

## Australian Dairy Industry Submission to Australian Study in to the Feasibility of a Free Trade Agreement with Indonesia - December 2007

Indonesia is now Australia's fourth most valuable dairy export destination, accounting for 7% of Australia's dairy exports in 2006/07.

Ingredients for recombining, SMP and butter oil, are the main components of this trade. In recent years there has, however, been a slow move away from the recombining ingredients market in favour of finished products.

Indonesia is an occasional market for live dairy animals.

Australian Dairy Exports to Indonesia.						
Value AUD						
Product Group	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Butter	\$ 1,495,461	\$ 1,379,033	\$ 1,820,276	\$ 2,148,837	\$ 1,663,494	\$ 1,933,037
Butter Blend	\$ 6,369	\$ 1,800			\$ 349	
Butter Oil	\$ 7,269,782	\$ 7,791,721	\$ 1,965,763	\$ 1,123,001	\$ 6,512,316	\$ 2,428,833
Buttermilk		\$ 1,761	\$ 6,221	\$ 12,360	\$ 3,081	\$ 184
Buttermilk Powder	\$ 4,853,822	\$ 4,188,919	\$ 2,848,982	\$ 4,997,056	\$ 3,087,604	\$ 3,766,431
Casein			\$ 159,303	\$ 2,075,410	\$ 3,184,815	\$ 6,847,466
Cheese	\$ 27,932,264	\$ 12,896,009	\$ 16,402,041	\$ 25,541,789	\$ 24,234,964	\$ 28,380,884
Condensed Milk	\$ 10,373	\$ 15,840	\$ 9,363	\$ 2,008	\$ 8,320	\$ 82,645
Ice Cream	\$ 196,185	\$ 342,278	\$ 484,485	\$ 208,035	\$ 394,221	\$ 507,557
Infant Powder	\$ 4,135	\$ 3,503	\$ 837	\$ 11,302	\$ 18,725	\$ 29,995
Lactose		\$ 132,143	\$ 14,712	\$ 879,077	\$ 803,888	\$ 1,022,571
Milk	\$ 1,802,802	\$ 1,894,799	\$ 1,747,109	\$ 1,948,283	\$ 1,822,765	\$ 2,051,018
Milk Products	\$ 464,751	\$ 313,053	\$ 198,604			
Milk Protein Conc	\$ 250,200	\$ 310,975	\$ 65,649	\$ 17,494	\$ 94,437	
Mixtures	\$ 16,354	\$ 297,257	\$ 848,789	\$ 1,509,272	\$ 1,238,038	\$ 780,366
SMP	\$ 54,261,089	\$ 28,660,101	\$ 37,148,575	\$ 38,726,436	\$ 49,072,209	\$ 47,026,060
Whey						
Whey Powder	\$ 15,337,438	\$ 9,325,933	\$ 11,641,430	\$ 14,640,426	\$ 16,124,930	\$ 26,368,224
WMP	\$ 35,157,714	\$ 43,603,862	\$ 41,020,817	\$ 46,003,828	\$ 84,042,996	\$ 59,970,482
Yogurt	\$ 361,980	\$ 536,790	\$ 717,718	\$ 870,004	\$ 803,829	\$ 832,096
Grand Total	\$ 149,420,719	\$ 111,695,777	\$ 117,100,674	\$ 140,714,618	\$ 193,110,981	\$ 182,027,849

### TARIFFS

Indonesia is a founding member of the WTO. Bindings on dairy lines vary between 27% and 210%. There is a tariff quota for milk powders allowing entry of 415 tonnes at 40% tariff. If Indonesia applied the bound rates and the small SMP quota, trade would virtually cease and Indonesia's large recombining industry (which uses around 50,000 tonnes of SMP annually) would close down.

Actual access, however, is considerably better. The quota on milk powders is not applied. All dairy product lines (except yogurt and condensed milk) enter at 5%. Yogurt and condensed milk attract a 10% tariff. These tariffs were increased from 5% in 2006 following a review of Indonesia's dairy tariffs.

There is currently no tariff on dairy cow imports.

