

**National Interest Analysis
with attachments**

**Comprehensive Economic Partnership Agreement between the Government
of Australia and the Government of Indonesia**

and associated side letters

Jakarta, 4 March 2019

[2019] ATNIF 17

[2019] ATNIA 12

Attachments:

Attachment I Consultation

Attachment II Analysis of Regulatory Impact on Australia

Attachment III Key outcomes

NATIONAL INTEREST ANALYSIS: CATEGORY 1 TREATY

Comprehensive Economic Partnership Agreement between the Government of Australia and the Government of Indonesia

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Nature and timing of the proposed treaty action

1. The proposed treaty action is to bring into force the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) signed on 4 March 2019 in Jakarta.
2. Article 21.4 (Entry into Force) provides that IA-CEPA will enter into force 60 days after the date on which the Parties exchange written notifications through diplomatic channels that they have completed their respective necessary domestic processes, or on such other date as the Parties may agree.
3. It is proposed that Australia provide such notification as soon as practicable following consideration by the Joint Standing Committee on Treaties (JSCOT), the passing of legislative amendments and the enactment of any necessary regulations.

Overview and national interest summary

4. IA-CEPA will bring both commercial and strategic benefits. It will strengthen bilateral ties and provide a strong basis for deepening the trade and investment relationship with an important strategic partner.

5. IA-CEPA will also contribute to the achievement of key Foreign Policy White Paper objectives, advancing Australia's strategic interests with a close neighbour and major Indo-Pacific democracy. It will add ballast to one of Australia's most important bilateral relationships and position us to tap into Indonesia's economic potential as its population and economy grow.
6. IA-CEPA will also support Indonesia's own economic growth agenda. It builds on Australia's status as a partner of choice for Indonesia, supported by long engagement including through the development cooperation program, to help open up Indonesia's economy and create a better business-enabling environment for both Indonesian and Australian business.
7. Australia and Indonesia have broadly complementary economies, but the trade and investment relationship is underdone. Indonesia has a large population in excess of 260 million people, a growing middle class, and strong economic growth in excess of 5 per cent that is forecast to continue until 2020. Indonesia is projected to become the fifth largest economy in the world by 2030 and fourth largest economy by 2050 (ranking by purchasing power parity equivalent GDP).
8. Australia has a strong position as an agribusiness supplier to Indonesia and has leading market positions in the provision of grains and meat. Australia's capabilities in services, particularly education and training, healthcare, mining-related services, tourism services and in the development of infrastructure and resources, are highly relevant to the growth challenges facing Indonesia.
9. However, the bilateral trading and investment relationship is not reaching its potential. Indonesia is Australia's thirteenth largest trading partner and fourth in ASEAN. Indonesia is only Australia's 10th largest goods export destination (2.3 per cent of Australian exports) and 12th largest services export market (2.0 per cent of Australian exports).
10. IA-CEPA builds on and strengthens Australia's existing arrangements with Indonesia, including by filling in areas that Australia's World Trade Organization (WTO) arrangements with Indonesia and the ASEAN Australia New Zealand Free Trade Agreement (AANZFTA) do not cover. IA-CEPA

addresses a range of barriers that currently hamper the commercial relationship. These include tariffs, restrictive regulatory practices (including restrictive import licencing), inconsistent customs processes and non-tariff issues. Indonesia also has a relatively closed services sector and the investment environment is challenging.

11. IA-CEPA will elevate the Indonesia-Australia trade and economic relationship to new levels. It will promote the development of a predictable, transparent and consistent business environment that will lead to the improvement of economic efficiency and the growth of trade and investment between Indonesia and Australia. Australian exporters, investors and service providers will have significantly improved and, importantly, more certain access to the growing Indonesian market.

Reasons for Australia to take the proposed treaty action

12. IA-CEPA will strengthen the Indonesia-Australia trade and economic relationship. Australian farmers and manufacturers will have significantly improved and more certain access to the growing Indonesian market. This includes in live cattle and meat, grains, horticulture and steel.
13. IA-CEPA will give Australian investors and service providers greater certainty of access to Indonesia's market, including in areas such as vocational education and training, health, tourism, telecommunications, and mining and energy services.
14. Not concluding IA-CEPA would leave Australia's exporters and investors at a competitive disadvantage in the largest ASEAN economy. Indonesia already has free trade in goods and services with other ASEAN economies and has just concluded negotiations with the European Free Trade Association (comprising Iceland, Liechtenstein, Norway and Switzerland). Indonesia is currently negotiating a free trade agreement with the European Union.
15. The key outcomes and impacts are set out in detail in **Attachment II** (Analysis of Regulatory Impact on Australia) and **Attachment III** (Key Outcomes Fact

Sheet) to this National Interest Analysis (NIA). Sectoral outcomes are summarised below.

