

28 August 2015

Foreign Affairs, Defence and Trade Committee
Department of the Senate
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Submission to the Senate Inquiry into the proposed China-Australia Free Trade Agreement

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide comment on the proposed China-Australia Free Trade Agreement (ChAFTA).

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

AFPA notes the removal of Chinese tariffs for many other sectors and for specific wood products such as processed radiata pine timber products. However, the proposed ChAFTA delivers an inequitable tariff outcome for paper products which will have an adverse impact on investment and trade in the Australian paper industry.

There is an asymmetrical treatment of paper products, including tissue, copy paper, newsprint and packaging papers - whereby Australian tariffs will immediately drop to zero or fall to zero within 3 to 5 years with no change at all in the Chinese tariff levels for those same products under the proposed ChAFTA.

The Australian pulp and paper industry is a significant national manufacturing industry that directly supports 18,000 jobs across many metropolitan, rural and regional areas with a gross sales income of over \$9 billion.

Given its national significance, AFPA is concerned there was inadequate consultation with such a large manufacturing sector as the pulp and paper industry on the likely directions and impacts of the China trade deal negotiations with Australia.

Over the past decade there has been increasing two-way trade in paper products between Australia and China with rising levels of Chinese imports. The value of paper product imports from China is over \$700 million per annum while Australian exports of paper to China are around \$240 million per annum.

The removal of Australian tariffs on Chinese paper imports - while at the same time maintaining Chinese tariffs for Australian paper exports to China for those same products - will adversely impact the competitiveness of the sector which is already under pressure from high input costs such as high energy prices.

Further reform of the agreement is needed to address the adverse treatment of paper tariffs for the domestic paper industry - particularly given the fairer treatment of tariff reform for many other Australian agricultural and manufactured goods sectors. Efforts by the Australian Government must be directed to removing the Chinese paper import tariffs. AFPA would also make the point that until there was a reciprocal commitment for comparable reductions in Chinese tariffs on Australian paper exports to China, the pre-existing Australian tariffs on Chinese paper imports should remain in force.

The Australian Government's position on paper products under the proposed ChAFTA should also not be allowed to set expectations regarding the shape of future negotiations for the forthcoming Australia-India Comprehensive Economic Cooperation Agreement. It is therefore vital that the matter of paper products is dealt with in a fair and equitable manner now under the proposed ChAFTA and during negotiations with other major trading partners in the region.

The high environmental standards of the domestic industry must also be acknowledged in terms of ensuring the compliance of any imported products with Australian environmental standards, including paper sustainability procurement requirements and recycling policies.

These issues are outlined in more detail in the attached submission.

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

Yours sincerely



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Chief Executive Officer



SUBMISSION TO THE SENATE INQUIRY INTO THE PROPOSED CHINA-AUSTRALIA FREE TRADE AGREEMENT

The Australian Forest Products Association (AFPA) welcomes the opportunity to provide comment on the proposed China-Australia Free Trade Agreement (ChAFTA).

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 matters relating to the sustainable development and use of Australia's forest, wood and paper products.

Significance of the Australian paper products industry

The Australian pulp and paper industry directly supports 18,000 jobs with a gross sales income of over \$9 billion. It is also an industry with a large geographic footprint, providing much needed jobs and skills in many metropolitan, rural and regional centres. For example, the Kimberly-Clark Australia tissue mill in Millicent, South Australia, supports over 800 direct and indirect jobs in the region. The Australian Paper Maryvale mill is the single largest employer in the Latrobe Valley in Victoria and together with its Melbourne operations supports around 5000 jobs. In Tumut, New South Wales, the Visy paperboard mill has a capital investment of over \$1 billion and supports around 1200 direct and economy-wide jobs. The Visy output at Tumut also represents Australia's largest exporter of containerised manufactured product.

