



Department of Agriculture and Food  
Government of Western Australia



## **Department of Agriculture and Food Western Australia's**

Submission to the

Department of Foreign Affairs and Trade's

request for public submissions on the feasibility study

into an Australian-Indonesian Free Trade Agreement

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## **BACKGROUND**

### **General**

- As Western Australia's (WA) third largest market for agrifood products (following China and Japan), Indonesia is an important market for WA. Western Australia's exports to Indonesia were valued at \$560 million in 2006/07 which represented more than 10 percent of the State's total agri-food exports (\$4.6 billion). The State's top ten agri-food exports to Indonesia, and top ten agri-food export destinations, are provided in the trade statistics section.

### **Indonesia's Agri-Food market**

- Indonesia has a large and young population (est. 235 million people in 2007). By 2015, Indonesia's population will be older, better educated and more urbanised.
- Over half (55 percent) of household expenditure is spent on food purchases with the majority (33 percent) being spent on bread and cereals, and 24 percent on fruit and vegetables. Consumption of fresh food is increasing and urban consumers are becoming more health conscious. However, the rising pace of modern life in urban centres is driving up demand for ready-to-cook and ready-to-eat food.
- Indonesian food imports have increased by an average of 10 per cent per year (in value) since 1994 to reach US\$3,997 million (11.8 million tons) in 2005. The main agri-food products imported in 2005 were animal feed stuff, wheat, sugar, dairy and fruit and vegetables.

### **WA Agri-Food exports to Indonesia**

#### **Grains**

- Wheat was the most valuable Western Australian export commodity to Indonesia in 2006/07, accounting for approximately 71 percent of the exports.
- While wheat dominates the trade, wheat flour is also gaining popularity in Indonesia due to the large growth in the market for instant noodles, cakes, biscuits, pasta and bread and further opportunities exist for WA to supply ingredients (eg flour mixes) or finished products to this segment.
- Cooperative Bulk Handling (CBH) has an investment in a flour mill in Indonesia which is the 4<sup>th</sup> largest in the world.

#### **Meat and live animals**

- Indonesia is Western Australia's largest live cattle export market. In 2004/05 the State exported 159,000 head of cattle, in 2005/06 164,000 head and in 2006/07 190,000 head of cattle.
- Exports of offal had been steadily increasing until March 2007 when the Indonesian Government limited the types of offal able to be imported. Since then, the Department of Agriculture Forestry and Fisheries (DAFF) have been trying to negotiate an extension to the list of offal of types with the Indonesian Government but it is a very sensitive issue.

## **Dairy**

- Western Australian dairy exports to Indonesia in 2006/07 comprised mainly of milk and cream, with small quantities of cheese and ice cream.
- Retail opportunities exist for Western Australian suppliers of dairy products such as cream, butter, specialty cheeses, yoghurt and Ultra High Temperature (UHT) milks.
- A Western Australian dairy company is currently exporting frozen cream and butter to an Indonesia company. Discussions are continuing with other major Indonesian companies with a view for WA to supply fresh milk concentrate to meet an under supply situation in the rapidly growing market for dairy products.

## **Horticulture**

- Western Australian horticultural exports to Indonesia in 2006/07 were comprised of potatoes (mainly seed), carrots, olives, pears and strawberries.
- Western Australian exports of seed potato are important and to date have involved a single exporter (Tom Fox, Lake Jasper Seed) and only one or two importers. However, a new relationship has now been established between Western Potatoes Limited and another large importer. There are plans to open new areas to cultivation to meet the growing demand for crisping potatoes and allow Indonesia to, in turn, increase its own exports of potatoes within South East Asia. Consequently, there is potential to double the volumes of WA seed potato exports to Indonesia in the next two years. The initial focus of this new program is located in Sister State East Java.
- Opportunities exist to (1) increase exports of grapes, oranges, mandarins, stonefruit (plums) and strawberries and (2) for new varieties of fruit (eg Pink Lady apples, Buerre Bosc pears). Indonesia is a price sensitive market and exporters need to be able to offer competitively priced fruit.
- High tariffs on some horticulture products such as mandarins may be a barrier to increasing Western Australian market share in this segment. DAFF is negotiating with the Indonesian Government to reverse its decision.

## **Wine**

- Western Australian wines are widely available in Indonesia. Although still relatively a small market, wine consumption is increasing. The large majority of Indonesia's population is Muslim and do not consume alcohol.

