

18 October 2021

Coordinator
Australia-India Comprehensive Economic Cooperation Agreement
Free Trade Agreements Division
Department of Foreign Affairs and Trade
RG Casey Building
John McEwen Crescent
BARTON ACT 0221

Dear Sir

This letter is to request that Sandalwood be included in the "early harvest" agreement with India ahead of the final Free Trade Agreement between Australia and India ("FTA").

Quintis (Australia) Pty Ltd ("Quintis"), manages an estate of 12,000 hectares of Indian sandalwood plantations across the north of Australia comprising approximately 5.5 million sandalwood trees. For your information, please find attached an Overview of the company's profile which outlines its operations in Australia, its success, and vision for the future. Quintis is also proud of our ESG commitments, and we have attached a summary of our current achievements, certifications, and goals.

Quintis has been exporting Australian sandalwood (Santalum spicatum) to India over many years and more recently Indian sandalwood (Santalum album). Over the last ten years Quintis has exported over 40 tonnes of spicatum oil and over 145 tonnes of processed spicatum wood. Since 2018 with the commencement of harvests of Indian sandalwood over 90 tonnes of processed album wood has been exported with consequential value adding in India.

In the paragraphs below, we have detailed the potential market in India for Australian grown sandalwood, the current barriers, and the benefit to both countries of the inclusion of sandalwood in the proposed Free Trade Agreement and particularly the early harvest agreement in relation to both species.

POTENTIAL MARKET

The inherent physical and ascribed spiritual properties of sandalwood make it a sacred material for the Buddhist and Hindu religions. In India, known as Chandana, sandalwood has been a fundamental part of religious and cultural practices for centuries.

India is the largest consumer of sandalwood in the world. Sandalwood is used in Indian culture in multiple areas including:

- Religious / incense
- Fine fragrance

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- Traditional carving
- Cosmetics and personal care
- Traditional medicine
- Food flavouring

Whilst it is difficult to quantify in commercial terms, combining the growing supply from the largest plantations in the world of Indian sandalwood with demand from the largest consumer in the world, the potential is enormous.

CURRENT BARRIERS

The following duties are applied to both Australian and Indian sandalwood oil, chips, and dust and in view of the percentages applied it can be seen that these are significant barriers. The reduction of these barriers would be of benefit to both countries and enhance trade in a commodity highly prized in India.

Droduot	UC Code*	2021 Tariff Structure		
Product	HS Code*	Basic	Surcharge	Total
Sandalwood Oil	33012937	20%	2.5%	22.5% + IGST ¹
Sandalwood Chips and Dust (Powder)	12119050	15%	1.6%	16.6%

^{*} Harmonised Commodity Description and Coding System

Australia currently competes with Indonesia as well as African and ASEAN countries in the supply of sandalwood to India. As detailed below, this is currently an uneven playing ground as these countries enjoy significantly lower tariffs than Australia.

Indonesia, which has a considerable resource of wild Indian sandalwood, exports to India oil and wood chips with highly concessional tariffs at 6%. ASEAN countries furthermore enjoy tariffs at a similar level while African Osyris species (an economical substitute to Indian sandalwood) is imported into India from various countries in Africa with no tariffs.

BENEFITS TO BOTH COUNTRIES

The benefit to India would be potential value adding to these products in India which would be significant. These include:

- India's traditional sandalwood distillers find the scarcity of sandalwood detrimental for the future of an industry which has continued for over a millennium. A supply of processed sandalwood chips from Australia could revive this age-old industry in India and supply the world with sustainable traditional sandalwood oil based flavours, soaps, and perfumes.
- India is a world leader in pharmaceutical and cosmetic product manufacturing for global brands. Quintis has developed collaborative relationships with some of the leading organisations in pharmaceutical and cosmetic research and development. Although the customers and development partners prefer the Australian produced sandalwood oil, the current tariffs at 22.5% make it less competitive and unfeasible for product development.
- Quintis has also collaborated with an Indian counterpart in importing sandalwood as a food flavour and a nutraceutical product to target the ever-growing food industry and the traditional Ayurveda medicine, where both has a long history of using sandalwood (please refer to support letter - Confidential-Not for Public Release). Currently Quintis sandalwood is the only FSSAI registered food grade sandalwood oil and powder in India. Although the

¹ IGST - Integral Goods and Services Taxes (claimable by the customer)



Indian flavour, tea and Ayurveda industries accept the quality of the Australian product, again the tariffs make any initiative less feasible.

- Despite the current trade tariffs, since 2018, with the commencement of Quintis' harvests of Indian sandalwood, over 90 tonnes of processed wood have been exported to India with consequential value adding in India. Reduced tariffs with increased harvests from Quintis would see this substantially increased.
- The increased importation of sandalwood could also alleviate demand on India's domestic supply (much of which is met through illegal poaching and trade of wild trees) and provide an opportunity for increased afforestation and time for India's own supply of sustainable plantation-grown sandalwood to reach maturity.

