



LEVEL 3
TOURISM HOUSE
40 BLACKALL STREET
BARTON ACT 2
AUSTRALIA

Mr David Holly
Head
China FTA Taskforce
Dept of Foreign Affairs and Trade
RG Casey Building
BARTON ACT 0221

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T +61 2 6273 1

F +61 2 6273 1

W www.a3p.asn

Dear Mr Holly

Thank you for your letter of 2 April 2004 regarding the Australian-China Free Trade Agreement Feasibility Study. A3P considers that a free trade agreement between China and Australia could offer significant benefits to the Australian economy generally and the Australian plantation wood products and paper industry specifically. However, given the size and nature of the Chinese economy, a free trade agreement could also involve 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. This industry:

- manages 1.6 million hectares of timber plantations;
- produces 15 million tonnes of wood each year;
- manufactures a wide range of products including 3 million tonnes of paper and 3 million cubic metres of sawn timber per annum;
- employs 50,000 people mainly in rural and regional areas; and
- produces \$12 billion in sales turnover each year.

At this stage A3P has not developed a formal position in relation to the proposed Australia-China Free Trade Agreement. Because our members operate at different points along the value-chain for wood and paper products they have differing perspectives and priorities in relation to trade issues and the proposed agreement with China. The nature and perspectives of the three main groupings of A3P members are outlined briefly below.

Paper Manufacturers

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

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. As most paper grades are internationally traded commodities Australian manufacturers face very strong competition from large scale producers around the world.

China is dramatically increasing its paper manufacturing capacity to the extent that it will significantly alter the world supply-demand balance for most paper products. China currently produces about 35 million tonnes of paper per annum (more than 10 times Australia's production) and it is predicted that within the next 5 years China's production will virtually double to almost 60 million tonnes.

There is some concern that although this production expansion is being driven by the need to meet domestic demand, this demand may not meet the optimistic levels that China expects and therefore will result in world oversupply of paper and implications in relation to dumping provisions.

The table below illustrates that, while a relatively small proportion of Australian paper imports are sourced from China, this proportion has increased rapidly over the past three years.

Selected Imports (\$ millions)

	2000-01	2001-02	2002-03
Paper & Paperboard			
China	56.3	82.0	117.9
Total	2088.0	1991.3	2000.9
Paper Manufactures			
China	44.1	43.4	54.1
Total	377.5	372.4	405.4

Source: ABARE, Australian Forest & Wood Products Statistics (Sept & Dec Quarters 2003)

Sawn Timber Manufacturers

Sawn timber manufacturers process domestically grown plantation logs into sawn wood which is used primarily in structural applications in the domestic housing market. However, wood supply and processing capacity in Australia is increasing and therefore so is the potential to export sawn timber. China, with its large population and improving living standards, represents a significant potential market for sawn timber particularly material suitable for use in house construction.

Australian sawn timber producers would like to have access to Chinese markets but potentially face significant non-tariff barriers such as building codes and standards. It is understood that the New Zealand industry has made significant advances in this regard recently and Australian producers would seek to gain at least the equivalent arrangements to those provided to New Zealand. The Australian and New Zealand plantation products and paper industries have a

strong working relationship and would seek to cooperate in gaining improved access to Chinese markets.

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, China is a very large log market.

There is a perception amongst some plantation growers and log exporters in Australia and New Zealand that they may be disadvantaged in the Chinese market relative to other countries such as Russia because of discriminatory tariffs and non-tariff barriers. For example, Australian exporters have experienced difficulties in gaining agreement on quarantine protocols for the export of forest products to China. A free trade agreement would provide the opportunity to implement improved processes for the recognition and adoption of quarantine protocols.

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 the proposed Australia-China Free Trade Agreement, I would be grateful if you would keep me informed of developments and involve A3P in the proposed 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



Belinda Robinson
Chief Executive Officer