Goods

16. Under AANZFTA, 98 per cent of Indonesian exports to Australia are duty free and only two per cent face tariffs; however around 30 per cent of Australian exports to Indonesia are still affected by tariffs. These tariffs are a burden on businesses and discourage trade.
17. Under IA-CEPA, 99.9% of Australian goods exports to Indonesia will enter Indonesia duty free or under significantly improved and preferential arrangements.
18. Indonesia will offer improved, and more certain, access for Australia on live cattle, feed grains and horticultural products such as citrus fruits and vegetables (carrots and potatoes). As the centre of Australia's live cattle trade with Indonesia, northern Australia will be a particular beneficiary. IA-CEPA will also offer better access for rolled steel coil, produced in Australia by Bluescope as a feedstock for its Indonesian manufacturing facilities.
19. Through IA-CEPA, Indonesia will lock in the lower sugar tariff that has already been implemented as a result of the 2017 agreement between then Prime Minister Turnbull and President Widodo. Indonesia will also progressively eliminate tariffs on most other products, including frozen beef and sheep meat, dairy, and a range of manufactured steel, copper, plastic, automotive parts and machinery products.

Services

20. Indonesia made limited services commitments under AANZFTA. IA-CEPA is an important opportunity to secure and improve the basis for trade in services between Indonesia and Australia.
21. IA-CEPA will improve certainty for Australian service providers in Indonesia in a range of sectors of commercial interest. Indonesia's commitments represent a significant improvement on its services commitments in

AANZFTA. For example, for the first time in any Free Trade Agreement (FTA), Indonesia has offered commitments on a wide range of technical and vocational education, ensuring Australian Vocational Education and Training (VET) providers can establish certain majority Australian-owned joint ventures in Indonesia (67% of institutional ownership) and limiting the onerous conditions that have previously applied to the education sector. This is a significant win for Australian VET providers wishing to establish themselves in Indonesia.

22. Indonesia has offered its best ever commitments overall on services in any FTA. These commitments would guarantee that Australian suppliers can establish majority-owned businesses with no geographic limitations, in sectors including private hospitals, tourism, telecommunications, architecture, engineering, construction, infrastructure and a range of mining and energy-related services.

Investment

23. IA-CEPA should serve to increase Australian investment in Indonesia, which is currently low. Market access outcomes for Australian investors exceed those in Indonesia's most ambitious agreements to date, with Indonesia for the first time binding meaningful levels of access for investment in key sectors, such as energy.
24. IA-CEPA will deliver important protections for Australian investors, both general protections and investor-state dispute settlement (ISDS), equivalent to and, in some instances, beyond Indonesia's most liberal agreements. This should generate greater Australian business interest in investing in the growing Indonesian market.
25. Investor protections, including ISDS, are necessary in the challenging Indonesian investment environment. Indonesia presents risks for foreign investors, with an uncertain regulatory climate and increasing economic nationalism. Strong disciplines in the IA-CEPA Investment Chapter (Chapter 14), including ISDS, are important to promote and protect Australian investors and investments in Indonesia. The Indonesia-Australia Business Partnership

Group (IABPG) called for the inclusion of ISDS in IA-CEPA in its submissions to government. In its *Two Neighbours, Partners in Prosperity* report (August 2016), the IABPG wrote: ‘at present, there is a major legal deterrent to foreign investment in Indonesia, namely inefficiency in the court system’.

26. ISDS between Australia and Indonesia is already available under AANZFTA and under Australia’s bilateral investment treaty with Indonesia, which entered into force in 1993, but those agreements lack the important safeguards contained in Australia’s more recent FTAs. Indonesia has a strong interest in the higher level of safeguards offered by ISDS under IA-CEPA because they provide increased protection of the government’s right to regulate in the public interest.
27. The ISDS provisions in IA-CEPA includes safeguards equivalent to the best Australia has agreed to date (equivalent to Australia’s most recent concluded agreement, the Peru-Australia Free Trade Agreement), providing a better balance between the protection of investors and maintaining the government’s right to regulate in the public interest.
28. In IA-CEPA, an investor’s basis for challenging legitimate Australian regulatory measures is limited by carve-outs, exceptions and other protections for government policy setting. Modern procedural safeguards, such as provision for expedited preliminary objections and costs orders, are included to contain costs and deter frivolous claims. Moreover, the agreement carves out any public health measure from the scope of ISDS.

Improving the Business Environment

29. In addition to traditional barriers, non-tariff issues, variable customs procedures, red tape and WTO-inconsistent import licensing arrangements are a major obstacle for many Australian businesses in the Indonesian market.
30. IA-CEPA will include an innovative new program of economic cooperation. Australia and Indonesia will use the IA-CEPA economic cooperation program in key areas of mutual interest, such as strengthening links between Australian

exporters and Indonesian processors. It will also help maximise the benefits of IA-CEPA's outcomes in key services sectors such as education, health and tourism.

