

6 September 2010

Review of Bilateral and Regional Trade Agreements
Productivity Commission
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Dear Sir/Madam,

Re: Submission to the Productivity Commission's Draft Report Into Bilateral and Regional Trade Agreements.

Thank you for the opportunity to make a written submission on the Productivity Commission's Draft Report into Bilateral and Regional Trade Agreements released in July 2010 (the 'Draft Report').

1. *The Australian Plantation Products & Paper Industry Council's (A3P) interest in the Trade Review.*

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 the industry's production, accounts for virtually the entire deficit.

A3P considers that bilateral and regional Trade Agreements (TA) may offer some benefits (or potentially balance some existing trade policy provisions in other TAs) to the Australian economy generally, and to the Australian plantation wood products and paper industry specifically. However, given the nature of relevant economies and the specific type of trade balance between the relevant countries, TAs with countries that are strong traders in wood and paper products could also involve significant risks for Australian companies, particularly domestic manufacturers of wood and paper products.

A3P seeks to ensure that negotiated TAs are transparent, balanced, equitable, and contain 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 countries' industries. This is especially important in regard to those domestic industries that are not as strongly represented in exporting to the specific country but are subject to a strong import presence from equivalent products.

This submission discusses TAs and the Draft Report generally, and also details the various ways in which the Australian plantation products and paper industry might be impacted by changes to trade arrangements between Australia and other countries.

2. **General Points from the Draft Report.**

A3P notes the following points made by PC in the Draft Report:

- Australia has been and continues to be active in bilateral and regional trade agreements. The following TAs have been entered into: Singapore-Australia TA (2003); Thailand-Australia TA (2005); Australia-US TA (2005); Australia-Chile TA (2009); and ASEAN-Australia-NZ TA (2010). Australia is currently negotiating bilateral TAs with China, Malaysia, Japan and Korea. Australia is also negotiating regional deals with Gulf Cooperation Council, PACER Plus, and the Trans-Pacific Partnership. In addition Australia has also completed feasibility studies for TAs with Indonesia and India, and is active in broader trade agreement processes. A3P agrees that Australia is certainly active, moving rapidly, and expending significant funds and resources on these TA negotiations but urges caution and significant effort to be taken to ensure balanced and equitable trade outcomes.
- The Draft Report concludes that the current strategy to negotiate comprehensive agreements seeking substantial reductions in trade barriers for merchandise trade, has resulted in significant tariff reductions. However there is little evidence that these preferential TAs have provided substantial commercial benefits. With this analysis in mind A3P questions whether these resulting TAs have been balanced, and equitable and can therefore be considered to have fallen short in furthering Australia's national interest.
- Some TA negotiations have resulted in tariff reductions that are not evenly distributed and what commercial benefits arise are concentrated to a small number of specific industries (in general wood and wood products industry are not one of these industries). As a result domestic manufacturing in wood and wood products are under increased pressure. Further these industries are concentrated in rural areas where the jobs and community benefits from these activities are immensely important to Australia's economic wellbeing.
- Existing international trade safeguards (such as the antidumping system) are complex, onerous, time consuming and costly, and the outcomes of cases is highly uncertain even if predatory activity can be proven. However these safeguards are still mechanisms that can be accessed by domestic industry and effective in addressing instances of external subsidies, predatory and anti-competitive behaviour in the international arena.

Australian industry has every right under existing international trade rules to continue to have World Trade Organisation (WTO) sanctioned anti-dumping and countervailing measures to counter predatory pricing, and underpin fairness in trading outcomes. The continuation of an effective, efficient, and accessible anti-dumping system that supports a level playing field for Australia's competitive industries and the underpinning rationale of the anti-dumping system is supported. However A3P is concerned when some parties view access to international trade safeguards (the anti-dumping system) as a 'benefit' to a small number of competing domestic industries rather than a necessary framework to ensure equitable trade and fair competition. A3P has provided submissions detailing potential improvements to the current systems in the recent stakeholder consultation process of the PC inquiry into Australia's Antidumping and Countervailing System.

- A3P sees merit in the PC support for progressing broader multilateral trade frameworks and initiatives (like Doha) that include the requirement for improvements in domestic transparency and policy analysis within each country that signs up to the agreement. These broader trade agreement vehicles have the scope and potential to achieve broader and more balanced outcomes.
- A3P agrees with the PC conclusion that current processes for assessing, prioritising, and reporting outcomes of TAs lack transparency and tend to oversell benefits of the agreements. A3P supports more transparency in the TA negotiating process.

3. A Case Study: the Existing ASEAN TA.

A useful case study is the existing ASEAN-Australia-NZ TA in order to look at the potential effects of trade in wood and paper products (and of formalising trade in Trade Agreements). The ASEAN-Australia-NZ TA 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 Department Foreign Affairs and Trade (DFAT)*):

- Total exports to ASEAN (2008/09) = \$21bn;
- Total imports from ASEAN (2008/09) = \$44bn;
- Total trade between Australia and 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, Australian total trade in wood and paper products in 2008/09 to all countries = \$6.7bn per year.

One of the key issues of concern for the wood and paper products industry is with changes to the current tariff system. The ASEAN TA 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 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 TA.

4. Wood and Paper Products Industry Views on Trade Agreements (TA).

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 proposed TA. 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 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 TA.

- *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 modestly increase and in turn so is the potential to export sawn timber.

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.

- *Plywood, Veneer and Panels Manufacturers*

Australian plywood and panels manufacturers process domestically grown plantation logs into plywood and panel products which are used primarily in structural and fit-out applications in the domestic housing and commercial markets.

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 TA as an opportunity to support a level playing field in international trade with important trading neighbours.

- *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. Any TA 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 TA which may lead to a lessening of the quarantine/biosecurity barrier which protects the Australian plantation resource.

Conclusion

It is likely that the current TA or trading relationships have 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 relevant countries through proposed TA. A3P would support strengthening of, but not any further dilution of, the current trade position and trade safeguards (such as the antidumping system).

The plantation products and paper industry looks forward to working constructively with the Productivity Commission in the finalisation of its review into Bilateral and Regional Trade Agreements.

Yours sincerely



RICHARD STANTON
Chief Executive Officer