

1 September 2016

Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

IA-CEPA Negotiating Team

Department of Foreign Affairs and Trade

RG Casey Building

John McEwen Crescent

BARTON ACT 0221

ia-cepa@dfat.gov.au

Potential opportunities and impacts of an Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

The Australian Forest Products Association (AFPA) welcomes the opportunity to make a submission on the opportunities and impacts of a potential Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

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 approximately \$20 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 12.5 million m³ of logs, 4.8 million m³ of sawn timber, 1.5 million m³ of wood-based panels, and more than 3 million tonnes of paper and paperboard products. Australia has an overall trade deficit in wood and paper products of approximately \$2.2 billion per annum (2014/2015). Exports from Australia are predominately raw wood fibre (woodchip and logs) or recycled wood fibre (recovered paper) and 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 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 Government's desire for continued economic and trade reform and a preference for both progressing multilateral trade liberalisation (such as the Doha WTO trade negotiations) and pursuing strategic bilateral Free Trade Agreements (FTA), in the IA-CEPA 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 IA-CEPA may offer some benefits to the Australian economy generally. However, given the changing nature of the Indonesian economy and the existing trade balance (i.e. a significant trade deficit for Australia) in wood and paper products between Australia and Indonesia (see **Table 1** below), an IA-CEPA could pose significant risks for Australian forest, wood and paper product producers.

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 Indonesia.

There is an established trade between Australia and Indonesia in the wood and paper product sectors, although one-sided with a significant trade deficit for Australia of around \$458.7 million. A relatively small amount of exports from Australia to Indonesia are concentrated in sawnwood, medium density fibreboard and recovered paper, by value. Conversely major imports from Indonesia are concentrated in sawn timber, plywood, miscellaneous forest products, furniture, printing and writing paper, household and sanitary products, packaging and paper manufactures, by value.

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

Table 1: Australian Wood and Paper Products imports/exports to Indonesia (2015)

Product	Calendar 2015	
	Volume (kt)	Value (\$m)
Imports from Indonesia		
Sawnwood	6.2	12.1
Miscellaneous forest products (doors, mouldings etc)	NA	237.8
Plywood	42.2	49.9
Newsprint	6.9	4.7
Printing & writing paper	34.4	40.2
Household & Sanitary	29.9	52.3
Packaging & Industrial	10.5	20.5
Paper manufactures	NA	37.2
Chemical Pulp	3.9	2.7
Wooden Furniture	NA	49.7
Total (A)	NA	507.1
Exports to Indonesia		
Sawnwood	6.5	3.8
MDF	2.8	1.2
Recovered Paper	317.7	43.4
Total (B)	NA	48.4
Trade Deficit (A-B)	NA	458.7

Source: ABARES Australian Forest and Wood Products Statistics, Oct and Dec Quarters 2015

The key issues of concern for the wood and paper products industry include: potential changes to the tariff system; illegal logging and sustainability issues; and occurrences of import dumping, predatory pricing and countervailing issues.

The wood and paper products industry recognises that it is a relatively small exporter to Indonesia. Although Australian Free Trade Agreement's (FTA) 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 past experience, that an uneven playing field in certain traded products can result for Australia from FTA negotiations.

An important issue across wood and paper product imports from Indonesia is ensuring that the products traded are not sourced from illegally logged timber. Australia has recently implemented illegal logging legislation. Under the legislation, importers of regulated timber products are required to undertake due diligence on these products to minimise the risk that they have been illegally harvested. Importers of regulated timber products will also be required to answer a new Community Protection Question indicating whether they have complied with the due diligence requirements of the Regulation.

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.

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 IA-CEPA. 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 (including Indonesia).

Given the fierce nature of competition in paper markets, Australian producers are very susceptible to asymmetric tariff reductions, predatory pricing and dumping of imports, 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 may be a result of poor financial or other local regulation.

A recent example of a problematic FTA outcome for the wood and paper product industries occurred with the China-Australia Free Trade Agreement (ChAFTA). Unfortunately, the final text fails to treat the Australian paper products industry in an equitable manner in regard to two-way tariff reform. AFPA notes the removal of Chinese tariffs for many other sectors and for specific wood products such as processed *radiata pine* timber products. However, ChAFTA delivers an inequitable tariff outcome for paper products. This will continue to have negative impacts on investment and trade in the Australian paper industry.

Under ChAFTA, there is an asymmetrical treatment of paper products, including tissue, copy paper, newsprint and packaging papers. Australian tariffs on paper products would immediately drop to zero or fall to zero within 3 to 5 years, but there is no change at all in the Chinese tariff levels for those same products. The majority of paper and paperboard products imported from China have historically had a 5% tariff imposed on them, which are removed under ChAFTA. By comparison, tariff rates on Australian paper exports to China remain in force at 5% or 7.5% in most cases. This will both continue the trend over the last decade rapidly increasing in Chinese imports of packaging paper, printing and writing papers and tissue products, and constrain potential Australian exports.

The removal of Australian tariffs on Chinese paper imports - while at the same time maintaining Chinese tariffs for Australian paper exports to China, adversely affects ongoing competitiveness, trade and investment in the domestic industry. It promotes an un-level playing field in regard to proposed tariff reform and provide a competitive advantage for Chinese producers relative to the Australian industry. This issue needs to be addressed in the ChAFTA 3-year structural review or preferably sooner.

The position on paper products under ChAFTA cannot be allowed to occur again for any wood or paper products in future FTA negotiations, including the IA-CEPA.

Additionally, AFPA recommends that in negotiating the IA-CEPA, 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.

The IA-CEPA needs to support 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 Indonesia as a mechanism for improving business and financial regulations and continuing to raise concerns about environmental and sustainability issues in wood fibre sources, so as to address deforestation, poor environmental practices, and instances of illegal logging.

Sawn Timber Processors

Australian sawn timber manufacturers process domestically grown plantation logs into sawn wood, which is used primarily in structural applications in the domestic housing market. 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 more sawn timber. The close Asian-Pacific region (including Indonesia) represents a significant potential market for processed timber products, particularly material suitable for use in housing and commercial building construction, although the trade is currently small and under-developed.

Australian sawn timber producers would like to have access to international markets generally but 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 in regard to those domestic industries that currently do not export products to Indonesia, but are subject to significant Indonesian import competition.

Engineered Wood Products (EWP) Manufacturers

Australian plywood and panels manufacturers process domestically grown plantation 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, addressing non-conforming products, 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 IA-CEPA is another opportunity to support a level playing field in international trade with an important trade partner.

Forest Growers/Managers & Log Exporters

Plantation growers and forest managers invest in, and sustainably manage, both plantations and 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 Indonesia's huge established wood and paper products manufacturing industry and concerns over the sustainability and even legality of some wood supplies, meeting Indonesia's demand from sustainable sources would be infinitely preferable to putting additional pressure on the tropical rainforests of South East Asia.

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

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