31. Cooperation under IA-CEPA can strengthen prospects for IA-CEPA's implementation and support reform efforts in Indonesia, which will benefit both Indonesia and Australia. IA-CEPA includes a built-in agenda to include appropriate economic cooperation to facilitate trade and investment and secure support in the Indonesian system.
32. IA-CEPA will improve conditions for Australian exporters in a number of ways. It will guarantee import licences for a number of key products. In addition, for the first time in an Australian FTA, IA-CEPA includes a chapter on non-tariff measures (Chapter 3). This will set up a cooperative mechanism to help deal with non-tariff measures in the Indonesian market. IA-CEPA will also support improvements to customs procedures and provide assistance linked to Indonesia's implementation of the WTO Trade Facilitation Agreement.
33. Australia and Indonesia have agreed to a comprehensive set of domestic regulation disciplines for trade in services to help address behind-the-border barriers such as delays in processing licences and permits. These build on the rules contained in AANZFTA. Australia and Indonesia have agreed to establish a mechanism to promote professional mutual recognition arrangements between relevant bodies and to improve licencing and certification processes for professionals.
34. The Electronic Commerce Chapter (Chapter 13) reflects the increasing importance of the internet for business, including commitments to ensure service suppliers and investors can transfer information into and out of Indonesia. It will lock in Indonesia's planned liberalisation of its current data localisation requirements – an important outcome for Australian businesses in Indonesia. The Chapter builds on AANZFTA in several other ways: it prohibits governments from requiring companies to release their software source code as

a condition of importation, sale or distribution; and it contains enhanced commitments on paperless trading and electronic signatures.

35. The Competition Policy Chapter (Chapter 16) seeks to ensure that the trade and investment liberalisation achieved across IA-CEPA is not undermined by anti-competitive practices. The Chapter includes an obligation on Parties to adopt or maintain consumer protection laws to proscribe the use in trade of misleading practices, or false or misleading descriptions.
36. The Transparency Chapter (Chapter 19) promotes greater transparency in the making and implementation of laws, regulations and government decisions to facilitate predictability and ease of doing business. It requires Parties to establish or maintain impartial and independent tribunals or procedures for the review of final administrative actions. Australia already complies with the Chapter's requirements.

Supporting the Strategic Partnership

37. Indonesia is one of Australia's most important bilateral relationships. Cooperation spans political, economic, security, development, education and people to people ties. Australia and Indonesia share joint interests in supporting economic growth, safeguarding our open sea-lanes, cooperating to fight terrorism and deter transnational crime, working together to bolster a rules-based international order and celebrating both countries' diversity by building deeper community understanding of each other's societies, languages and cultures. Australia's relationship with Indonesia is central to achieving the goals set out in the 2017 Foreign Policy White Paper. The White Paper notes that Indonesia is likely to be one of the five biggest economies in the world in purchasing power parity terms by 2030, and it is already a leader in our region, including in ASEAN.
38. In recognition of this, on 31 August 2018, Australia and Indonesia signed the Comprehensive Strategic Partnership. The Comprehensive Strategic Partnership has five pillars: Enhancing Economic and Development Partnership; Connecting People; Securing Our and the Region's Shared Interests; Maritime Cooperation; and Contributing to Indo-Pacific Stability and

Prosperity. IA-CEPA will play a direct role in supporting Pillar One: Enhancing Economic and Development Partnership, but will also make important contributions to the other four pillars of the Comprehensive Strategic Partnership.

39. For example, economic cooperation under IA-CEPA will support important reforms and developments in Indonesia to drive growth and prosperity. This work will facilitate trade and provide markets for Australian goods and services, but it will also support sustainable and inclusive economic growth in Indonesia that benefits Australia and contributes to regional growth and stability. IA-CEPA has been designed to contribute to the three Objectives of Australia's Aid Investment Plan: Effective Economic Institutions and Infrastructure; Human Development for a Productive Society; An Inclusive Society through Effective Governance.
40. Further, several important telecommunications cables connecting Australia to the rest of the world pass through Indonesian waters. The IA-CEPA Telecommunications Chapter (Chapter 11) includes specific obligations designed to improve the transparency and predictability of Indonesia's regulation of the installation, maintenance and repair of submarine telecommunications cables in its waters, protecting Australia's important strategic interests in this area.

Obligations in detail

41. IA-CEPA consists of 21 Chapters with associated Annexes. IA-CEPA is consistent with Australia's other international agreements, including the WTO. Chapter 1 (Initial Provisions and General Definitions) provides that the IA-CEPA will coexist with Parties' rights and obligations in other agreements to which they are also a party. The obligations in IA-CEPA align with those made by Australia to other FTA partners. Key obligations are outlined below.

Goods

42. Upon entry into force of IA-CEPA, Australia is required to eliminate all tariffs on imports of goods from Indonesia.

43. The provisions contained in IA-CEPA's goods related chapters (Chapters 2-8) reaffirm existing rights and obligations under the relevant WTO Agreements. These chapters maintain the Parties' rights and obligations under the WTO Agreements with regard to the application of safeguards, anti-dumping and countervailing measures. They include commitments on import and export restrictions and other non-tariff barriers that may otherwise present hurdles to Australian goods entering Indonesia.
44. IA-CEPA establishes a mechanism for the review of non-tariff measures raised by either Party. It also provides for dialogue on trade remedies to enhance transparency and understanding.
45. The Chapter on Rules of Origin (Chapter 4) specifies the ways in which a good imported from a Party is eligible for the preferential tariff of the Agreement. Product Specific Rules of Origin for IA-CEPA taken as a whole are more trade facilitative than those in AANZFTA, provide for choice of method to establish origin, and build on Australia's best practice to date so as to enable regional value chains. The origin procedures provide for use of familiar AANZFTA-style certificates of origin, but allows for Parties to also permit declarations by exporters.
46. The Chapter on Sanitary and Phytosanitary (SPS) measures (Chapter 7) reaffirms the Parties' commitments in the WTO SPS Agreement. It establishes a sub-committee to promote cooperation on SPS issues. It does not alter the SPS controls on products entering Australia.
47. The Chapter on Technical Barriers to Trade (TBT; Chapter 8) reaffirms the Parties' WTO TBT Agreement obligations and extends the level of commitment on cooperation in international standards, guidelines and recommendations. The chapter establishes a sub-committee to promote cooperation on TBT issues. It does not alter Australia's standards and conformance regime.