### NON TARIFF BARRIERS

Indonesia requires that all food products sold in the market must have their labels pre-registered with a so called ML number issued. As the process has costs in terms of time and money we would like to see this requirement removed.

The requirement is usually waived for bulk products where label registration serves no purpose and as such it should be permanently removed for bulk products immediately. The current situation, whereby importers of bulk products purchase an annual waiver is cumbersome, costly and leads to uncertainty as to what actually is required. The ML requirement for retail products should also be replaced by in market inspection of label law adherence of the kind that occurs in most developed countries.

In recent years the Indonesian authorities have increased their rigour on halal. In the first instance requiring that a greater amount of food sold is halal. Secondly, there has been a more rigorous application of labelling laws in respect of halal. This has been tightened further in late 2004 with a requirement that all imported dairy products must have halal certification from a restricted list of certifying Islamic authorities.

While the Australian dairy industry understands the need to ensure that any product marked as halal has proper certification, this can become a problem when it is mandated for products for which halal is intrinsic to the product (eg liquid milk and milk powders where the only ingredient is pure milk).

As Indonesia has moved in recent years to implement the requirement that all dairy imports must be accompanied by original halal certificates this has become more costly and cumbersome. We request, that only dairy products for which specific halal claims are made, should be required to be accompanied by halal certification and that in these cases copies rather than original certificates be accepted.

Problems also arise where only particular certifying agencies are recognized as in some cases the agency which has been used in the past by a company may be removed from the list without forewarning or notice of reason. It would be helpful, therefore, if Australian halal authorities were formally recognized.

### KEY OBJECTIVES

The key objective for Indonesia is to bind the current rates and then reduce them to zero as quickly as possible.

Secondly we seek the removal of the requirement that all dairy products must have halal certification and that all shipments be accompanied by original halal certificates.

Thirdly, we request formal recognition of Australian Islamic authorities as competent to certify halal claims.

Finally we seek the removal of the requirement for pre-marketing registration and ML numbers for labels for all dairy products, particularly bulk dairy products.

## ATTACHEMENT

### **IMPACT OF TARIFF REMOVAL ON THE INDONESIAN DAIRY INDUSTRY**

Removal of the remaining tariffs on dairy would have no impact on Indonesian dairy farmers but could be important for the further development of Indonesia's food processing and processed food export sector which relies on assured access to quality dairy ingredients to continue operation.

#### *Indonesian milk production has increased*

Since the reductions of Indonesian dairy tariffs in 1998, the volume of milk processed in Indonesia has increased by 59% from 375 thousand tonnes to 596 thousand tonnes in 2004.

#### *Farm gate prices have increased*

At the same time the price paid to Indonesian farmers has increased from 975 Rp/liter to 2,000 Rp/liter. This increase was partly due to the devaluation of the Rupiah but even in \$US terms the returns to dairy farmers has increased. Currently the price of milk paid to Indonesian farmers averages a little over 20 US cents per litre. This is well below the estimated Australian farm gate price in 2007/8 of 44 Australian cents or 38 US cents.

Claims that Australia will flood the Indonesian dairy industry with cheap milk are, therefore, completely unfounded.

Indonesian press and agri-politicians often argue that competition from Australia is unfair as Australian dairy exports are subsidized. This is completely wrong. Australian dairy farmers receive no direct support from the Government. There are no production or export subsidies. Farmers are paid on the basis of returns obtainable on the international market.

It is clear therefore, that any preference in Indonesia for imported product over domestic product is not based on price. It is more likely to be due to availability of supply and quality. The Australian dairy industry has been working with the Indonesian Directorate General of Livestock Services for a number of years on both of these issues. Since 1996, the Australian dairy industry together with the Australian Government has worked with DGLS on programs to improve the quality of locally produced milk.

#### *Indonesia is now an exporter of milk and cream*

It should also be noted that Indonesia has emerged in recent years as an exporter of milk. According to the Indonesian Government's export statistics, Indonesia exported around 8 billion litres of milk in both 2005 and 2006 worth in excess of \$US4 million in export revenue each year. This new export industry has established itself in Indonesia in recent years as the Indonesian industry has been exposed to the efficiencies required by the international market place. Sheltering the industry behind tariffs will not be helpful in encouraging further expansion of this new export industry.

