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Australia-European Union Free Trade Agreement
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Potential opportunities and impacts of a European Union Free Trade Agreement (EU FTA)

The Australian Forest Products Association (AFPA) welcomes the opportunity to make a submission on the opportunities and impacts of a potential European Union Free Trade Agreement (EU FTA).

AFPA is the peak national body for Australia's forest, wood and paper products industry. We represent the industry's interests to governments, the general public and other stakeholders on the sustainable development and use of Australia's forest, wood and paper products.

The forest, wood and paper products industry is one of Australia's largest manufacturing industries with an annual turnover of around \$23 billion. Around 120,000 people are directly employed along the industry value chain with a further 200,000 jobs supported through flow-on economic activity.

Each year our industry produces around 5.2 million m³ of sawn timber, 1.7 million m³ of wood-based panels, and more than 3.2 million tonnes of paper and paperboard products. Australia has an overall trade deficit in wood and paper products of approximately \$2 billion per annum (2016/2017).

Exports from Australia include finished wood and paper products, raw wood fibre and recycled wood fibre and paper. Conversely imports to Australia are predominately highly processed or manufactured wood and paper products.

Australia's commercial environment is completely exposed to international trade, but it is not a level playing field.

Australian producers face significant international competition and there are increased incidences of producers engaging in predatory pricing, as well as selling products with varying levels of quality, dubious standards and environmental compliance, and imports that are produced with overseas government support (ranging from direct financial support to tariff assistance and tax credits). The price of these products may not reflect the 'true' cost of inputs for competing products around the globe.

AFPA is aware of the Australian Government's desire for continued economic and trade reform and a preference for both progressing multilateral trade liberalisation (such as the TPP) and pursuing strategic bilateral Free Trade Agreements (FTA), in the EU FTA case, a broad-ranging FTA that includes trade in goods and services as well as investment.

Trade liberalisation principles

AFPA supports the high-level principles of trade liberalisation to support global trade by removing unnecessary trade barriers and promoting greater efficiency, innovation and investment. However, these principles must be applied equitably and with comparable tariff reduction commitments from our major trading partners in order to deliver positive outcomes.

AFPA supports the following principles regarding Free Trade Agreements (FTAs):

- Implementation of equitable free trade principles (i.e. equity in reduction of tariffs and their timing) between trading nations;
- Australian producers should have full access to trade remedies available under the WTO, including anti-dumping and countervailing measures;
- Australia's ability to develop and apply technical regulations, standards, testing and certification procedures must remain unaffected;
- Australia's ability to apply the rights and obligations under the WTO agreements on Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT) must remain unaffected; and
- FTA market access outcomes should be reviewed after implementation for their impacts.

AFPA considers that a balanced and supportive EU FTA may offer some benefits to the Australian economy generally. However, given the changing nature of the EU economy and the existing trade balance in wood and paper products between Australia and Europe (see **Table 1**), an FTA could involve significant risks for Australian wood and paper product producers.

As a general principle the Australian Government should not enter trade agreements where the interests of the Australian forest, wood and paper product industries are adversely and/or inequitably affected, rather trade agreement outcomes should promote and benefit our industries.

Australia's wood and paper products trade with EU members.

There is an established trade between Australia and EU members in the wood and paper products sector, although one-sided with a significant trade deficit of around \$618 million. A relatively small amount of exports from Australia to EU countries are concentrated in board products, and paper and paperboard. Conversely significant imports from EU countries are concentrated in sawn wood, paper and paperboard, and board products.

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

The key issues of concern for the wood and paper products industry is with potential changes to the tariff system on both sides. Additional potential issues of concern for the wood and paper products industry include: inconsistent product standards, non-conforming imported products, illegal logging and sustainability issues including transformed and transhipped products; and potential occurrences of import dumping, predatory pricing and countervailing issues.

The wood and paper products industry recognise that it is a relatively small exporter to the EU. Although 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', there are strong concerns given experience, that an uneven playing field in certain traded products can result for Australia from FTA negotiations.

One common issue across timber product exports to the EU and imports from the EU is ensuring that the products traded are not sourced from illegally logged timber. Australia has recently implemented comprehensive illegal logging legislation and the EU has the Forest Law Enforcement, Governance and Trade (FLEGT) legislation.

AFPA supports efforts to address illegal logging but stresses any measures put in place to address illegal imports do not place unnecessary and costly compliance requirements on Australian producers who are already subject to the highest legal and regulatory standards. Relevant legislation should recognise internationally recognised, credible, independent, voluntary third-party certification schemes, which include sustainable forest management standards and chain of custody legality verification requirements.

