the Kimberley there are Sandalwood plantations as part of the Ord 1 and other freehold land at Kingston Rest between Kununurra and Wyndham. The most mature of the trees will be harvested in 2012 in the East Kimberley. The plantation is the largest in the world of Indian sandalwood.

At Mt Romance the product is already being exported in both wood and oil. It is the largest exporter of sandalwood Oil in the world.

Sandalwood and its oil are in great demand in both Asia and the Middle East but because of a lack of supply Indian traditional craftsmen and other associated trades are losing employment. In particular India is a major market and Indian Sandalwood oil retails for about \$3 million a tonne. On average a sandalwood tree takes 15 years to harvest and it lives off a host such as other trees. It is therefore different to annual monoculture crops. TFS is interested in exploring options of value-adding with skilled Sandalwood processors in India or other Asian countries.

TFS has experienced continual growth and was in the Forbes top 200 Companies under a \$1 billion, for the Asian region in 2009. Whilst it started under the Managed Investment Scheme (MIS) TFS is moving away from this. It is the second largest private employer in Kununurra after Argyle Diamonds and also one of the largest employers in Albany through Mt Romance.

TFS has recently received foreign investment of over \$65-million from a Middle Eastern Sovereign fund and a AAA rated US based institution. Five year options are in place with both institutions and could amount to a further \$270-million of investment if exercised. The TFS Group has broadened its income base to include non-MIS sources. In fact, revenues from MIS sources made up

approximately 40% in the 2010 financial year and are expected to be less than 20% of revenues for 2011.

TFS is the major grower of plantation Sandalwood in the Ord River Irrigation Area (ORIA). We estimate that approximately 80% of the Sandalwood under plantation in the ORIA is managed by TFS. Through Mt Romance, TFS operates tourist attractions and retail outlets in Albany, Kununurra and Broome. These venues play an important role in educating visitors on the significance of the Sandalwood industry to Western Australia.

Since 2005 Mt Romance with Cosmetic Company AVEDA and Indigenous members of the Songman Circle of Wisdom have joined to create an indigenous natural plant origin protocol. Under the programme sustainable business partnerships are formed whereby Indigenous businesses obtain from the Government licences to collect sandalwood. A royalty from the product is then paid to them. TFS is a proud foundation sponsor of the Clontarf East Kimberley Football Academy which is part of the Gerard Neesham programme in Perth. This is a nationally recognized initiative dealing with indigenous education.

TFS has recently funded a feasibility study by Notre Dame University for a programme involving tertiary and vocational education for on-country management. This would be available for the broader community but particularly indigenous students. The University is considering this initiative and TFS is looking to partner this. It would importantly improve management of the natural resources relating to the Kimberley.

TFS has also signed an MOU with Mirriwung Gajerrong (MG) Corporation relating to the creation of a Joint Venture company to jointly own and manage 1,000 hectares in the ORIA. TFS will assist MG Corporation in creating opportunities and benefits from the Miriung and Gajerrong people by providing expertise in land selection and technical support in the areas of agronomy, forestry and land preparation.

As part of its engagement with India TFS recently established the Natural Origin Recognition Protocol (NORP), a program designed to recognize the link between the Indian Sandalwood species that we grow in Australia and its traditional owners in India. NORP aims to promote energy independence, education and economic development in rural India. A combination of initiatives including the promotion of education, democratic process and access to clean water will be undertaken, with the aim of stimulating cottage industries like soap-making in these villages. TFS Global Ambassador and Australian test cricketer Adam Gilchrist together with the Australian High Commissioner to India Peter Varghese launched the project in Rajasthan last year.

Background - The Indian Market for Sandalwood

Trade in Sandalwood began thousands of years ago. Historically India supplied over 90% of the world's Indian Sandalwood (*Santalum album*), with volumes estimated to be more than 20,000 tonnes of heartwood production per annum. Indian Sandalwood oil was exported internationally for use in the global fragrance market and has wide use in India's domestic industries such as toiletries, pan masala, attar and medicines. The wood also has both cultural and religious applications, being an important ingredient for worship (puja) and for cremation where it is used to lift the spirits to heaven.