## TRADE STATISTICS

### Top 10 agri-food related exports by value from WA to Indonesia (A\$)

		<b>2005/06</b>	<b>2006/07</b>
1	Wheat	360,633,818	397,270,915
2	Cattle	104,640,240	130,156,208
3	Beef	11,017,137	15,704,614
4	Malt	4,433,085	4,692,133
5	Offal, cattle	2,565,592	3,670,535
6	Meat products other	441,403	1,790,740
7	Lamb	1,499,986	1,222,637
8	Milk	449,186	676,572
9	Potatoes	566,460	623,500
10	Butter	333,044	604,992
	<b>Grand Total</b>	<b>496,548,674</b>	<b>559,688,201</b>

Source: Australian Bureau of Statistics (ABS) and Department of Agriculture and Food Western Australia (DAFWA).

### Top 10 agri-food related export destinations for Western Australian (A\$)

		<b>2005/06</b>	<b>2006/07</b>
1	Japan	697,124,245	750,267,195
2	China	714,315,961	720,171,853
3	<b>Indonesia</b>	<b>496,548,674</b>	<b>559,688,201</b>
4	India	74,219,231	423,164,216
5	Korea, South	332,972,968	349,423,231
6	Saudi Arabia	262,410,744	255,820,333
7	USA	170,260,133	176,576,039
8	Malaysia	148,715,676	155,216,788
9	Singapore	112,275,746	117,850,432
10	Kuwait	124,932,273	99,835,596
	<b>Grand Total</b>	<b>4,721,874,491</b>	<b>4,642,349,263</b>

Source: Australian Bureau of Statistics (ABS) and Department of Agriculture and Food Western Australia (DAFWA).

## **SPECIFIC ISSUES**

### **Animals**

#### **Offal Ban**

On 15 March 2007, Indonesia advised that new regulations governing the import of meat and offal products to Indonesia had been implemented. These regulations will have a significant effect on the export of Australian beef offals to Indonesia, although meat products (both boneless and bone-in) will not be affected.

The revised regulations allow for imports of oxtails, hearts, tail, lips, feet, and livers. Despite these gains, the list still does not include lungs, tripe, tendons and spleen, which account for approximately 30 per cent of Australia's offal trade to Indonesia (around \$5.6 million annually).

The original regulations placed a blanket ban on the import of all offal products to Indonesia, a proposal that has been softened in the intervening period. The regulations apply to Australia despite there being no food safety concerns with Australian meat and offal exports.

The revised regulations significantly affect the longstanding trade in offal products between Australia and Indonesia, and are likely to result in a reduction in Australian offal exports to Indonesia of around 30 per cent, or over \$A5 million, annually.

**Recommendation:** To attempt to get restrictions on the import of Australian offal products removed. Biosecurity Australia may also be able to assist.

#### **Letter of Recommendation**

Processed meat products are subject to trade regulations, in that importers of meat products must obtain a 'letter of recommendation' from the Indonesian Government. This has been highlighted by ABARE and WA supports the inclusion of these matters in future Free Trade Agreement (FTA) negotiations.

**Recommendation:** To attempt to remove the need for these 'letters of recommendations' or to at least streamline the process.

### **Dairy**

There is huge potential for Challenge Dairy to open up export of fresh milk (concentrated and frozen). WA will have an advantage in supplying Indonesia because of proximity and price.

The applied rates of tariff on most dairy products are 5 per cent. The exceptions include some processed products, such as yoghurt, and some concentrated milk and cream, which are subject to a higher applied tariff of 10 per cent. Dairy imports face a number of regulations in Indonesia eg finished milk products can only be imported by companies appointed by Indonesia's Government.

All dairy products imported by Indonesia must have their label pre-approved. This requirement is applied to both consumer packs and bulk products for further processing. It results in additional administrative requirements, increased costs and reduced flexibility for bulk products that may ultimately be destined for a variety of uses. Indonesia also requires that all imports of dairy products be accompanied by original halal certificates, a requirement that could affect exporters' ability to ship products to Indonesia.

One example of problems experienced is with a Western Australian dairy company last month. There was an error on their export documentation that held up a container of cream at the port. Indonesian customs tend to demand high "fees" to overcome problems with perishables imports as the importer is vulnerable to product deterioration and storage costs.

Imports of dairy products, like all food imports, are tested by the Agency for Drug and Food Control (Badan Pengawas Obat dan Makanan), a process that is reported to be complex, time consuming and costly. Tests require foreign suppliers to provide detailed information on ingredients and processing that may infringe on proprietary business information. The testing fees are expensive, ranging from US\$120 to US\$1200 per product, and are borne by foreign food suppliers.