The paper industry is also largely integrated with the broader forest and wood products industry, given the need for fibre inputs from forest growing and other processing operations such as sawmilling residues. In total, the forest, wood and paper products industry directly employs 80,000 people with further jobs in further value adding such as house framing and cabinet making. On the paper and print side, the industry employs up to 321,000 Australians which includes paper makers and the publishing, graphic communications and printing industries. The sector is therefore quite significant across the value chain and compares with other large sectors in the economy - such as mining, tourism and agribusiness. The forest, wood and paper products industry represents over 6% of all manufacturing output in the country and has the distinct advantage of being a renewable product. It is also

Australia's sixth largest manufacturing industry with an annual turnover of \$21 billion.

Trade liberalisation principles

AFPA supports the high-level principles of trade liberalisation to remove unnecessary trade barriers and promote greater efficiency, innovation and investment to support global trade. 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 the application of 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.

Inequitable treatment of the Australian paper industry

Unfortunately, the proposed ChAFTA 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, the proposed ChAFTA delivers an inequitable tariff outcome for paper products which will have an adverse impact on investment and trade in the Australian paper industry.

There is an asymmetrical treatment of paper products, including tissue, copy paper, newsprint and packaging papers - whereby Australian tariffs will immediately drop to zero or fall to zero within 3 to 5 years with no change at all in the Chinese tariff levels for those same products under the proposed ChAFTA.

The majority of paper and paperboard products imported from China have historically had a 5% tariff imposed on them which will be removed under the

proposed ChAFTA. By comparison, tariff rates on Australian paper exports to China will remain in force at 5% or 7.5% in most cases (refer Table 1).

Table 1: Paper tariff rate commitments under the proposed ChAFTA

Major product category	Current tariffs	Years to reduce to zero
China commitments		
Newsprint	5%	No change
Printing and writing (e.g. copy paper)	5% or 7.5%	No change
Tissue (e.g. household and sanitary)	7.5%	No change
Paperboard	2%, 5% or 7.5%	No change
Australia commitments		
Newsprint	5%	Immediate
Printing and writing (e.g. copy paper)	5%	Immediate
Tissue (e.g. household and sanitary)	5%	Immediate
Paperboard	5%	Immediate
Exceptions to immediate removal of Australian paper tariffs		
<i>4802.56.10 (Cut reams/copy paper A4)</i>	5%	5
<i>4802.56.90 (Cut reams/copy paper A3)</i>	5%	5
<i>4810.13.90 (Coated woodfree reels)</i>	5%	3
<i>4810.19.90 (Coated woodfree sheets)</i>	5%	3
<i>4810.29.90 (Medium weight coated)</i>	5%	3
<i>4810.99.00 (Coated carton board)</i>	5%	3
<i>4818.10.00 (Toilet paper converted)</i>	5%	5

Source: Department of Foreign Affairs and Trade.

Over the past decade there has been increasing two-way trade in paper products between Australia and China with rising levels of Chinese imports. Currently, the value of paper product imports from China is over \$700 million per annum while Australian exports of paper to China are around \$240 million per annum including recovered paper.

These trends are outlined in recent trade figures (Tables 2 and 3), showing a large increase in the value of Chinese imports due to high imports of packaging paper, printing and writing papers and tissue products. Between 2005-06 and 2013-14, the total value of Chinese paper imports had increased by 159% to over \$717 million.

Table 2: Imports of paper products from China (\$ million)

Paper product	2005-06	2009-10	2013-14
Newsprint	0.2	3.6	0.9
Printing and writing	75	114.2	171.5
Household and sanitary	65.7	72.1	119.4
Packaging and industrial	50.8	82.6	204
Paper manufactures	84.4	143.8	221.3
Total	276.1	416.3	717.1

Source: ABARES.

Table 3: Australian exports of paper products to China (\$ million)

Paper product	2005-06	2009-10	2013-14
Newsprint	0	0	0.1
Printing and writing	0.3	0.4	0.1
Household and sanitary	0	0.2	0.2
Packaging and industrial	40.7	39.7	89.4
Paper manufactures	6.7	1.7	1.5
Recovered paper	69.6	138.6	150.1
Total	117.3	180.7	241.4

Source: ABARES.