### *Link to recombining*

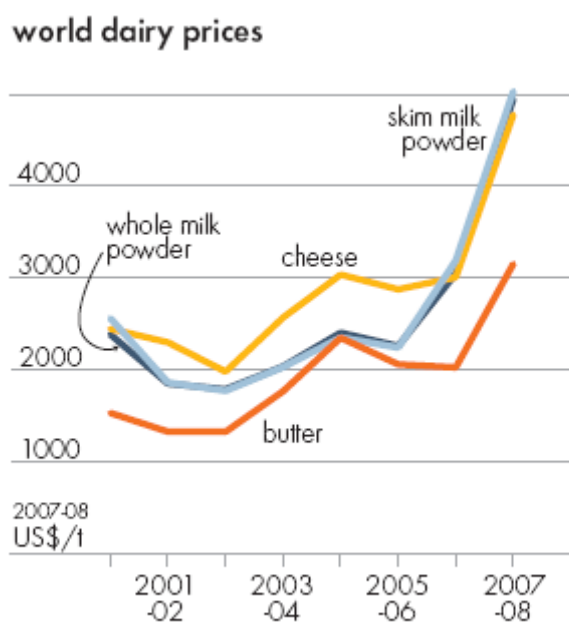
The link between the use of local milk and the use of imported milk should not be underestimated. The main companies that process local milk are also the largest importers of dairy ingredients for their recombining operations. Recombining is an important component of the business structures of these companies. If the cost of recombining is increased their overall businesses may become unviable. During the economic crisis years, the recombiners needed Skim Milk Powder (SMP) in the form of food aid to keep their factories going. Without this, they would have had to close the business and would not have been able to process locally produced milk either. In the face of predictions of high world prices likely to continue, these companies will need tariff relief to continue to operate economically.

Most of the milk processed in Indonesia is processed by the large processing businesses such as Nestle, Foremost Indonesia, Ultrajaya and PT Indomilk. These companies are also the largest importers of dairy products which they use as ingredients in their recombined products and other dairy foods destined for the domestic market and for export. Removal of tariffs will see the costs of ingredients for these companies reduced which will make them more competitive compared to food processing operations in other ASEAN countries.

### *The World Dairy Market*

Since June 2003, there has been a steady increase in world dairy prices as evidenced in the world price of skim milk powder (SMP) which rose from less than \$US1,300 per tonne to a peak of more than \$US5,000 in 2007

Demand is very strong in all of the major consuming nations in the west, especially the EU and US. Demand is also very strong in the important markets of North Africa and the Middle East where demand has been buoyed by high oil prices and in Asian countries which are experiencing strong economic growth. In particular Chinese demand for milk powders is growing at a very fast rate.



In addition the Uruguay Round agreements are now restricting the ability of the EU and US to subsidise exports and suppress world prices.

There is currently a shortage of milk in most of the major supplying countries. While droughts in Australia and poor weather in other major supplying countries have brought forward, the shortage of supply, the shortage would have happened anyway as dairy industries in Europe, the US and elsewhere compete

for alternative uses of land and feed. This has seen public stocks of dairy product in the EU and US fall to zero with no likelihood of them being built up again. This means it is unlikely that they will return to subsidizing exports.

It is now clear that there has been a fundamental shift in the global supply and demand for dairy products. This has seen a number of dairy importing countries such as Vietnam, Russia and Egypt reduce or remove tariffs on dairy products to help curb the impact on consumers.

In the case of Indonesia it is noteworthy that even during the economic difficulties of the late 1990's Indonesia continued to import significant quantities of dairy products. The economic crisis saw a fall in imports only during 1998 as industrial users used inventory rather than importing. However, the following year saw a return to the previous growth trend even though the price of imported dairy had effectively doubled in rupiah terms

This is a clear indication that dairy has now become a regular part of the Indonesian diet. Demand in Indonesia for dairy products continues to grow, creating opportunities for both imported and local product.

**World Dairy Exports To Indonesia**

