



NAFI Submission

Australia-Japan Free Trade Agreement

Introduction

The National Association of Forest Industries (NAFI) appreciates the opportunity provided by the Department of Foreign Affairs and Trade (DFAT) to comment on the proposed bilateral Free Trade Agreement (FTA) between Australia and Japan.

The trade of forest products with Japan is very important to Australia's forest industry. In 2004/05, there was over \$890 million worth of forest products trade between the two countries. NAFI strongly supports the strengthening of market relations with Japan which may be achieved through a FTA.

The following submission reiterates and builds on the issues raised by NAFI in our previous submission to DFAT (2/9/05) following calls for comment on the Australian Government's feasibility study into the proposed FTA. These issues include inappropriate trade restrictions on environmental grounds, forest certification, Kyoto Protocol rules, variations in Australian and Japanese building codes and standards, and Japanese paper industry protection. These issues should be considered by the Australian Government during its negotiations with Japan over a FTA.

NAFI does not consider there to be any tariff barriers or quarantine barriers restricting the trade of forest products between Australia and Japan.

Inappropriate trade restrictions on environmental grounds

Australia's forest industry is concerned about the imposition of inappropriate trade restrictions on forest and wood products between Australia and Japan based on perceived environmental grounds.

For instance, ongoing lobbying and protests in Japan against Australia's forestry practices by environmental groups may result in long term adverse impacts on the trade of Australia's forest products, particularly woodchips, with Japan. Environmental NGOs have for some time been lobbying paper manufacturers and the Japanese Government to introduce trade barriers against wood resources grown in Australian native forests.

NAFI is strongly against the imposition of any impediments to trade that are based on misinformation through environmental groups lobbying the Japanese Government and industry. NAFI is also adverse to the appearance of environmental regulations in legislation which may restrict trade. This is particularly a concern where those trade barriers fail to reflect the Australian Government's support for, and involvement in, developing a world class legislative and regulatory framework for sustainable forest management and a

nationally-accredited standard for forest certification (i.e. the Australian Forestry Standard – AFS)

Forest Certification

Australia's forest industry is currently experiencing market access restrictions in Japan, resulting from the exclusive stipulation of forest products which are certified to a particular certification scheme. Specifically, many Japanese companies have stated that they will only purchase timber products from Australia, most notably woodchips, which are certified by the Forest Stewardship Council (FSC).

FSC is the forest certification scheme which is widely endorsed by ENGOs throughout the world. For many years these ENGOs have been lobbying Japanese companies, including paper manufacturers, to exclusively purchase FSC certified wood products. This has created a significant problem for a large portion of Australia's forest industry seeking to export wood products to Japan and whose operations are not FSC certified.

It should be noted that only a small proportion of plantation forests in Australia (just over half a million hectares) are certified under the FSC and there is no FSC certification of native forests in Australia. The vast majority of Australia's certified forests (over 8 million hectares) are certified under the AFS. This includes a number of privately owned forests as well as the public production forests (state forests) of Queensland, South Australia, Tasmania and New South Wales. Also, the Victorian Government is currently on the verge of achieving AFS certification for their state forests and Western Australia is anticipated to follow suit in the near future.

The Australian Government has played a significant role in the development of the AFS. In October 2002, the Commonwealth, State and Territory Forestry Ministers, through the Primary Industries Ministerial Council, endorsed the AFS as "the first purely Australian Standard, which is designed to define environmental performance and sustainability in the forestry industry."¹

It is also important to note that the AFS has gained international recognition through the Program for Endorsement of Forest Certification (PEFC) Schemes. The Japanese Government recently announced, through its new Public Timber Procurement Policy, that PEFC certified timber products (including AFS) would be accepted as legal and sustainable. This policy, unlike that of some Japanese purchasers, reflects Australian Government support for, and endorsement of, the AFS.

