

26 November 2009

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Dear Sir/Madam,

**Re: Submission to the Department of Foreign Affairs and Trade regarding the Renewal of negotiations of the Free Trade Agreement between Australia and Malaysia.**

Thank you for the opportunity to make a written submission to the Department of Foreign Affairs and Trade ('DFAT') regarding the renewal of negotiations of the Free Trade Agreement between Australia and Malaysia ('Malaysian FTA'). Please note that this submission updates, and builds on, the Australian Plantation Products & Paper Industry Council's previous submission (dated 12 October 2004).

**1. THE AUSTRALIAN PLANTATION PRODUCTS & PAPER INDUSTRY COUNCIL'S (A3P) INTEREST IN THE MALAYSIAN FTA.**

A3P is the national industry association representing the interests of all segments of the plantation-based wood products and paper manufacturing industry. A3P member's employ more than 13,500 people in plantation management, sawmills, panel board, and paper manufacturing plants, mainly in rural and regional areas. Each year A3P members create and sell more than \$4 billion of products, produce more than 12 million cubic metres of logs, 3 million cubic metres of sawn timber and more than 2 million tonnes of paper.

Australia has a trade deficit in wood and paper products of approximately \$2.12 billion per annum (2008/2009). Paper and paperboard products, the most highly manufactured component of industry's production, accounts for virtually the entire deficit.

A3P considers that a bilateral Malaysian FTA, additional to the current ASEAN multi-lateral Free Trade Agreement ('ASEAN FTA') may offer some benefits (or potentially balance some existing trade policy provisions in the ASEAN FTA) to the Australian economy generally, and to the Australian plantation wood products and paper industry specifically. However, given the nature of the Malaysian economy and the type of trade balance between the two countries, a FTA could also involve significant risks for Australian companies, particularly manufacturers.

As a strong initial statement A3P seeks to ensure that the Malaysian FTA contains provision 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 countries' industries. Especially in regard to those industries that are not as strongly represented in exporting to Malaysia but are subject to a strong import presence from Malaysian products.

This submission outlines the various ways in which the Australian plantation products and paper industry might be impacted by changes to trade arrangements between Australia and Malaysia.



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## General Comment on the Existing ASEAN FTA.

The ASEAN – Australia – New Zealand FTA includes the ten ASEAN members (Burma, Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, The Philippines, Singapore, Thailand, and Vietnam) with Australia and NZ.

To describe the current trading picture and the comparative size of the trade in wood and paper products, some of the key statistics of Australia's trade with ASEAN include (*from the Market Information and Research Section of DFAT*):

- Exports to ASEAN (2008/09) = \$21bn;
- Imports from ASEAN (2008/09) = \$44bn;
- Total trade with ASEAN (2008/09) = \$65bn
- Major Australian Exports (2008/09) to ASEAN = Crude Petroleum, Gold, Aluminium, and Wheat;
- Major Australian Imports (2008/09) from ASEAN = Crude Petroleum, Refined Petroleum, Gold, and Goods Vehicles;
- To show the comparative trade size, the total Australian trade in wood and paper products to all countries = \$6.7bn (10% of ASEAN trade) - exports = \$2.3bn and imports = \$4.4bn.

One of the key issues of concern for the wood and paper products industry is with changes to the current tariff system. The ASEAN FTA background states that it provides 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." The wood and paper products industry recognises that it is a small player in international trade with the group of countries that make up ASEAN, as a result there is a strong concern that an uneven playing field in certain traded products may have resulted from the provisions in the ASEAN FTA.

## Australia's wood and paper products trade with Malaysia.

The two tables (**Table 1 and Table 2**) below provide an updated summary of the volume and value of Australia's wood and paper products imported from, and exported to, Malaysia. Imports from Malaysia represent approximately 4.8% of Australia's total wood and paper products imports (in 2008-09), and exports to Malaysia represent approximately 3.3% of Australia's total wood and paper products exports (in 2008-09).

The value of exports to Malaysia is significantly less compared to imports at less than 37%. Imports are concentrated in sawn-wood, plywood, packaging and industrial paper, and miscellaneous forest products, and exports are concentrated in raw veneer, packaging and industrial paper by value.

**Table 1: Australian Wood and Paper Products Imports from Malaysia (2008-09)**

Product	2007-08		2008-09	
	Volume	Value (\$m)	Volume	Value (\$m)
<b>Sawn-wood</b>	49,500 m <sup>3</sup>	39.9	37,900 m <sup>3</sup>	37.3
<b>Plywood &amp; veneer</b>	37,200 m <sup>3</sup>	31.3	38,800 m <sup>3</sup>	32.1
<b>Panels (Particleboard, hardboard, mdf, softboard)</b>	14,200 m <sup>3</sup>	7.4	12,600 m <sup>3</sup>	7.5
<b>Newsprint</b>	1.2 kt	0.9	0.3 kt	0.2
<b>Printing and writing</b>	2.2 kt	5.2	2.5 kt	6.1
<b>Household and Sanitary</b>	1.3 kt	2.0	1.9 kt	3.6
<b>Packaging and industrial</b>	12.2 kt	26.8	13.5 kt	34.2
<b>Paper manufactures</b>	NA	18.2	NA	21.8
<b>Miscellaneous forest products</b>	NA	77.8	NA	72.0
<b>Total</b>	<b>NA</b>	<b>\$209.5</b>	<b>NA</b>	<b>\$214.8</b>

