



## Submission No 14

### **Inquiry into Australia's relationship with India as an emerging world power**

**Name:** Dr U N Bhati  
Visiting Fellow

**Address:** School of Resources, Environment & Society  
ANU  
Canberra ACT 0200

**A submission by U.N. Bhati to  
The Joint Standing Committee on Foreign Affairs, Defence & Trade's  
Inquiry into Australia's relationship with India**

This submission is in respect of the inquiry's terms of reference: 'Trade and tourism including investment opportunities'. It focuses specifically on trade opportunities for Australia in India's paper and paperboard market and on attracting direct investment from India's paper manufacturers in plantations and pulp mills in Australia.

**Emerging opportunities for Australia in India's paper and paperboard market**

The fast pace of economic growth and socio-economic developments in India are boosting the country's consumption of many goods and services, including paper and paperboard.

During 2002-2004, average annual per capita consumption of paper and paperboard was 4½ kg in India, compared with 42 kg in China, 55 kg in the world as a whole, and around 185-190 kg in Australia and New Zealand. India's very low per capita consumption means that, with a growing population and further prospective improvements in demand factors such as per capita income and rate of literacy in India, there is an enormous scope for India's consumption to rise in the future.

Even at the very low level of consumption in India, its paper industry has not been able fully to meet the domestic consumption needs. Hence, imports of paper and paperboard into India have increased steadily to fill the gap between the country's consumption and domestic production.

The gap between India's consumption and domestic production is highly likely to become wider and, as a result, the paper and paperboard market in India will remain characterised by its increased reliance on imports for the foreseeable future. This offers opportunities to overseas producers who have excess supplies of paper and paperboard. Australia — a net importer of paper and paperboard at present — has but limited opportunities in this segment of the Indian market at present.

Pulp — a most basic raw material for manufacturing paper and paperboard — is in short supply from domestic sources in India. To meet the shortfall, India relies on imports, which have been rising faster than India's output of paper and paperboard. The trend is likely to continue for the foreseeable future. Australia — a net importer of pulp — does not export pulp to India. However, if the current proposals to set up pulp mills in Victoria, South Australia and Tasmania come to fruition, Australia will have an exportable surplus of pulp. In that event, India can be one of the markets for it

The main reason for India's shortage of pulp is that the country does not have enough domestic supply of raw materials, e.g. pulpwood, for producing pulp. 'India is facing a severe scarcity of wood. The paper industry in particular is plagued by raw material shortage in the face of continually increasing demand (Government of India 2006, p. 261). Indian governments and industry have been trying to address the problem but not only does the problem continue but it may even get worse.

The following headlines in the Indian media show that sections of India's paper industry are becoming desperate to fix the problem of raw material shortage to the extent that they intend to solve it by investing in plantations and pulp mills overseas.

*BILT scouts for captive forests in Indonesia, Malaysia* 'Ballarpur Industries Ltd (BILT), the country's largest paper manufacturer, is planning to lease land for captive [plantation] forestry in Indonesia or Malaysia to feed its seven paper mills in India.' (The Hindu Business Line, 2 July 2004)

*Ballarpur Industries eyes SE Asian market for buys* 'It is our plan to strengthen the source of our raw material, which is fibre. It can either be through cultivating the raw material overseas or buying a pulp facility and then shipping the product to our units in India....We're looking at options in Vietnam, Malaysia and Indonesia.' (The Economic Times, 30 January 2006)

*Aditya Birla to set up pulp unit in Laos* 'The Aditya Birla Group plans to increase its capacity to make rayon grade pulp by building a plant in Laos, costing about [US]\$350 million. The group said it also plans to develop plantations in Laos that will supply the wood for the pulp mill. (The Economic Times, 18 March 2006).

Sections of India's paper industry evidently intend to solve the problem of raw material shortage by direct investments in plantations and pulp mills in Southeast Asia. But not in Australia! The omission of Australia is puzzling, especially in view of the fact that Australia is an efficient producer and a highly competitive major world exporter of pulpwood. It is owing to these attributes that Australia has attracted direct investment in plantations from countries such as the United States, Japan and Korea, and it remains attractive for such investments (Australian Government 2005). It is in the pulp and pulpwood segments of the Indian market that Australia has a big opportunity. If this opportunity is not to be missed entirely, one must ask: Is the omission of Australia because the Indian paper manufacturers do not know enough about Australia? Or, is it because Australia has shortcomings as a destination for their investment? An investigation to answer these questions has the potential to generate economic, social and environmental benefits for both Australia and India. Although both countries stand to benefit from it, it may be in Australia's interest at this stage to make an effort and allocate resources for becoming proactive in exploring and seizing opportunities in the Indian market.

#### Concluding remarks

This submission is deliberately brief. Hence, if required, I will be happy to elaborate on any of its contents. The submission is based on research, which I am currently carrying out in collaboration with Professor Raghendra Jha of Australia South Asia Research Centre at the Australia National University.

#### References

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- Government of India. 2006. *Report of the National Forest Commission*. Ministry of Environment and Forests, New Delhi.

(Dr) U.N. Bhati  
Visiting Fellow (Forestry Program)  
School of Resources, Environment & Society  
The Australian National University  
Canberra ACT 0200  
Fax (02) 6125 0746  
Website: <http://sres.anu.edu.au/people/bhatiu.html>

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