Submission on the New Zealand India Free Trade Agreement

Submission to Ministry of Foreign Affairs and Trade

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Submitter

The New Zealand Forest Owners Association Incorporated (FOA) is the representative membership body for the commercial plantation forest growing industry. FOA members are responsible for the management of approximately 1.2 million hectares of New Zealand's plantation forests and over 70% of the annual harvest.

In 2024, the forest growing sector was worth $6.6 billion in export value and has a 12% share of rural land use. It contributes 1.6% of New Zealand's GDP and employs between 35,000 and 40,000 people in wood production, processing, and the commercial sector.

Summary

- The forestry industry has experienced a higher level of trade with India historical, and is currently in the process of rebuilding trade to previous levels in the market after a decline due to phytosanitary systems changes.
- Contextual discussion on the geo-political imperatives for New Zealand and India broadening and deepening trade and the potential for mutual investment. This to include potential FTA conditions and the current tariff differences between Australia and New Zealand.
- The forestry industry is working in partnership with the New Zealand government to understand any technical or other support requirements that India may have and the appetite for processing investment.
- The forestry industry welcomes the signings of the Letter of Intent on Forestry Cooperation in March 2025 by Trade Minister McClay. We are happy to host a reciprocal trade visit by Indian officials/industry.

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Background

Existing economic relationships between New Zealand and India

The primary sector contributes approximately two-thirds of New Zealand export earnings growth and forestry is the third largest contributor to this. Those export volumes, however, are heavily weighted towards a limited number of markets. The development of mutually beneficial trade with China for example, (an increase of 21% in 2021), has not been replicated elsewhere. Forestry, more than any other sector, is exposed to the risk of an over-reliance on one important market.

Last year, India became the most populous nation in the world yet only ranks 21st most important export earner for NZ. For forestry it currently ranks 8th (down from 5th in 2019).

Specific opportunities for increased trade and investment, as well as wider strategic opportunities

In stark contrast to what should be happening, New Zealand forest and wood product exports to India have decreased from a high of $326 million in 2019 to just $31 million for the majority of 2023. Although export opportunities remain for a range of forest related products, the bulk of the export volume and receipts have previously been driven by India's demand for New Zealand logs.

The collapse in log exports (from a high of $243m in 2019) was a direct result of the New Zealand Environmental Protection Authority's (EPA) 2021 decision to prohibit the use of the only treatment accepted by India (methyl bromide - Mbr), for ship hold fumigations. Without a way of treating ship holds, exporting logs to India becomes uneconomic. In a recent trade discussion both the Indian Minister of Commerce and Industry, Piyush Goyal, and NZ Minister of Trade, Todd McClay, agreed "to solve the log export issue". The potential for significantly increased trade with India is not theoretical growth but already proven. It only needs to be restored and enhanced.

<u>Log Trade</u>

In order to re-start the Indian market, the industry requires phytosanitary treatment options acceptable to India. We endorse and support Phytos' submission on this FTA as our industry body for phytosanitary support.

<u>Tariffs</u>

In addition to the phytosanitary challenges NZ trade is also constrained by the application of a 5% tariff on logs going to India plus a 0.5% surcharge giving a total of 5.5%. On an A or K type log, that could equate to USD 5-7/JAS or around NZD $10/JAS. This is a significant cost and one that is not faced by Australian wood exporters who, unlike NZ, are benefiting from having concluded an FTA with India.

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The size of the prize

With an estimated population of 1.4 billion people, India has just surpassed China as the most populated country in the world. China's economic transition over the past two decades is generally well understood and has been of considerable importance to New Zealand. For example, log exports to China have risen from 109,000 tonnes in 2003 to 17.7million tonnes in 2022, with China now taking around 90% of all log exports. Diversification of log export markets (and processed products) is an important strategy for the NZ forestry sector.

Various analysts project GDP growth in India to be around 6.2% in 2024, averaging 6.7% p.a through to 2031. This estimated growth will lift the size of the economy from the current USD 3.4 Trillion to USD 6.7 trillion. Most analysts also expect India to have the highest growth rate of the 13 largest world economies. This is of course starting off a relatively low base, but nonetheless indicates a trajectory like what has been seen in China over the past few decades.

Within the economy, real estate is seen as one of the fast-growing sectors as people migrate from rural to urban areas and therefore need housing and supporting infrastructure. Growing urban populations will also become large consumers of packaging, freight support (like pallets) and plywood.

While NZ should not be attempting to position its radiata based wood products as a low value low quality, estimated growth metrics indicate considerable potential across many sectors.

The "Indian opportunity" must also be seen against a backdrop of declining volumes being harvested in NZ, and a stated Industry Transformation Plan goal of increasing processing in NZ, hence the need to identify and enter markets for these processed products rather than a sole focus on logs.

Market diversification and an increase in value-add products are also key outcomes for NZ. Developing significant trade relationships, and the potential for an MOU with India, will also help to address this issue. We support the Wood Manufacturing and Products Association submission on these points as well.

Broader New Zealand interests

New Zealand has a unique role in Australasia in offering the only undergraduate degrees in forestry, whereas forestry is a component of environmental studies in several Australian universities. This could give us a unique value add when discussing the broader education relationship with India. There are two forestry undergraduate degrees offered at the University of Canterbury:

- **Bachelor of Forestry Science**: This degree focuses on the sustainable management of forest resources, combining studies in science, commerce, engineering, and sociology. It includes frequent field trips to both plantation and indigenous forests, and site visits to wood processing organizations

- **Bachelor of Engineering with Honours in Forest Engineering**: This program integrates engineering skills with forestry, covering areas like road design, harvest operations, and environmental management

New Zealand is also a global leader in forestry research. Scion, the forestry focused Crown Research Institute, has a range of research on everything from forest growth and protection, including biosecurity, to the bioeconomy and manufacturing. Given India's potential growth in the construction sector, New Zealand's research excellence in manufactured timber products and our development of mass timber buildings, in partnership with industry, could be a great area for potential partnership and collaboration. Most of the forestry industry's levy funding goes into research and development through Forest Growers Research, which has a range of research programs with collaboration potential. These include:

- Tissue culture partnership,
- Precision silviculture,
- Automation and robotics,
- Specialty wood,
- Resilient forests,
- Tree microbiome, and
- Extreme wildfire.

Collaboration with India could directly benefit the development of next generation agroforestry. India has a strong agroforestry programme which New Zealand could benefit from. New Zealand forestry has developed in a very siloed primary sector system where we have limited examples of agroforestry. India's approach to agroforestry and the way they manage smaller scale operations could have some important learnings for taking a more integrated approach to farming and forestry in the New Zealand system.

With the pressures of extreme weather and increased pathogens, forestry resilience has never been more critical. Tree root microbiomes play an important role in forest health and resilience that we are only beginning to understand. Collaboration with Indian researchers could expand the study to include diverse tree species and environmental conditions. Wildfire research is also critically important with the increasing frequency and intensity of wildfires globally. India's experience with forest fires in various ecosystems could provide valuable insights. India's expertise in biodiversity and conservation strategies could also help us to develop forests that can withstand a diverse range of environmental stresses.

Conclusion

The forestry industry sees a lot of potential for trade and collaboration with India. We look forward to working in partnership with the New Zealand government to progress an FTA. We are happy to speak further on any points raised in our submission.

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