Source: ABARE Australian Forest and Wood Products

**Table 2: Australian Wood and Paper Products Exports to Malaysia (2008-09)**

Product	2007-08		2008-09	
	Volume	Value (\$m)	Volume	Value (\$m)
Round-wood	1,800 m <sup>3</sup>	2.2	600 m <sup>3</sup>	1.6
Sawn-wood	18,300 m <sup>3</sup>	8.7	19,200 m <sup>3</sup>	6.2
Plywood & veneer	31,500 m <sup>3</sup>	12.9	84,000 m <sup>3</sup>	32.6
Panels (Particleboard, hardboard, mdf, softboard)	1,900 m <sup>3</sup>	0.8	3,000 m <sup>3</sup>	1.3
Newsprint	0.0 kt	0.0	0.0 kt	0.0
Printing and writing	7.2 kt	7.2	2.6 kt	3.3
Household and Sanitary	0.1 kt	0.0	0.6 kt	0.8
Packaging and industrial	28.1 kt	15.6	44.4 kt	24.9
Wastepaper	16.1 kt	3.5	23.2 kt	4.7
Paper manufactures	NA	2.0	NA	1.6
Miscellaneous forest products	NA	3.9	NA	1.5
<b>Total</b>	<b>NA</b>	<b>\$56.8</b>	<b>NA</b>	<b>\$78.5</b>

Source: ABARE Australian Forest and Wood Products

A3P'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 the proposed Malaysian FTA. The nature and perspectives of the three main groupings of A3P 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 mostly locally grown fibre and recovered paper. As most paper grades are internationally traded commodities, Australian manufacturers continue to face very strong competition from large scale producers around the world.

Given the fierce nature of competition in paper markets, Australian producers are very susceptible to adverse impacts from non-tariff barriers, including direct subsidies, enjoyed by producers in a number of countries in our region. An associated concern is the potential use of certain countries by large international companies to establish and operate processing facilities to produce goods for sale into the Australia potentially to circumvent existing trade measures put in place to control predatory behaviour. Australian paper manufacturers would hope to see these concerns addressed in any potential Malaysian FTA.

### **Sawn Timber Manufacturers**

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 sawn timber. Malaysia represents a potential market for sawn timber particularly material suitable for use in house construction, although currently still reasonably small and under-developed.

Australian sawn timber producers would like to have access to Asian markets generally but potentially face significant non-tariff barriers such as building codes, standards and associated regulation. To date, the industry has not identified specific non-tariff barriers of this type in the Malaysian market but this is probably because of low volumes of sawn timber currently exported to Malaysia. An FTA between Australian and Malaysia should seek to promote international standardisation in the interests of more efficient trade between nations, and building codes, standards and associated regulation should be a key area in this regard.

## ***Plywood, Veneer and Panels Manufacturers***

Australian plywood and panels manufacturers process domestically grown plantation logs into plywood and panel products which is used primarily in structural and fit-out applications in the domestic housing and commercial markets. Malaysia is a market for exports of raw veneer but also is a key importer of processed plywood and panel products as well (this imports continue to strengthen into Australia).

Again an FTA between Australian and Malaysia should seek to promote international standardisation in the interests of more efficient trade between nations, and building codes, standards and associated regulation should be a key area in this regard. A3P 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, and sees the Malaysian FTA as an opportunity to support a level playing field in international trade with an important neighbour like Malaysia.

## ***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 maximise their returns growers would like to have open access to as many markets as possible for their logs and other products. There is a perception amongst some plantation growers and log exporters in Australia and New Zealand that they may be disadvantaged in some Asian markets relative to other countries because of discriminatory tariffs and non-tariff barriers.

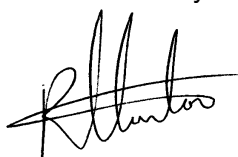
For example, Australian exporters have experienced difficulties in gaining agreement on quarantine protocols for the export of forest products to China. A FTA would provide the opportunity to implement improved processes for the recognition and adoption of quarantine protocols and standards. On the flip-side 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. The large and increasing volume of miscellaneous forest products imported from Malaysia (see **Table 1** above) potentially represents a significant quarantine risk and should be taken into account in any consideration of changes to quarantine arrangements between Malaysia and Australia.

## ***Conclusion***

It is likely that the current ASEAN FTA has had some deleterious impacts on Australia's plantation products and paper manufacturing industry. A3P sees an opportunity to address these issues, balance trade and strengthen our trading ties with Malaysia through the proposed FTA. A3P would support strengthening of, but not any further dilution of, the current trade position.

Given the plantation products and paper industry's diverse range of interests in the proposed Australia-Malaysia Free Trade Agreement, I would be grateful if you would keep me informed of developments and continue to involve A3P in the proposed industry consultation process.

Yours sincerely



**RICHARD STANTON**  
Chief Executive Officer