It is acknowledged that any decision by Japanese companies to exclusively specify a single forest certification scheme is made on a voluntary basis. However, there may be an opportunity for the Australian Government, through its negotiations on a FTA with Japan, to encourage the Japanese Government to discourage such practices and promote recognition of AFS certified timber in line with its Government timber procurement policy. It should be noted that Australia does not make any similar requests on the imports of forest based products from Japan

Please Note: While not all Australian native forests and plantations are currently certified, they are all grown and managed in accordance with the legislated Codes of Practice which operate in each Australian State and Territory. That is, the timber is supplied from legally logged sources. From the Australian forest industry's perspective, Australian forest

¹ Senator Macdonald's Media Release "Australian Forestry Standard" – 11 October 2002

products should be acceptable to the Japanese market independent of whether or not they come from forests that are certified.

Kyoto Protocol compliance and potential trade impediments

NAFI encourages the advancement of trade in forest products and investment in plantations between Australia and Japan. However, trade and investment should not be hindered by the Kyoto Protocol carbon accounting rules and the disparity between a Kyoto compliant (Japan) and non-compliant country (Australia).

NAFI recommends that the feasibility study should consider the impacts of the Kyoto Protocol on trade between Australia (non-Kyoto aligned) and Japan (a signatory to the Protocol).

Australia along with Japan and four other countries form part of the Asia-Pacific Partnership on Clean Development and Climate (AP6). With both countries being members of the partnership, consideration should be given to the inclusion of wood products in the trade arrangements, as a least-cost option for reducing Australia's greenhouse gas emissions. Recognising the sequestration and storage of carbon in harvested wood products would secure a positive outcome for Australia.

An example of the anomaly in the Kyoto Protocol's carbon accounting rules which will impact on Australia's trade in forest products is where Japan is liable for the carbon emissions from Australia's coal exports to Japan. However, under these international rules, Australia is also liable for the carbon emissions resulting from its export of woodchips to Japan. The current Kyoto rules create an anomaly in carbon debits against Australian timber exports which needs to be rectified.

A consistent approach to the treatment of carbon in forest based products could address this issue.

Variations in Australia-Japan building codes and standards

NAFI considers there may be trade barriers imposed by the differences in building codes between Australia and Japan. At the present time, there are variations in product standards and specifications that could restrict market access for value-added wood products in both countries.

NAFI recommends that the FTA negotiations take into account the New Zealand and United States NAMA (Non-Agricultural Market Access) WTO negotiation rounds, concerning variations in building codes and standards between the countries (i.e. NAMA Building Code Matrices Proposal – 26/4/05). This may assist in identifying any impediments to the trade of forest products due to variations in building codes and standards, which may affect a FTA between Australia and Japan. NAFI understands that initiatives to address this issue are also being progressed by AP6.

Japanese paper industry protection

Currently, Australia's forest industries are highly dependent on Japan's paper market for purchasing our high quality wood fibre exports to supply pulp and paper production. This is an important market for lower grade timber resources from Australia which currently have no domestic market. It is also an important commercial outlet for most of the existing

700,000 hectares of hardwood pulpwood plantations that have been established in Australia over the past ten years.

However, the protected paper industry in Japan may pose impediments to Australia's future capacity to export market pulp to be used for paper production in the Asia-Pacific region.

NAFI recommends that the FTA negotiations consider the positive and negative impacts on Australia's current and future trade in forest products (woodchips and market pulp) if the system of protection that currently surrounds the paper industry in Japan is reduced or removed.

Removing the trade barriers that protect the Japanese paper industry may therefore have quite strong positive and negative impacts on the various sectors of Australia's current and future timber-processing industries and the level of investment in domestic value adding.

Conclusion

NAFI looks forward to further consultation with DFAT during the Australian Government's negotiations with Japan over a FTA. We would be most willing to expand on our submission and answer any queries that may arise, regarding issues affecting the trade and investment in forest products between Australia and Japan. The contact officer at NAFI for any enquiries is Mr David de Jongh, Senior Forest Policy Analyst, on (02) 6285 3833 or by email david.dejongh@nafi.com.au.