Services

48. The Trade in Services, Financial Services and Telecommunications Chapters (Chapters 9-11) build on existing WTO and AANZFTA services commitments, giving Australian service suppliers better access to the Indonesian market and greater certainty about the rules that will apply to them in Indonesia.
49. The Trade in Services Chapter (Chapter 9) contains a comprehensive section on domestic regulation, which sets out a common framework for the regulation of service suppliers in the territory of each Party. These rules help address behind-the-border barriers such as delays in processing licenses or other permits required to supply a service.
50. There is also a Recognition Article, based on existing WTO language, which gives each Party the right to recognise qualifications obtained in another country should they wish to do so, but does not oblige Australian professional bodies to recognise Indonesian qualifications. There is also a specific Annex on Professional Services to facilitate cooperation, including with non-government professional bodies, on recognition of professional qualifications, licensing and registration requirements.
51. The Financial Services Chapter (Chapter 10) will help to ease some of the regulatory burdens Australian financial services firms face when operating in Indonesia. For example, the Chapter includes provisions that promote transparency in the application procedures necessary to supply financial services and improves access to self-regulatory organisations, where access is necessary to supply a financial service in Indonesia. Australia and Indonesia will also seek to permit financial institutions to supply new financial services in each other's territory.
52. The Telecommunications Chapter (Chapter 11) commits Australia and Indonesia to transparent and pro-competitive telecommunications regulation, including ensuring that incumbent telecommunications companies provide other suppliers with access to services and key infrastructure on reasonable terms and conditions. The Chapter also includes specific obligations designed to improve the transparency and predictability of Indonesia's regulation of the installation, maintenance and repair of submarine telecommunications cables in

its waters. Several telecommunications cables connecting Australia to the rest of the world pass through Indonesian waters.

53. Services and investment market access commitments are subject to a range of carve-outs (non-conforming measures) in which the Parties preserve their right to regulate in the national interest. Australia has retained the right to introduce new regulations for sensitive issues and sectors, including preferences for indigenous peoples; public services including education (noting the right to preserve full policy flexibility on primary education services), health and social services; cultural industries and audio-visual services. Australia has also reserved the right for governments to impose conditions should they choose to privatise government assets or contract out services.

Movement of Natural Persons

54. The Movement of Natural Persons Chapter (Chapter 12) applies to measures regulating the temporary movement between Australia and Indonesia of skilled professionals, including those engaged in trade in goods, the supply of services or the conduct of investment.
55. The Chapter requires each Party to:
- a. promptly process completed applications for visas or other immigration formalities from the other Party;
 - b. provide information, upon request, about the status of applications;
 - c. ensure that fees for the processing of an application for a visa or other immigration formality are reasonable;
 - d. provide information on types of visas available, the documentation and other conditions that must be met and the appropriate method for submitting an application for a visa; and
 - e. establish or maintain appropriate mechanisms for responding to enquiries about measures relating to temporary entry for business persons of the other Party.

56. Under the Chapter, each Party makes specific commitments guaranteeing access for specific categories of business persons who, provided they fulfil visa eligibility requirements, will be permitted to enter and temporarily stay in a Party. Those categories cover business persons undertaking activities such as attending meetings, conferences and trade fairs, setting up a business or an investment, or working in an overseas branch of their office.
57. Australia has undertaken to waive labour market testing for Indonesian business visitors, intra-corporate transferees and independent executives. These are the same categories on which Australia has existing commitments not to impose labour market testing for Indonesians under the WTO and AANZFTA. Australia has not made any commitments on Indonesian contractual service suppliers (skilled workers employed by a company in either Australia or Indonesia to work temporarily in Australia to fulfil a contract).
58. The Chapter does not create any obligations in relation to citizenship, nationality, residence or employment on a permanent basis. The Chapter recognises the right of Australia and Indonesia to regulate the entry of natural persons into their territories and to require foreign workers to meet all relevant skill, qualification or experience requirements in force in the country where they are working temporarily.

Electronic Commerce

59. The Electronic Commerce Chapter (Chapter 13) commits Australia and Indonesia to ensure service suppliers and investors can transfer information across borders by electronic means. The Chapter also contains commitments to not make existing measures that require data to be stored locally any more restrictive, and automatically include improvements to these measures into the Agreement.
60. The Chapter retains the right of a Party to impose conditions or restrictions on the cross-border transfer of information and data storage in order to achieve public policy objectives, provided that such restrictions are not arbitrary or unjustifiable discrimination or a disguised restriction on trade. These obligations do not prevent a Party from adopting or maintaining any measures

that it considers necessary for the protection of its essential security interests and do not apply to information held or processed on behalf of a Party.

