JSCOT SUBMission

Indonesia Australia Closer Economic

Partnership Agreement (IA-CEPA)

August 2019

Craig Hough

Director Strategy and Policy

Australian Dairy Farmers

chough@australiandairyfarmers.com.au

The Australian dairy industry strongly supports the ratification of the Indonesia-Australia Closer Economic Partnership Agreement (IA-CEPA).

There are specific benefits within the agreement for the dairy industry, over and above the outcomes of the existing regional ASEAN Australia New Zealand Free Trade Agreement (AANZFTA).

From a relationship perspective, the dairy industry considers it important that Australia follows through on its signing of IA-CEPA in March 2019. Ratification of IA-CEPA would continue to enhance the relationship and facilitates Australia position to capitalise on emerging opportunities arising from its closest neighbour.

# Background: Australia’s dairy industry

The dairy industry is one of Australia’s major rural industries. Based on a farmgate value of production of A$4.3 billion in 2017/18, it ranks third behind the beef and wheat industries. It is estimated that approximately 42,600 people are directly employed on dairy farms and by dairy companies within Australia. Associated transport, distribution, farm services and research and development activities represent further employment associated with the industry. Dairy is also one of Australia’s leading rural industries in terms of adding value through further downstream processing. Much of this processing occurs close to farming areas, thereby generating significant economic activity and employment in regional areas.

Australia is a significant exporter of dairy products. It ranks fourth in terms of world dairy trade, with a 6 per cent market share behind New Zealand, the European Union and the United States.

Indonesia is Australia’s third largest dairy export market ranking behind only Greater China and Japan in value terms. In 2018-19, Australia exported over 56,000 tonnes of dairy to that market, valued at over A$192 million. (Source: ABS data)

**About the Australian Dairy Industry Council**

The Australian Dairy Industry Council (ADIC) is the dairy industry's peak representative body. It coordinates industry's policy position and represents all sectors of the industry on national and international issues through its two constituent bodies; Australian Dairy Farmers Ltd (ADF) and the Australian Dairy Products Federation (ADPF). Representing both ADF and ADPF, the partnership is unique to Australian agriculture providing a unified, whole of industry approach.

**About Dairy Australia**

Dairy Australia is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry’s research and development corporation (RDC), it is the ‘investment arm’ of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

# Supporting rationale for ratification of the IA-CEPA

# **Elimination of tariffs on Australian dairy exports**

Under IA-CEPA, Indonesia will eliminate tariffs on dairy products not already eliminated under ASEAN-Australia-New Zealand FTA (AANZFTA).

Existing import tariffs will be removed on entry into force for skim milk powder (SMP), whole milk powder (WMP) and grated and powdered cheese, while all remaining dairy tariffs will be eliminated by 2026 for non-liquid milk and by 2033 for liquid milk.

The immediate estimated annual value chain savings through dairy tariff elimination is in excess of $6 million per annum. (Based on average dairy export volumes and values from Australia to Indonesia over the last 5 years).

**Trade Facilitation and Technical Barriers to Trade**

IA-CEPA includes a chapter addressing the issue of non-tariff measures. The agreement incorporates a bilateral co-operative mechanism for the identification, communication and potential resolution of non-tariff measures. This is the first time such a mechanism has been written into a Free Trade Agreement to which Australia is a party.

Additional value chain savings (over and above the tariff savings identified in the previous section) are possible if non-tariff measures can be identified and resolved. The agreement also includes text specific to improvements in administrative procedures for exporters and importers to facilitate goods trade

**Established relationships and networks**

# Australian processors have an established track record of partnering with ingredient blenders and food manufacturers in Indonesia through the supply of high quality, innovative dairy products. Food manufacturers in turn value add; creating jobs and wealth in respective supply chains.

Dairy Australia runs both inbound and in market programs to strengthen relationships with key trading partners including Indonesia. Since 2015, dairy leaders from Indonesia have participated in the annual Dairy Australia South East Asia Scholarship Program which educates participants on dairy food safety systems and associated regulatory frameworks. This strengthens personal links and helps spread knowledge and understanding of Australia’s incredible value proposition. The alumni from this program provide invaluable contacts within the Indonesian market.

Dairy Australia visits Indonesia at least once every year and delivers industry focussed workshops to the local market. The workshops provide information about the current situation and outlook of the Australian dairy market and include a technical education element such as dairy food safety or broad product application information which enhances the capacity of the Indonesian market.

The implementation of IA-CEPA will assist to strengthen and support existing and new relationships and networks between the Australian dairy industry and customers in the market.

## Conclusion

The Australian dairy industry supports IA-CEPA. The agreement stands to benefit both Australia’s dairy farmers and processors, specifically through tariff removal and reduction as well as the establishment of a systemic approach to Non-Tariff Barriers to Trade.

The ADIC and Dairy Australia both strongly support the ratification of the Agreement.