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Indonesia-Australia FTA Feasibility Study
Department of Foreign Affairs & Trade
RG Casey Building
John McEwen Crescent
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By email: indonesia.ftastudy@dfat.gov.au

4th February 2008

Dear Sir/Madam

I refer to the Department of Foreign Affairs and Trade's call for submissions and comment on issues relevant to a potential Australia-Indonesia Free Trade Agreement (FTA). A3P considers that, given the nature of the economies of Australia and Indonesia, such a free trade agreement could involve significant risks for Australian companies, particularly manufacturers, and could be inconsistent with Australia's objectives in relation to climate change and illegal logging.

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 Indonesia.

Australian-Indonesian Wood and Paper Products Trade

There is a substantial merchandise trade between Australia and Indonesia with Australia exporting some A\$4,410 million of products to Indonesia and importing some A\$4,545 million of products from Indonesia (source: DFAT Indonesia Trade Fact Sheet). Some 7% of these exports from Indonesia are wood and paper products while only 1% of Australia's exports to Indonesia are wood and paper products.

Major categories of wood and paper products exports from Indonesia to Australia include paper (particularly printing and writing papers and household and sanitary paper), paper manufactures (includes envelopes, notebooks, pads), plywood, hardwood sawn timber, and miscellaneous wood products (including doors and mouldings).

In total Australia imports some A\$4 billion of wood and paper products each year and exports around A\$2 billion. Imports are dominated by paper, particularly printing and writing paper. Major exports include hardwood woodchips and packaging and industrial paper. Imports from Indonesia therefore represent some 8.5% of Australia's wood and paper products imports but Indonesia is the destination for only 2% of Australia's wood and paper exports.

A review of Indonesia's exports of wood and paper products to Australia over the past five years reveals some interesting trends:

- hardwood sawntimber increased by more than 80%;
- Plywood increased by more than 30%;
- Miscellaneous wood products (doors, mouldings etc) increased by 12%;
- Paper manufactures increased by 25%
- Paper increased dramatically (60%) over two years and then declined quickly back to the previous level. Particularly the case for printing & writing but also newsprint and household & sanitary;
- Pulp declined dramatically from A\$30 million per annum to virtually zero.

Illegal Logging

A3P notes the Rudd Government's pre-election commitment to banning the importation of illegally logged timber (*Securing the Future of Tasmania's Forestry Industry*, July 2007) and urges the Government to consider this commitment with respect to the trends noted above and an Australia-Indonesia FTA.

It is estimated that Indonesia has lost almost a quarter of its forest area since 1990 and continues to experience a deforestation rate of close to 2% annually. A recent study prepared for the American Forest and Paper Association (*Wood for Paper: Fiber Sourcing in the Global Pulp and Paper Industry*, Seneca Creek Associates LLC and Wood Resources International LLC, December 2007) indicates that 20% of the wood fibre used by the pulp industry in Indonesia is potentially of suspicious origin. This study examines

only the legality of harvesting and makes no comment about the sustainability of wood supply even where it may be legal.

The increases in imports of a number of categories of products (outlined above) reflects the fact that Indonesia is continuing to harvest its tropical forests and to expand its manufacturing capacity. It is likely that Australia's imports of hardwood sawntimber, plywood and miscellaneous wood products have increased, at least in part, as a result of the declining availability of hardwood sawntimber from Australia's native forests as a result of Regional Forest Agreements and other resource decisions of State Governments. It would appear that the import of these wood products from Indonesia has not been constrained to any significant extent by concerns at any point along the supply chain from the exporter to the consumer about tropical deforestation (and subsequent climate change consequences), illegal logging or unsustainable management practices.

The situation with regard to pulp and paper appears to be somewhat different. Import levels increased significantly following major pulp and paper capacity expansion in Indonesia. However, this increase was short lived as Australian importers of these products (a small number of relatively large players including several A3P members) responded to concerns about environmental management and illegal logging in Indonesia.

The difference in response between the wood products and pulp and paper sectors can be explained to a large degree by the nature of the supply chains involved. However, it should be noted that this situation is not static and may have been changing in the period since the data quoted above was collected. Of particular concern is the importation of more highly manufactured paper products into Australia by various importers, wholesalers and retailers. These product supply chains have more in common with solid timber products than with imported pulp or much of the raw paper imports. That is to say that these supply chains are much less likely to be aware of and/or willing to respond to concerns about the source of the fibre from which these products are made.

Competitiveness of Australian 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.

Australian paper manufacturers face increasing competitive pressure from low cost suppliers in countries, such as Indonesia, 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 Indonesia has increased dramatically. Indonesia's pulp capacity is now more than five times that of Australia and nine new pulp mills representing more than 80% of Indonesia's current pulp manufacturing capacity were built during the 1990's. The expansion in Indonesia, coupled with even more dramatic capacity expansion now occurring in China, is significantly altering the world supply-demand balance for most paper products. There is some concern that although this production expansion is being driven by the need to meet increasing 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 Indonesia 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 Indonesia as a mechanism for improving business and financial regulations and continuing to raise concerns about environmental issues such as deforestation and illegal logging.

Plantation Growers & Log Exporters

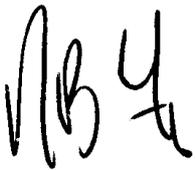
Plantation growers invest in and manage plantations with the aim of supplying logs to the market which best meets their objectives in terms of price, volume, reliability and other factors. In order to maximize their returns, growers would like to have open access to as many markets as possible for their logs and other products. Because of its rapidly expanding wood products and paper manufacturing industry and concerns over the sustainability of its domestic wood supplies, Indonesia is potential a significant log market for Australian growers.

A3P is not currently aware of any substantive regulatory or government initiated impediments to the importation of logs, woodchips or other timber products into Indonesia. There are of course various risks associated with selling to Indonesian producers including financial and security issues.

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.

Given the plantation products and paper industry's diverse range of interests in any Australia-Indonesian 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 **Richard Stanton, Manager – Policy** (02 6273 8111 or richard.stanton@a3p.asn.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'NF' followed by a stylized flourish.

NEIL FISHER
Chief Executive Officer