61. The Chapter prohibits Parties from requiring the transfer of (or access to) source code of software owned by a person of another Party as a condition of importation, sale or distribution of such software. This obligation does not affect requirements relating to patent applications or prevent a Party from adopting or maintaining any measures that it considers necessary for the protection of its essential security interests.
62. Under the Chapter, Australia and Indonesia have made commitments to not deny the legal validity of electronic signatures and accept the electronic versions of trade documents as the legal equivalent of paper document. These obligations allow Parties to have contrary requirements where provided for under law.
63. The Chapter contains commitments to promote confidence in the online environment. These include for Australia and Indonesia to adopt or maintain a legal framework for privacy protection, and consumer protection laws that proscribe fraudulent and deceptive commercial activities that are harmful to online consumers. The Parties have also made commitments on addressing unsolicited commercial electronic, or 'spam', messages.
64. Under the Chapter, Australia and Indonesia have also agreed to cooperate to support electronic commerce, including on cyber security and on assisting micro, small and medium-sized enterprises to use electronic commerce. The Chapter also contains transparency commitments, including that Parties will publish information on the rights and protections provided to electronic commerce users and how businesses can comply with legal requirements.

Investment

65. The Investment Chapter (Chapter 14) enhances market access and protections for investors from both Parties. The key obligations in this Chapter include:

- a. non-discrimination through national treatment and most-favoured-nation (MFN) provisions; national treatment obliges a Party to afford equal treatment to foreign investors and local producers where there are like circumstances and MFN obliges a Party to afford no less favourable treatment to foreign investors of the other Party than investors from non-Parties in like circumstances;
 - b. minimum standard of treatment (MST): the foreign investor/investment to be treated in accordance with customary international law standards of fair and equitable treatment and full protection and security;
 - c. expropriation and compensation: the obligation not to expropriate a covered investment unless expropriation is undertaken in a non-discriminatory manner, for a public purpose and upon payment of prompt, adequate, and effective compensation;
 - d. transfers: obligation to allow all transfers relating to a covered investment to be made freely and without delay into and out of its territory;
 - e. performance requirements: lists the types of requirements, for example to purchase, use or accord a preference to goods produced in a Party's own territory, which a Party agrees not to impose as a condition of establishing or operating an investment in the other Party; and
 - f. senior management and board of directors: limitations on requiring the appointment of particular nationalities to senior management positions in businesses that are covered investments.
66. Australia has reserved the right to maintain its existing foreign investment review process. IA-CEPA does not increase the thresholds for screening of Indonesian investments above the current levels. Australia has also reserved the right to strengthen its regulations for investments above the current screening thresholds in sensitive sectors such as agricultural land and agribusiness.

67. The agreement includes modern ISDS provisions, with appropriate procedural and substantive safeguards that build on the existing ISDS mechanism between Australia and Indonesia in AANZFTA.
68. The inclusion of ISDS means that where an investor from one Party alleges loss or damage as a consequence of the other Party breaching a commitment in the Investment Chapter, the investor can commence arbitration against that Party in a tribunal. An investor's basis for challenging legitimate Australian regulatory measures is limited by carve-outs, exceptions and other protections for Australian policy setting.
69. An ISDS claim concerning IA-CEPA may only be brought in relation to commitments in the Investment Chapter. ISDS cannot be used to enforce other provisions of the agreement.
70. IA-CEPA preserves each Government's right to regulate in the public interest:
 - a. There is a public health carve out ensuring that public health measures are outside the scope of ISDS, including for Australia those relating to tobacco, the Pharmaceutical Benefits Scheme, Medicare Benefits Scheme, Therapeutic Goods Administration and Office of the Gene Technology Regulator;
 - b. Australia's foreign investment framework, including decisions of the Foreign Investment Review Board, cannot be challenged under ISDS;
 - c. Australia reserves the right to maintain existing and introduce new measures in key policy areas, including:
 - i. Social services established or maintained for a public purpose, such as social welfare, public education, health and public utilities
 - ii. Measures with respect to creative arts, Indigenous traditional cultural expressions and other cultural heritage; and
 - d. General exceptions also apply to the Investment Chapter.
71. The ISDS mechanism in IA-CEPA also includes procedural safeguards to enhance the arbitration process, including:
 - a. Expedited review of claims that are frivolous or manifestly without legal merit

- b. Mechanisms to deter unmeritorious claims, including through the award of costs against a claimant
- c. The ability of the Parties to issue interpretations of the Agreement, which must be followed by ISDS tribunals
- d. Time limits on bringing a claim, and
- e. A requirement for arbitrators to comply with rules on independence and impartiality, including on conflicts of interests.

Economic Cooperation

72. Cooperation will be important for implementing IA-CEPA and maximising its ongoing benefits. The Economic Cooperation Chapter (Chapter 15) seeks to build on the existing Australia-Indonesia development partnership and establishes a Committee on Economic Cooperation. The Committee's activities will include:

- a. developing medium term priorities for economic cooperation for consideration and approval by the Joint Committee;
- b. developing an Annual Work Program for consideration and approval by the Joint Committee, including coordinating and prioritising proposals for economic cooperation from the other committees established under the Agreement; and
- c. overseeing and reviewing the implementation of the Annual Work Program to assess its overall effectiveness and contribution to the implementation of this Agreement.