Australian sandalwood is well-established as an export from its native Western Australia. While there are certainly opportunities to increase the volume of Australian sandalwood oil and wood products to India, there is a much more substantial opportunity to establish Indian sandalwood grown sustainably in plantations across the tropical north of Australia as a major new export commodity for our country.

The benefits of increased trade to Australia by decreased tariffs would be to:

- increase employment in crucial regional and remote regions. In addition, Quintis is keen to work with Government to increase Indigenous involvement in these areas with the growth of the business.
- Quintis is looking forward to an exponential increase in supply of Indian sandalwood over the next few years as our harvests significantly increase. Access to the largest sandalwood market is very competitive and currently Australia faces substantially higher tariffs than our competitors.
- It would also add diversity to Australia's exports to India and contribute to cultural ties with India by virtue of a commodity that has both cultural and religious implications in India.

Any early accommodation of our request is therefore critical if we are to increase our market share in India and develop the initiatives mentioned above and particularly in pharmaceuticals and cosmetics.

CURRENT BAN ON UNPROCESSED WOOD AND ALTERNATIVE PATHWAYS INTO INDIA

In addition to the tariffs that are placed on processed sandalwood, there is a specific ban on the importation of unprocessed Indian sandalwood. However, unprocessed Australian sandalwood can be imported into India via duty free zones which are not available to Indian sandalwood.

Whilst we appreciate that this ban does not come within the scope of "early harvest" considerations, it is our request that this issue will be addressed in the negotiation of the ultimate FTA.

Of course, Quintis is also pursuing the lifting of this ban which if achieved could result in significant value adding in India. There is increasing demand in India for unprocessed sandalwood due to previously mentioned depleting supplies from domestic sources. If this import ban was lifted Quintis believes that it would further support the growth of allied industries such as handicrafts, Ayurvedic (medicinal), religious products and foodstuffs, while further reducing the pressure on protected wild forests in India.





Quintis is of the view that there can be no phytosanitary concerns with unprocessed Indian Sandalwood when presently Australian Sandalwood is able to be imported. Furthermore, to our knowledge there has not been any concern raised by Indian authorities on the basis of bio security in relation to unprocessed Indian sandalwood. We can only assume that this a trade measure without any commercial foundation.

Whilst these trade barriers exist, Quintis has been exploring opportunities for partnerships with Indian retailers and even using various free trade zones which could allow importation of Indian sandalwood free of any such barriers. There are a number of free trade zones in various Indian States however a general condition is that only 20% of the import can be destined for the domestic market in India whilst the remaining 80% has to be re-exported to destinations outside India. Whilst these options are open for Australian sandalwood they are not for unprocessed Indian sandalwood.

The option of a free trade zone is not seen as viable in the present environment however this may change although there is no indication at present.

CONCLUSION

Although the sustainable, quality, and reliable source of Australian grown and harvested sandalwood (of both species) is appealing to India's modern pharmaceutical, food and cosmetic industry as well as its traditional markets in religious, fragrance and carvings, the cost implemented by tariffs are seen as prohibitive for the Indian manufacturers in these industries. A reliable supply of quality and legal sandalwood would revive India's use of sandalwood in traditional and modern applications while relieving pressure on the domestic wild population which is on the IUCN red list as an endangered species.

A reduction in tariffs will be significantly beneficial for Australia's rural economy, with the associated increase in employment in rural Western Australia, Northern Territory and Queensland. Additionally, it will assist in diversifying Australia's export industry from traditional areas such as mining. The trade in sandalwood is not simply commercial but represents strong cultural, religious, and traditional significance to the Indian community and will consolidate the strong relationship between the two countries.

Yours faithfully

Richard Henfrey

CEO

QUINTIS





JUNE 2021





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1. SUMMARY

Founded 20 years ago to establish and manage Indian sandalwood (Santalum album) plantations in the north of Australia, Quintis has now reached the stage of maturity where we are harvesting significant quantities of this precious wood, and we are now delivering on the promise of the category to create major new global export markets for primary produce from regional Australia.

We are a private company majority-owned by BlackRock Asset Management, the world's largest asset manager.

While our head office is in Perth, the majority of our employees are located in remote and regional locations, particularly in WA and the Northern Territory. We are considered a major employer in Kununurra, Albany and Katherine, and our business activity supports a range of local suppliers.

Region	Number of employees
Albany, WA	53
QLD (Dalbeg)	12
NT (Darwin, Katherine, Douglas Daly, Mataranka)	42
Kununurra, WA	51
Perth, WA	41
International	19

Key international markets are USA (aromatherapy), EU (fine fragrance) and China (traditional Chinese medicines), and we see significant opportunity across Asia to supply products of cultural and religious significance.

Indian sandalwood has been over-exploited in its native habitat in southern India for centuries, leading to near extinction of the species in the wild. Harvest and trade in sandalwood in India is strictly controlled and we see significant opportunities to develop India as a market for our products as the scarcity of these products grows.





2. CORE ACTIVITIES:

2.1 FORESTRY MANAGEMENT

Quintis manages an estate of 12,000 Ha of Indian sandalwood plantations across the north of Australia. The estate comprises around 5.5M sandalwood trees. Sandalwood is a parasitic tree and requires a number of host trees. We estimate that our plantations include at least another 10M host trees.

