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Ms Carol Robertson
Australia-India FTA Feasibility Study
Department of Foreign Affairs and Trade
R G Casey Building
John McEwen Crescent
BARTON ACT 0221

By email: india.ftastudy@dfat.gov.au

28th March 2008

Dear Ms Robertson

I refer to the Department of Foreign Affairs and Trade's call for submissions and comment on issues relevant to a potential Australia-India Free Trade Agreement (FTA). A3P considers that, given the nature of the economies of Australia and India, such a free trade agreement could offer significant opportunities but also significant risks for Australian companies, particularly manufacturers.

A3P – the Australian Plantation Products & Paper Industry Council – is the national industry association representing the interests of all segments of the plantation-based wood products and paper manufacturing industry. A3P members employ more than 13,500 people in plantations, sawmills and paper manufacturing plants, mainly in rural and regional areas. Each year A3P members create and sell more than \$4 billion of products, produce more than 12 million cubic metres of logs, 3 million cubic metres of sawn timber and more than 2 million tonnes of paper.

A3P is conscious that the new Rudd ALP Government is likely to have a different approach to trade issues from that of the former Government. A3P notes comments from the Hon Simon Crean MP, Minister for Trade regarding the Government's preference for progressing multilateral trade liberalization through the Doha Round of WTO trade negotiations and his decision to undertake a thorough review of Free Trade Agreements entered into or under consideration by Australia. Despite this changing policy environment, A3P considers it important to place on the record the views of the plantation products and paper industry regarding a possible FTA between Australia and India.

Australia – India Wood and Paper Products Trade

There is a relatively small but rapidly growing trade between Australia and India in the wood and paper products sector. This trade is primarily in the export of raw materials in the form of roundwood (logs) and recovered paper from Australia to India. These raw materials are further processed into wood and paper products in India to meet the increasing domestic demand and also potentially for export. The table below demonstrates how these exports have increased dramatically in recent years. However, these exports to India represent only a little over 1 per cent of Australia's total wood and paper products exports.

Selected Exports from Australia to India (\$ '000)

| | 2004-05 | 2005-06 | 2006-07 |
|------------------|--------------|---------------|---------------|
| Roundwood (logs) | 3,576 | 3,443 | 8,454 |
| Recovered paper | 3,800 | 8,482 | 17,011 |
| Total | 7,376 | 11,925 | 25,465 |

Source: ABARE, Australian Forest & Wood Products Statistics (March & June Quarters 2007)

Plantation Growers & Log Exporters

Australian 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 maximize their returns, growers would like to have open access to as many markets as possible for their logs and other products. Because of its 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.

A3P acknowledges the potential benefits that an FTA could provide by eliminating tariffs on wood and paper products and notes that the DFAT background paper identifies an average Indian tariff duty on wood and paper products of 13.5 per cent. On the other hand Australian tariffs on imports of wood and paper products are very low and zero in many instances.

The above figures are evidence of the rapidly increased Indian demand for wood and fibre and Australian plantation growers have the potential to supply some of this demand from sustainably managed plantation and native forest sources. 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.

A3P notes the Rudd Government's pre-election commitments in relation to illegal logging and deforestation (*Securing the Future of Tasmania's Forestry Industry*, July 2007) and urges the Government to consider this commitment

with respect to encouraging the export of sustainably grown Australian timber to meet increasing demand in countries such as India and China.

A3P notes and concurs with the comment in the Background Paper that “non-tariff barriers remain a significant impediment to some Australian exports” and “sanitary and phytosanitary measures prevent access to the Indian market for a number of Australian agricultural exports”.

Australian exporters of logs to India have serious 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 biosecurity 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.

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.

Competitiveness of Australian Wood Product & 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 in domestic and export markets from large scale producers around the world.

Australian paper manufacturers face increasing competitive pressure from low cost suppliers in countries with cheaper labour costs, lower environmental standards and capital subsidies from national governments. Capital subsidies may be explicit or may be a result of poor financial regulation. Australia offers a number of competitive advantages for manufacturers including a stable political and investment climate and competitive electricity prices. However, these benefits may not be sufficient to retain manufacturing in Australia in the face of the advantages available in other countries.

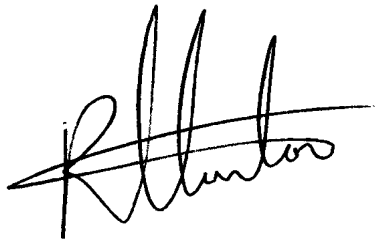
In the past decade the paper manufacturing capacity in countries such as China and Indonesia has increased dramatically. Increases have not occurred in India on the same scale to date but, given the nature of the Indian economy and the broader economic trends, it is highly likely that there will be a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

to meet increasing domestic and international demand, this demand may not meet the optimistic forecast levels and therefore will result in world oversupply of paper and implications in relation to dumping provisions.

Australian paper manufacturers would seek to ensure that a free trade agreement between Australia and India provides for a strong anti-dumping and countervailing measures regime and maintenance of safeguard provisions. A3P 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.

Given the plantation products and paper industry's interest in any Australia-India Free Trade Agreement as outlined above, I would be grateful if you would keep me informed of developments and involve A3P in any industry consultation process. If you have any questions in relation to the matters raised above please contact me **(02 6273 8111 or richard.stanton@a3p.asn.au)**.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Stanton', with a stylized, cursive script.

RICHARD STANTON
Manager - Policy