Competition and Transparency

73. The Competition Policy Chapter (Chapter 16) seeks to ensure that the trade and investment liberalisation achieved across IA-CEPA is not undermined by anti-competitive practices. The Chapter includes an obligation on Parties to adopt or maintain consumer protection laws to proscribe the use in trade of misleading practices, or false or misleading descriptions. The Chapter recognises the importance of consumer protection policy and enforcement to

the creation of efficient and competitive markets and to enhancing consumer welfare. The Chapter recognises the value of the Parties making their competition enforcement policies as transparent as possible.

74. The Transparency Chapter (Chapter 19) promotes greater transparency in the making and implementation of laws, regulations and government decisions to facilitate predictability and ease of doing business. It requires Parties to establish or maintain impartial and independent tribunals or procedures for the review of final administrative actions. Australia already complies with the Chapter's requirements.

General exceptions

75. IA-CEPA includes a number of exceptions to ensure the Parties preserve their ability to take measures they consider necessary for their essential security. An FTA-wide exception allows Australia and Indonesia to take any action they consider necessary for the protection of their essential security interests relating to a number of issues, including to protect critical infrastructure and fulfil their obligations under the United Nations Charter for the maintenance or restoration of international peace and security. There are also specific exceptions in the e-commerce chapter (to allow restrictions on data transfers and data localisation requirements). Australia's schedule of services and investment commitments also includes a broad carve-out from the key Investment and Services Chapter obligations to allow any action Australia considers necessary for the protection of its essential security.
76. The General Provisions and Exceptions Chapter (Chapter 17) includes a series of public policy exceptions to allow Parties to adopt or enforce measures otherwise inconsistent with the Agreement in certain circumstances (such as to protect human, animal or plant life or health). The Chapter also permits the Parties to impose temporary safeguard measures in the event (or threat) of serious balance of payments and external financial difficulties. Taxation measures are also exempt from the Agreement, with some limited exceptions.

Institutional Provisions

77. The Institutional Provisions Chapter (Chapter 18) establishes the administrative provisions necessary for the operation and review of the Agreement, including the processes by which the Agreement will enter into force, may be subsequently amended or terminated, and how the Agreement will co-exist with existing treaties between the Parties. This Chapter also establishes a binding State-to-State dispute settlement mechanism, drawing on previous FTAs and the WTO system, and a committee structure to manage the ongoing implementation of the Agreement.

Side Letters and Memoranda of Understanding

78. Alongside IA-CEPA, Australia negotiated two treaty-level side letters:
- a. *Side Letter between Australia and Indonesia on Economic Cooperation under IA-CEPA*: This side letter and its attachment set out the medium term objectives for cooperation between Indonesia and Australia under IA-CEPA. These commitments will be taken forward by the IA-CEPA Committee on Economic Cooperation.
 - b. *Technical and Vocational Education and Training (TVET) side letter*: This letter provides that Indonesia and Australia will use the provisions of IA-CEPA to undertake mutually agreed economic cooperation in the TVET sector in order to help Indonesia build a highly-skilled, industry-ready workforce. It proposes to develop a Government of Indonesia TVET Committee responsible for national TVET standards that would work to incentivise Indonesian industry to participate in the vocational education and training system. It confirms that Indonesia agrees to allow Australian VET providers operating in Indonesia to own 67 per cent of investments in the Work Training sector in Indonesia without geographical limitations. Additionally, Indonesia has agreed to accept Australian training requirements, allowing Australian VET providers to deliver non-award courses, Indonesian Qualifications Framework qualifications Levels 1-5, and all Australian Framework Qualifications registered by Australian Skills Quality Authority. Indonesia has also given the right to the parties

involved in the business arrangement to discuss and agree the ratio of trainers to administrative staff.

79. There are three other associated side letters and two Memoranda of Understanding (MOU), all of less than treaty status:
- a. *Skills Exchange MOU*: The Indonesia-Australia Business Partnership Group (IA-BPG) – a grouping of Australian and Indonesian business interests developed to support the negotiation of IA-CEPA – sought a reciprocal skills exchange as an early outcome of the negotiations. This MOU sets out the details of the reciprocal skills exchange between Australia and Indonesia. In the first year, the exchange will allow a maximum of 100 participants each from Australia and Indonesia to work in the other country for a maximum of six months. The sectors available for the exchange will be limited to: financial and insurance services; mining, engineering and related technical services; and, information media and telecommunications services. The maximum number of participants from each country would increase by 100 per year to a maximum of 500 per year in the fifth year. Each rise in annual intake would be subject to the Participants' mutual approval following a review each year. The total maximum number of participants over five years would be 1500 eligible Australians and 1500 eligible Indonesians. The skills exchange will operate under existing visa criteria and processing arrangements. It has been designed to adapt to changes in migration laws and will be subject to regular review. It is limited to a modest number of eligible participants whose visits will be short in duration. The exchanges will help build the capacity of Indonesian workers for skilled work in Indonesia. This is a key area of need in the Indonesian economy and an important component of improving the prospects of increased Australian investment in Indonesia, where a shortage of skilled labour is a significant impediment. The skills package will also help build people-to-people links and increase the Indonesia literacy of Australian businesses – leading to more export opportunities.