Importantly, continued clear information needs to be communicated to importers on Australia's expectations under its illegal logging legislation and effective monitoring at Australia's border of the due diligence and compliance information recorded by importers.

Confidentiality restrictions

In the right circumstances, confidentiality restrictions on traded products are an important mechanism available to industry to protect proprietary data. Where the trade data relating to a business is likely to enable the identification of that business, then the entity should have the ability to request that data be suppressed.

Industry analysis has shown that recently there has been an increase in the use of confidentiality restrictions to block the publication of trade data, in part due to growing trade tensions between nations. In 2009, confidentiality restrictions applied to three per cent of trade data, which has now forecast to grow to eleven per cent in 2019.

It is important that, where possible, trade data is made available for a range of transparency reasons to ensure FTA provisions are being adhered to (such as antidumping and countervailing measures) and to ensure that basic trade analysis can be completed by relevant industries. Information contained in the appendix of this submission will indeed be limited due to the increasing use of confidentiality restrictions. We seek for the EU FTA to include content to address this matter and have proposed some content below:

The national parties to an FTA agree that the application of confidentiality restrictions between them will be formally (and if required, by legislative amendment) restricted to instances where:

- a) the relevant Ministers in both jurisdictions agree there are global, regional or national security implications from not applying confidentiality restrictions;*
- b) (i) there is no manufacture of the same or similar products (as defined under the HTISC), AND*
 - (ii) there has been consultation with the domestic industry, AND*
 - (iii) it is agreed by the relevant Ministers in both jurisdictions.*

In the event confidentiality restrictions are imposed, except under (a), the restrictions will not remove aggregate volumes or values of imports, in order to ensure that basic trade analysis can be completed by industry.

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 a potential EU FTA. The nature and perspectives of the four 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 both locally grown fibre, recovered paper and imported fibre.

As most paper grades are internationally traded commodities, Australian manufacturers face very strong competition from large scale producers around the world. Around 20% of paper and paper board products imported into Australia come from EU nations.

As can be seen in **Appendix 1** there is potential to increase and further develop Australian paper and paper manufactures exports to EU member countries if the trade settings are right.

Given the fierce nature of competition in paper markets, Australian producers are very susceptible to asymmetric tariff reductions and adverse impacts from non-tariff barriers, including direct subsidies, potentially enjoyed by producers in other countries. Capital subsidies in those countries may be explicit or maybe a result of poor financial or other regulation.

A previous example of an unbalanced FTA outcome for the wood and paper product industries occurred with the China-Australia Free Trade Agreement (ChAFTA). It was seen that ChAFTA's final text failed to treat the Australian paper products industry in an equitable manner regarding two-way tariff reform. AFPA noted the removal of Chinese tariffs for any other sectors and for specific wood products such as processed radiata pine timber products. However, our members believed ChAFTA delivered an inequitable tariff outcome for paper products and this will continue to have negative impacts on investment and trade in the Australian paper industry. This issue will need to be addressed in the ChAFTA 3-year structural review or preferably sooner.

Additionally, AFPA recommends that in negotiating the EU FTA, the high environmental standards of the domestic industry must be acknowledged in terms of ensuring full compliance of any imported products with Australian environmental standards, including sustainable paper procurement requirements, domestic waste management and recycling policies.

Further, the EU 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 EU as a mechanism for improving business and financial regulations and continuing to raise concerns about environmental issues in source wood fibre countries adjacent to, and within, the EU, to address deforestation, poor environmental practices, and illegal logging in some countries supplying resource to EU producers.

Sawn Timber Processors

Australian sawn timber manufacturers process domestically grown logs into sawn wood, which is used in structural applications in the domestic housing market and other uses. 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. The closer Asia-Pacific region represents a more significant potential market for processed timber products than

the EU, 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 international markets generally, but in trade with EU countries potentially face significant non-tariff barriers, such as distance, scale, transport costs, building codes, standards and associated regulation. Any FTA should seek to promote international standardisation in the interests of more efficient trade between nations, and building codes, standards and associated regulation.

AFPA urges that any FTA does not result in asymmetric tariff reduction outcomes and 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 entities. This is especially important regarding those domestic industries that currently do not export products to the EU but are subject to a significant EU import competition. In 2017, almost 50% of sawn wood by volume was imported from EU nations.

Engineered Wood Products (EWP) Manufacturers

Australian plywood and panels manufacturers process domestically grown logs into EWP's (such as particleboard, MDF, hardboard etc) which are used primarily in structural and fit-out applications in the domestic housing and commercial markets. Again, any FTA should not result in asymmetric tariff reduction outcomes, rather 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. The EU FTA is another opportunity to support a level playing field in international trade with an important trade partner.