We employee 74 permanent employees in forestry management, mostly located with our plantations in Kununurra, WA and around Katherine, NT. We also have a small footprint in the Burdekin region of Far North Queensland and a Forestry head office in Darwin. In addition, we outsource many of our regular operations to local agricultural contractors in each region, supporting a larger body of employment

Quintis and its investors are among the largest owners of land and water rights in the NT.

In contrast to monoculture plantations, our multi-species forests provide a habitat for a diverse array of native wildlife, creating a beneficial local ecosystem, as well as absorbing and fixing carbon dioxide from the atmosphere.

Our plantations are managed sustainably, and we are aiming to achieve certification by the Forestry Stewardship Council (highest standard of sustainability certification for a forestry business) in 2021.





2.2 INVESTMENT MANAGEMENT

The plantations that form the Quintis estate are owned by Quintis, institutional investors and retail investors (through historic managed investment schemes) in approximately equal measure.

We offer a range of reporting and investment management services to those investors.

We are also planning to plant new plantations in 2022, our first for five years. We hope to be able to attract investors who are interested in a 15 year forestry investment with strong sustainability credentials and attractive upside potential.



2.3 PRODUCTION

Indian sandalwood trees take 15 years to reach maturity, at which point they are harvested and processed into a range of products to meet our customers' specific requirements.

The heartwood of the tree contains an aromatic oil which is richly perfumed and packed with biologically active compounds. We process the wood from our trees to produce pure heartwood logs, chips and powder. The majority of this activity takes place in our Primary Processing Centre in Kununurra, WA, which employs a further 25 people.

Pure sandalwood essential oil is produced by steam distillation of the heartwood. Quintis owns and operates one of the largest steam distillation operations in Australia in Albany, WA. We employ 53 people in this operation with plans to increase employment here over time.

We are projecting a significant increase in volumes over the coming years as our plantations and our markets mature. We were recently awarded a value added investment grant by the WA Government to support our investment into scaling up our production processes which will underpin existing employment and create new jobs in Albany and Kununurra.



2.4 PRODUCT SALES AND MARKETING

Quintis' core business is the sale of ingredients to a range of business customers across multiple industry segments:

- Fine fragrance
- Aromatherapy
- Cosmetics and personal care
- Traditional Chinese medicines
- Traditional handicrafts / carving / furniture manufacture
- Religious / incense
- Food flavouring

While many of our customer segments are regionally focused, our business is global. We are actively exporting to over 70 countries and markets and we have direct representation in 10 international markets.

In 2020 we established a subsidiary in China – Quintis Trading Xiamen – to sell heartwood products directly to the fragmented handicraft segment.

In March of this year, Quintis signed a memorandum of understanding with Lanzhou Foci Pharmaceuticals in China. The MOU is a broad agreement to collaborate in China to develop the market for sandalwood as an ingredient in Traditional Chinese Medicine and potentially other consumer products. The MOU was signed at a ceremony that was conducted over Zoom between Perth and Lanzhou. We were delighted to have representatives from the WA government (Peter May, Dept of Primary Industries and Regional Development) and Austrade (Liu Bing, Deputy Consul General and Rhett Miller, Trade Commissioner) in attendance.









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ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

Quintis recognises the importance of environmental, social and governance (ESG) issues and how the Company can contribute and benefit our key stakeholders as well as the wider community by engaging proactively in these areas. ESG programs create short and long term value and Quintis is integrating these programs throughout the organisation.

Quintis' ESG strategy includes a number of goals that we are committed to implementing across our business. These include the following:

1. Management practices will be certified by accredited, independent third parties to globally recognised standards for social and environmental performance, where practical and commercially feasible.

We are globally accredited with various regulatory bodies including ISO, Australian Trusted Trader, COSMOS and British Pharmacopeia.

2. We will promote environmentally appropriate, socially beneficial and economically viable management of our plantation estate.

We are currently in the process of securing FSC certification, with the audit to begin in June 2021.

3. Environmental sustainability will be embedded into our forestry, production and office practices.

Our initiatives have won us awards including the Champion Award from the Western Australian Water Corporation for water saving initiatives.





4. Our compliance systems will ensure adherence to anti-corruption, labour and environmental laws.

We are an Australian Trust Trader, SEDEX certified ethical trader and ECOVadis certified. We also have REACH accreditation.

5. Quintis pursues appropriate community engagement recognising both the local culture and historical context of the areas in which we operate.

We are currently in the process of producing a comprehensive sustainability plan which aligns with the United Nations Sustainable Development Goals particularly focused on reduced inequalities, economic growth, education and wellbeing.

Quintis has a track record of embedding itself in the communities in which it operates. For 20-years we have worked closely with the local communities in Kununurra and Albany, supporting in particular local indigenous children. We also work closely with traditional owners to identify and manage culturally significant sites across our operations.

6. Quintis is committed to ensuring the safety and wellbeing of our team and in implementing industry best practice.

We are AS/NZS 4801 certified and are proud of our diverse workforce which brings different perspectives and approaches to the organisation.