- a. *Workplace-based training MOU*: This MOU commits Australia to granting annually up to 200 visas to Indonesian nationals allowing temporary stay for a period of up to six months for the purpose of undertaking workplace-based training in specified sectors. The participants must be sponsored by an approved Australian enterprise and meet all visa eligibility requirements.
 - b. *Indonesia Working Holiday Visa letter*: This letter outlines Australia's offer to increase the current annual cap of Work and Holiday visas for Indonesian Nationals to 4,100 on the first day of the month after IA-CEPA enters into force, and to increase the cap to 5,000 over the following five years.
 - c. *Side letter on Mutual Recognition Arrangements in Engineering*: This letter outlines Australia and Indonesia's mutual commitment to facilitate cooperation between their relevant bodies on assisting Indonesia to reach internationally benchmarked standards for engineering education, with a view to facilitating mutual recognition of the qualifications of professional mining engineers in the future.
 - d. *Health side letter*: This letter outlines Australia and Indonesia's mutual commitment to undertake actions that strengthen their economic partnership in the health sector, undertaking work on strengthening Health Professional standards and competitiveness in the Indonesian health sector and encouraging Australian investment in the Indonesian health sector.
80. Each of these will take effect on the date that IA-CEPA enters into force for both Australia and Indonesia.

Implementation

81. Following consideration by the Joint Standing Committee on Treaties, and prior to binding treaty action being taken, Australia will need to make the following legislative changes in order to implement the obligations in IA-CEPA.

- a. The *Customs Act 1901* and the *Customs Tariff Act 1995* and relevant customs regulations will need to be amended to incorporate the preferential tariff rates that will apply to goods imported from Indonesia under IA-CEPA.
- b. Either new legislation or changes to the *Export Control Act 1982* will be required to provide authority to administer a tariff rate quota on steel.
- c. A Ministerial determination will need to be made under section 140GBA of the *Migration Act 1958* to implement the IA-CEPA exemptions from labour market testing for Indonesian intra-corporate transferees and independent executives.

Costs

82. There are no costs or losses of tariff revenue for Australia associated with the entry into force of IA-CEPA because Australia will have already eliminated all tariffs under AANZFTA by the time IA-CEPA enters into force.
83. Australia will provide Indonesia with economic cooperation to support its implementation of IA-CEPA and to support further liberalisation efforts in Indonesia. This will be drawn from the existing bilateral development cooperation program.
84. IA-CEPA is expected to enable Australian exporters to increase the value of their sales to Indonesia and contribute to economic growth in both countries.

Regulatory Impact Analysis

85. An Analysis of Regulatory Impact, as required by the Office of Best Practice Regulation, is attached to this NIA (**Attachment II**).

Future Treaty Action

86. Article 21.2 (Amendments) provides that the Parties may agree in writing to amend the Agreement. Any future amendments will be subject to Australia's domestic treaty-making requirements, including tabling and consideration by the Joint Standing Committee on Treaties, and would enter force 60 days after

the date on which the Parties have notified each other in writing that they have completed their respective necessary internal procedures, or on such other date as the Parties may agree.

87. Article 21.2 also provides that amendments relating only to Appendix 4-A (Procedures for Issuing Certificates of Origin) and Appendix 4-B (Procedures for Making Declarations of Origin) may be made by diplomatic notes exchanged between the Parties. This is stated to be without prejudice to the necessary internal requirements of each Party. Accordingly, any such amendments would still be subject to Australia's domestic treaty making requirements.
88. Article 21.5 (General Review of the Agreement) provides for a joint review of IA-CEPA five years after the date of entry into force, and then every five years after that, with a view to updating and enhancing the Agreement, through negotiations, as appropriate.

Termination

89. Article 21.6 (Termination) allows either Party to terminate IA-CEPA by providing 180 days advance notice in writing to the other party. Any termination by Australia will be subject to Australia's domestic treaty making requirements.

Authentic texts

90. Article 21.7 (Authentic Texts) provides that the English and Indonesian texts of the Agreement are equally authentic.

Contact details

Regional Trade Agreements Division
Department of Foreign Affairs and Trade

ATTACHMENT I CONSULTATION

Comprehensive Economic Partnership Agreement between the Government of Australia and the Government of Indonesia

and associated side letters

[place of signature], [date of signature]