**Recommendation:** To attempt to get tariffs on fresh milk imports reduced or removed, and reduce the burden of a range of market access issues.

## **Grains**

### **Import duty on Australian flour**

Australia is the major supplier of wheat to the Indonesian wheat milling industry. In 2005/06 Australia had a 64 percent market share, followed by Canada (20 percent), Ukraine (9 percent), and the United States (3 percent). WA does not export wheat flour to Indonesia; instead it exports unprocessed grain. The majority of Australian flour exported to Indonesia is supplied by Manildra Flour Group in NSW (valued at A\$70 million in 2006/07).

The Indonesian Government has a five percent import duty on Australian flour imports. For several years the Association of Indonesian Wheat Flour Producers has been arguing for an increase in the duty to counter what it alleges is the dumping of flour into Indonesia by Manildra. China and India have a 15-20 percent tariff on their flour imports, to counter dumping.

Manildra denies it is dumping, and has successfully argued this to the Indonesian Government, which to date has not imposed the additional tariff on Australian flour that the domestic millers have called for. Should an extra tariff be imposed on Australian wheat flour imports, there is the prospect that more wheat would be purchased by Indonesia to replace flour currently imported by Manildra. This may lead to increased demand, possibly from Australia, but there is no guarantee this demand would be filled by Australian wheat (as it currently is now filled by Manildra). Indonesia is likely to buy Turkish flour as well.

**Recommendation:** To argue against increases in the tariff on flour imports, and to attempt to get the five percent tariff on Australian flour removed.

### **Certification requirements**

This is not necessarily an immediate market access issue for WA, as it exports grain rather than flour to Indonesia. However, there could be an issue with various types of import certification for flour. The certifications include:

- 1. Indonesia National Standard (SNI)** – This certification is issued by the National Standardisation Agency of Indonesia. Apparently it involves Indonesian Government officials coming to Australia to certify the manufacturing premise.
- 2. Registration / certification from the Directorate General of Foreign Trade**
- 3. Registration / certification from the National Agency of Drug and Food Control** – This is mainly in regards to food safety.

These certifications may be quite straight forward but it can take some months to get these into place, and exporters claim that the process of obtaining them is not always transparent. Indonesian Government officials are also required to fly down to Australian sites to inspect them, which adds to the costs of Australian companies accessing this market. These could be investigated as non-tariff trade barriers.

**Recommendation:** To establish whether these certifications are a significant barrier to exports, and whether the processes can be streamlined and made more transparent, or have them removed.

### **Horticulture**

#### **Increased tariffs**

The Indonesian Government introduced a number of tariff changes effective 1 January 2005 as part of its tariff harmonisation process. Eight agricultural lines, principally fruit and vegetables, incurred substantial tariff increases from 5 percent in 2004 to 25 percent in 2005, before returning to 10 percent in 2010.

Of importance to Western Australia is the 25 percent tariff on imports of fresh (not seed) potatoes. In 2003/04, there was a large decline in exports of fresh potatoes due to finding of potato cyst nematode (PCN) in Indonesia and a temporary ban on all potato imports. Just after the tariff was introduced, there was an increase in exports of fresh potato to Indonesia, probably to overcome shortages due to the previous years "ban". Since then exports have declined as Indonesia increased its own production of processing potatoes. The tariff has successfully reduced Australia's competitiveness.

The tariff increase has had little effect on overall imports of horticultural products by Indonesia, as a number of countries (such as China) are able to export to Indonesia duty-free.

**Recommendation:** To attempt to have the tariffs on horticultural products reduced or removed.

## **Seed potatoes**

Two Western Australian seed exporters have had trouble getting seed potatoes of the Granola variety into Indonesia. They have demand for this product but their importing partners have trouble obtaining import permits. The Western Australian seed exporters have been told that import permits are not issued as the Indonesian Government considers local supply of seed of the Granola variety is adequate. This is despite seed from WA performing better than local seed. Better access to the seed potato market in Indonesia would benefit Australian seed potato exporters and Indonesia potato growers who would have increased yield. Currently the main variety of seed potato exported to Indonesia is Atlantic.

**Recommendation:** To attempt to reduce barriers for seed exporters to access the Indonesian seed potato market.

## **Licences to import**

The Indonesian market is very strictly governed by 'licences to import' certain commodities eg for wine there are only seven licensed importers in the whole country. This can hamper free trade as these powerful few dictate trading terms etc and become loyal to only a small selection of exporters.

**Recommendation:** To reduce the barriers created by 'licences to import' products, and so free up the market for Australian products.