Over the period 2005-06 and 2013-14 there has been a doubling in the value of paper exports to China to just over \$240 million, driven primarily by increases in recovered paper and packaging paper exports. In 2013-14, packaging paper exports reached almost \$90 million and recovered paper exports were \$150 million.

The removal of Australian tariffs on Chinese paper imports - while at the same time maintaining Chinese tariffs for Australian paper exports to China for those same products - will adversely impact the competitiveness of the sector which is already under pressure from high input costs such as high energy prices.

It would adversely affect ongoing competitiveness, trade and investment in the domestic industry by promoting an un-level playing field in regard to proposed tariff reform and provide a competitive advantage for Chinese producers relative to the Australian industry.

An increasing proportion of Visy's Tumut mill production, for example, has mainland China as an end destination. However, the proposed misalignment of tariff reductions places these exports at a 7 to 10% trade cost disadvantage at a time when the Chinese market is becoming more important for the domestic industry.

Adherence to environmental standards

The Australian paper industry is rightfully proud of its high social and environmental standards, with rigorous domestic environmental regulation for forest management and already high levels of recycling. There is widespread accreditation with internationally recognised sustainable forestry management certification schemes for fibre supply, either through the Programme for Endorsement of Forest Certification (PEFC) or the Forestry Stewardship Council (FSC) schemes.

The inherent environmental strengths of paper include the fact that it can be made from renewable sources with recycling benefits. However, if not conducted on a sustainable basis, there exist a number of significant issues related to forestry practices and the sourcing of paper products. From a global trading perspective, these issues can include:

- land use conversion for fibre supply (i.e. deforestation or conversion of natural forests to plantations);
- poor forestry practices (i.e. poor government regulation, low voluntary certification);
- manufacturing practices (e.g. use of chemical, water and energy inputs);
- illegal logging and trade in wood and paper products; and
- the waste implications of additional landfill from using non-domestic recycled content paper sources.

It will therefore be equally critical that as part of the implementation of the proposed ChAFTA and other bilateral or multilateral trade agreements, the Australian Government ensures full compliance of imported products with Australian environmental standards. This would apply, for example, to the mandatory Australian Government sustainability procurement requirements for paper and related waste management and recycling policies.

There could be a distinct disincentive to invest in the Australian paper industry if competing against inequitable tariff-free Chinese paper imports and the high environmental standards and compliance costs operating within Australia. The broader implications of the proposed ChAFTA paper tariffs on the related domestic paper and paperboard recycling and waste management industries should also be taken into account.

Recommendations

AFPA is concerned there was inadequate consultation with such a large manufacturing sector as the pulp and paper industry on the likely directions and impacts of the China trade deal negotiations with Australia.

In its current form, the proposed ChAFTA is biased against the interests of the Australian paper industry and is inequitable in terms of the treatment of tariff rates for paper products trade between Australia and China. The Australian paper products industry would simply ask the question – why would Australia remove paper import tariffs when it is apparent the Chinese Government considers this sector to be a ‘protected’ domestic industry?

AFPA recommends that:

- further reform of the agreement is needed to address the adverse treatment of paper tariffs for the domestic paper industry - particularly given the fairer treatment of tariff reform for many other Australian agricultural and manufactured goods sectors;
- efforts by the Australian Government must be directed at removing the Chinese paper import tariffs, and until such time as there is a reciprocal commitment for comparable reductions in Chinese tariffs on Australian paper exports to China, the pre-existing Australian tariffs on Chinese paper imports should remain in force; and
- in terms of implementing the agreement, 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 Australian Government’s position on paper products under the proposed ChAFTA should also not be allowed to set expectations regarding the shape of future negotiations for the forthcoming Australia-India Comprehensive Economic Cooperation Agreement. It is therefore vital that the matter of paper products is dealt with in a fair and equitable manner now under the proposed ChAFTA as well as during negotiations with other major trading partners in the region.