Over-harvesting and disease have resulted in dwindling wild supplies in India. Since 1994 Indian Sandalwood (*Santalum album*) has been recognized as vulnerable by the World Conservation Union's Threatened Species Redlist. This has impacted upon many parts of India where local industries attached to the Sandalwood trade have suffered. Artisans (who create carvings and deities using Sandalwood), Sandalwood processors and attar manufacturers have been most severely impacted.

Economic opportunities could be created for these industries by supplementing dwindling domestic supply with plantation-grown material imported from Australia.

Issues relating to Sandalwood trade between Australia and India

As manager of the world's largest Indian Sandalwood plantation, TFS Corporation is looking to India as a major export destination for its first commercial volumes of wood and oil in 2013. Based on plantings TFS expects export volumes to increase from \$100-million to over \$500-million within 10 years.

While TFS has worked hard to create relationships and build a footprint within India, barriers to entry remain a key issue in developing trade. TFS would prefer to value-add in India where the Sandalwood industry has a long history however would consider other Asian countries. Two key issues we believe need addressing:

1. Duty on Sandalwood oil and wood products imported from Australia and;
2. Current restrictions on the import of wood from Australia

Duty on Sandalwood oil and wood products

The duties applied to Sandalwood oil and Sandalwood Chips and Dust (listed below) are currently prohibitive and we believe inhibit the potential for large scale trade to develop. Under a Free Trade Agreement we would seek for these duties to be minimized.

	HS Code	Basic Duty	CVD	SPL. CVD	Total Duty
Sandalwood Oil	33012 937	20%	10%	4%	34%
Sandalwood Chips and Dust	12119 050	15%		4%	19%
HS Code – Harmonized Commodity Description and Coding System					
CVD – Countervailing Duty					
SPL.CVD – Special CVD					

As can be seen the rates of duty are substantial and provide a significant barrier to the development of exports from Australia to India.

Current restrictions on the import of wood

Unprocessed Sandalwood (eg in log form) cannot be imported into India. Approximately 50% of the demand for Sandalwood comes from the wood market for religious and cultural applications.

As part of the company's export strategy into India TFS sees the potential for growth of allied industries such as handicrafts, ayurvedics (medicinal), religious products and foodstuffs.

In addition to providing material for industries associated with the trade of Sandalwood, TFS is interested in developing economic opportunities through the import of Sandalwood wood. An area of particular interest is the manual desapping that currently occurs in India. The main oil bearing section of Sandalwood is known as heartwood. This oil bearing component must be removed from the outer non-oil bearing sapwood to ensure optimal oil quality is achieved during distillation. There are semi-skilled workers in India who could be utilized and TFS is interested in assessing the feasibility of processing there. This can provide benefits to both India and Australia in this regard.

Listed below are the references by the Indian Department of Trade in relation to the restriction on the importations of wood.

4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared		
Sandal wood	44039 92	31 Jul 2009	Restricted – Import subject to Licensing Note 2 of Chapter.
		6 Feb 2008	Restricted – Import subject to Licensing Note 2 of Chapter.
		7 Apr 2006	Restricted – Import subject to Licensing Note 2 of Chapter.

3. 3. Import Licensing Note No. (2) will be added at the end of Chapter 44 and will be read as follows :

“Import of Sandal Wood will be subject to the conditions laid down in Policy Circular No. 1 (RE-06) / 2004-09 dated 7.4.2006.”

TFS is seeking that these instruments be removed on this basis that it impedes an opportunity not only for export from Australia to India but also growing an industry in India. These initiatives can also be achieved without detriment to any local economy.

