

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

2nd March 2008

Dear Ms Robertson,

We have long been concerned about the tariffs applied to Sandalwood oil exported from Western Australia to India and would like to have our key concerns and argument for the tariffs to be reviewed. We have already enlisted the support of the Federal Government but it could well be that your project will be more focussed and gain support from the Indian Government as our proposed outcome is a 'win-win' for both parties. An outline of industry and the issues follows and if you should need any additional information please let me know:-

Background

India has been the largest supplier of Sandalwood oil for hundreds of years exporting around the world to perfume houses, the fragrance industry in general and for consumption within India in Attars and the chewing tobacco industry. At its peak the Indian Sandalwood industry produced more than 200,000 kg of oil each year. Unfortunately the Indian Sandalwood Industry and the Indian Government failed to understand early enough that the level of harvesting was simply too high and as a result the resource has declined to a point where the industry produces less than 20% of what it used to do. The Indian Government significantly reduced harvesting 10 years ago, took control of the raw material and made it illegal to move Sandalwood without the appropriate permits. This action, whilst designed to preserve the now reduced resource, had the impact of driving prices up to such a level that illegal harvesting became big business – today it is estimated that more than half of the oil produced is from illegally harvested Sandalwood trees. During recent times it is reported that more than 125 Government and non-Government people have been killed trying to protect the resource.

The Indian market has a significant interest in purchasing WA Sandalwood oil to use as a substitute however the current tariff is creating a major barrier, it is currently 48%. The tariff has been in place for many years and was probably introduced to protect the Indian industry from cheaper imports of similar quality sandalwood oils from Indonesia, Fiji and Vanuatu. However, each of these countries has also failed to adequately protect their industry and their total production would not be more than 10,000 kg of oil which currently goes to Western markets with little going to India. The tariff has also had the impact of keeping local Indian Sandalwood prices high which in itself has promoted illegal harvesting which is reducing the resource even further – it's a vicious circle.

Current position

WA Sandalwood oil production is only 17,000kg per year from a sustainably managed resource (protected by State law since 1930) and we would like to supply up to 5,000kg of that to the Indian market but because of the duty we are unable to deal directly with Indian Companies. They will not

pay the duty because they too feel it is unreasonable as there is no need to protect the local industry anymore, and the volumes available from WA are insignificant in the scheme of the whole industry. In addition, WA Sandalwood oil is lumped together with all other Sandalwood oil from a tariff perspective even though the oils are very different. We are well aware that our oil makes it in to India but it is through smuggling or by changing the labels on our packaging. This is a situation we do not support as we do not know whether our oil has been tampered with and therefore not pure on arrival in India (adding chemicals is often a way of reclassifying a product), which harms our reputation. The current position also means that the Indian Government is not getting the 46% tariff on Sandalwood oil anyway so why have it?

Future position

WA has, over the last 8 years, planted more than 12,000 hectares of both WA Sandalwood (Wheatbelt – 9,000 hectares) and Indian Sandalwood (Ord River – 3,000 hectares) to meet the growing international demand for Sandalwood which comes from Europe, the Americas, India and China. As a result of this investment, which will continue at a rate of 600 – 800 hectares per year moving forward, Western Australia will, by 2018, be the largest producer of legally produced Sandalwood oil in the world. At today's prices just the oil component of this new Sandalwood industry will be worth more than \$100 million in exports (more than 100,000kg combined WA Sandalwood and Indian Sandalwood oils). Again this may sound substantial but if you look at the traditional size (more than 200,000kg per annum) and demand of the industry in the overseas markets this would not have a negative impact on the Indian market – it would actually enhance the industry in India, assist them in maintaining employment in the added value processing of Sandalwood oil whilst at the same time protecting the natural resource because the volume coming from Australia will make illegally harvested wood/oil less attractive. The Western markets will support plantation harvested Sandalwood over natural stands because of the fact they are grown as a crop and are therefore sustainable – just what the Western European and American Corporate sector is looking for – 'green' raw materials that are totally natural and renewable. This will assist the Indian manufacturers enter these prized markets as suppliers of finished products.

Federal Government support

We would like to see the tariff on all Sandalwood oils in to India reduced to the WTO standard or 5% whichever can be achieved and we request Federal Government discuss this with the Indian Government to see if a satisfactory agreement can be made for the importing of Sandalwood oils in to India on that basis. India is a member of WTO and therefore we feel has an obligation to reduce the tariff and whilst they may indicate that it is their intent to do so over a period of time, we believe that the industry has such a small impact on total Imports and the tax is not being collected anyway, that a reduction from 48% to 5% can be initiated in one move and relatively quickly. In fact the result could well be that they collect additional revenues because importers will declare goods properly.

If you need any further information to progress this for the Sandalwood industry please let me know.

Kind regards

David Brocklehurst
General Manager
Mt Romance Australia Pty Ltd
David_b@mtromance.com.au