Forest Growers/Managers & Log Exporters

Australian forest growers invest in and manage forests 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 the EU's huge established wood products and paper manufacturing industry and concerns over the sustainability of some of its alternative wood supplies, meeting EU demand from sustainable sources would be infinitely preferable to putting additional pressure on the tropical rainforests of South East Asia or the boreal forests of Russia and other adjacent nations.

The EU FTA should not result in asymmetric tariff reduction outcomes, rather provide the opportunity to implement improved processes for the recognition and adoption of quarantine protocols and standards. Australian forest growers have continuing significant concerns about any trade agreement which may lead to a lessening of the quarantine barrier which protects the Australian forest resource.

Any further queries on this submission please contact AFPA on (02) 6285 3833.

Appendix 1

Imports															
country	Logs		sawn wood		board products		woodchip		wood pulp		paper and paperboard		veneer		
	volume ('000 m3)	value (\$'000)	volume ('000 m3)	value (\$'000)	volume ('000 m3)	value (\$'000)	volume (kt)	value (\$'000)	volume (kt)	value (\$m)	volume (kt)	value (\$m)	volume ('000' m3)	value (\$'000)	
Austria	no data	no data	21.8	7221.5	7.8	5155.6	no data	no data	no data	no data	18	22	no data	no data	
Belgium-Luxembourg	no data	no data	no data	no data	25	21353.3	no data	no data	no data	no data	17.8	26.7	no data	no data	
Bulgaria	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Croatia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Cyprus	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Czech Republic	no data	no data	99.9	34524.4	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Denmark	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Estonia	no data	no data	124.5	44799.5	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Finland	no data	no data	38.1	15794.8	no data	no data	no data	no data	no data	no data	115.9	118.1	no data	no data	
France	no data	no data	3.3	4733.3	no data	no data	no data	no data	no data	no data	7.3	20.6	no data	no data	
Germany	no data	no data	68.8	24369.5	43.6	27336.7	no data	no data	no data	no data	43.9	83.4	no data	no data	
Greece	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Hungary	no data	no data	no data	no data	no data	no data	no data	no data	0	0	no data	no data	no data	no data	
Ireland	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Italy	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	41.7	58.4	0.7	3426.9	
Latvia	no data	no data	12.6	5147.6	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Lithuania	no data	no data	33.4	11319.7	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Malta	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
The Netherlands	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	9.6	16.1	no data	no data	
Poland	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Portugal	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Romania	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Slovakia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Slovenia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	
Spain	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	0.4	1263.7	
Sweden	no data	no data	77.9	27959.2	no data	no data	no data	no data	no data	no data	36.6	42.2	no data	no data	
United Kingdom	no data	no data	0.3	317.2	no data	no data	no data	no data	no data	no data	14.7	25.8	no data	no data	
Total imports	no data	no data	808.9	451426.7	941.3	664023.1	2.5	5.5	305.5	230.6	1463.5	2061.5	12.1	21062.8	
Trade with EU as a percentage of total imports	no data	no data	47.06%	31.38%	8.12%	8.11%	no data	no data	0.00%	0.00%	20.87%	20.05%	9.09%	22.27%	

Table 1 - EU to AUS import data, 2017 (ABARES)

Exports														
country	Logs		sawn wood		board products		woodchip		wood pulp		paper and paperboard		veneer	
	volume ('000 m3)	value (\$'000)	volume ('000 m3)	value (\$'000)	volume ('000 m3)	value (\$'000)	volume (kt)	value (\$'000)	volume (kt)	value (\$'000)	volume (kt)	value (\$m)	volume (m3)	value (\$'000)
Austria	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Belgium	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Bulgaria	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Croatia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Cyprus	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Czech Republic	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Denmark	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Estonia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Finland	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
France	no data	no data	no data	no data	0.3	482.1	no data	no data	no data	no data	no data	no data	no data	no data
Germany	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	0.8	0.8	no data	no data
Greece	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Hungary	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Ireland	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Italy	no data	no data	no data	no data	0	21	no data	no data	no data	no data	no data	no data	no data	no data
Latvia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Lithuania	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Luxembourg	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Malta	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
The Netherlands	no data	no data	no data	no data	0.3	696.6	no data	no data	no data	no data	no data	no data	no data	no data
Poland	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Portugal	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Romania	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Slovakia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Slovenia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Spain	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Sweden	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
United Kingdom	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Total	4530.6	615446.4	287.5	110183.6	2.9	3665.4	7392.9	1289363.3	0.2	780.2	241.4	200.5	74011	39150
Trade with EU as a percentage of total exports	no data	no data	no data	no data	20.69%	32.73%	no data	no data	no data	no data	0.33%	0.40%	no data	no data

Table 2 - EU Export data, 2017 (ABARES)