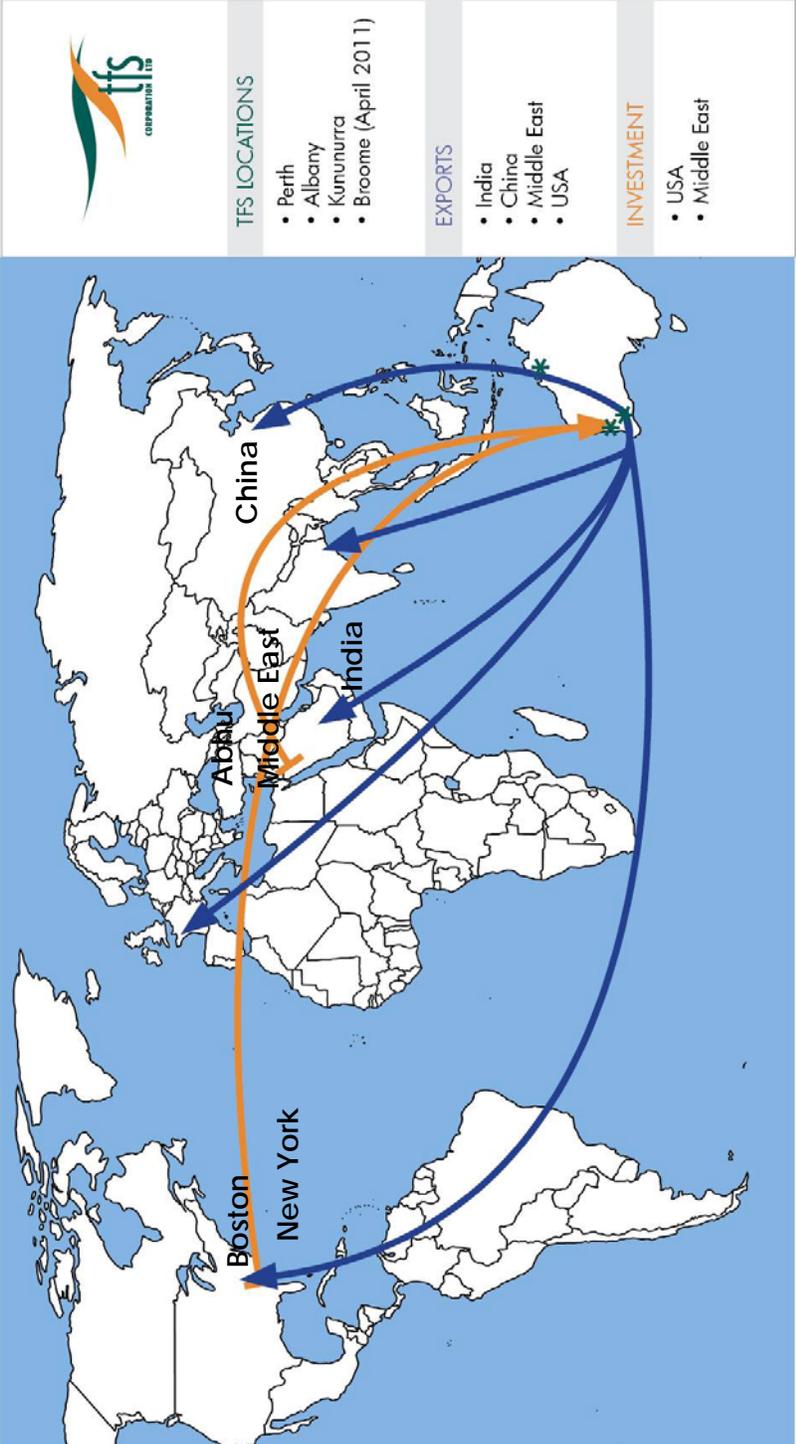
Summary

While TFS continues to build relationships with India, barriers to entry remain a key issue in relation to TFS developing its trade with India on a large-scale. The benefits in free trade to the Sandalwood industry would therefore include:

- a) The Sandalwood industry offers great potential as one of WA’s niche rural industries which could deliver more than \$500-million pa in trade.
- b) Development in India of industry relating to Sandalwood products.
- c) Social benefits of the NORP program and;
- d) An added dimension in the relationship between Australia and India which relates to a subject of cultural and religious significance to India.

TFS has raised these issues with both the Australian High Commissioner in New Delhi as well as India’s High Commissioner to Australia. The emergence of new and less prohibitive markets such as the global pharmaceutical sector are creating new opportunities for TFS and could affect the strategic direction of the company moving forward.

An overview of Foreign Investment and Trade for TFS Corporation



Breakdown of the Ord River Irrigation Area – Dept of Agriculture & Food