[2019] ATNIA 12

[2019] ATNIF 17

CONSULTATION

91. The public consultation and stakeholder engagement process on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) commenced with a joint feasibility study between Australia and Indonesia in August 2007. Negotiations were launched in 2010 and reactivated in March 2016. Throughout the negotiations DFAT, in conjunction with other government agencies, has consulted widely with industry and other stakeholders in formulating our positions. A list of businesses and organisations that have been consulted – through consultation events, stakeholder meetings, and phone calls – is set out below.
92. DFAT also consulted with State and Territory Governments. State and Territory Governments were consulted on the initial offer in October 2016 and endorsed the final offer in early 2018. IA-CEPA was on the Trade Schedule of the Commonwealth-State/Territory Standing Committee on Treaties (SCOT) on 2 August 2018, 11 December 2017, 30 June 2017, 2 November 2016 and 4 May 2016.
93. Negotiators also benefitted from the participation of the Indonesia-Australia Business Partnership Group (IABPG), a joint business advisory body established by the parties. The IABPG produced two reports for consideration by both Australia and Indonesia. The Australian members of the IABPG and the Australian stakeholders they consulted in preparing their recommendations are listed separately below.
94. Stakeholders in the public consultation process appreciated the benefits of negotiating IA_CEPA and building on the foundation provided by AANZFTA. The innovative ‘early outcome’ process that delivered a sugar tariff cut and important cooperative projects – including a detailed standards mapping project – succeeded in building momentum and business support. Most stakeholders supported the Government’s efforts to pursue a comprehensive trade agreement . Particular interest has been shown in reducing barriers for agriculture and steel, as well as enhancing opportunities for Australian service

providers and investors in areas such as professional services, education, energy, tourism, health and transport. Many were especially keen that market access gains achieved under AANZFTA be expanded, with agricultural stakeholders particularly forceful advocates for improved market access outcomes. Representatives from a range of peak agricultural bodies, including Meat & Livestock Australia, Dairy Australia and the National Farmers' Federation, have been consulted throughout IA-CEPA negotiating rounds. The steel industry was strongly engaged on securing meaningful commercial outcomes.

95. Civil society and industry groups have not been vocal in articulating any significant concerns in relation to IA-CEPA. The Australian Forest Product Association expressed concern that IA-CEPA might impact the anti-dumping regime or lower Australian standards – it will not. The Australian Fair Trade and Investment Network (AFTINET) provided a submission outlining its concerns, including over transparency, ISDS, temporary movement of workers; pharmaceuticals; and government procurement (the latter two areas are not covered by IA-CEPA).
96. Engagement with stakeholders will continue after the conclusion of IA-CEPA to raise awareness of the Agreement and ensure businesses and consumers take full advantage of the Agreement. Austrade runs an Australia-wide outreach programme to provide practical information on how to maximise benefits from Australia's Free Trade Agreements. DFAT will publish all IA-CEPA outcomes and summary factsheets on its website.

DFAT-consulted stakeholder list

ACIL Tasman

AGR Matthey

ANZ

Apple and Pear Australia

Architects Accreditation Council of Australia

Australia Indonesia Business Council

Australia-ASEAN Business Council

Australian Aluminium Council

Australian Bankers Association

Australian Chamber of Commerce & Industry

Australian Council for International Development

Australian Council for Private Education and Training

Australian Council of Trade Unions

Australian Council of Wool Exporters and Processors / Private Treaty Wool Merchants of Australia

Australian Dairy Farmers

Australian Digital Alliance

Australian Distillers Association

Australian Fair Trade and Investment Network

Australian Fodder Industry Association Ltd

Australian Food & Grocery Council

Australian Forest Products Association

Australian Home Entertainment Distributors' Association

Australian Horticultural Exporters' Association

Australian Industry Group

Australian Information Industry Association

Australian Institute of Architects

Australian Livestock Exporters' Council

Australian Manufacturing Workers' Union

Australian Meat Industry Council

Australian Medical Services

Australian Nursing and Midwifery Accreditation Council

Australian Peak Shippers Association

Australian Petroleum Production & Exploration Association

Australian Pharmacy Council
Australian Pork Limited
Australian Recording Industry Association
Australian Services Roundtable
Australian Steel Association
Australian Steel Institute
Australian Sugar Industry Alliance
Australian Sugar Milling Council
Australian Wool Innovation Limited
Ausveg
BlueScope
BMW Group Australia
Business Council of Australia
Campbell Bridge SC
Canegrowers
Cattle Council of Australia
Chamber of Commerce and Industry WA
Citrus Australia
Coca-Cola Amatil
Coca-Cola Amatil Indonesia
Commonwealth Bank of Australia
Communications Alliance
Compassion in World Farming
Complementary Medicines Australia
Consult Australia
Copyright Agency Limited
Cotton Australia
Customs Brokers and Forwarders Council of Australia Inc.
Cycad International
D. Orriell Seed Exporters
Dairy Australia
Dairy Industry Association of Australia
Dairy Trade Reference Group
Department of Agriculture and Food: WA Government
Distilled Spirits Industry Council of Australia

Electronic Frontiers Australia Inc.
Export Council of Australia
Federal Chamber of Automotive Industries
Financial Sector Union
Financial Services Council
First State Investments
Fisheries Research and Development Corporation
Food and Beverage Importers Association
Food Innovation Australia Limited
Ford Motor Company of Australia
Freight & Trade Alliance
Future Fund
Generic and Biosimilar Medicines Association
GM Holden Ltd
Government of Western Australia
Grain Growers Australia
Grains Industry Market Access Forum
Group of Eight
Horticulture Innovation Australia
Humane Society International
Indonesia-Australia Business Partnership Group
Institute of Public Accountants
Institute of Public Accountants
Insurance Council of Australia
International Education Association of Australia
International Legal Services Advisory Council
Law Council of Australia
Liberty OneSteel
Livecorp
Manufacturers Trade Alliance
Meat & Livestock Australia
Media, Entertainment and Arts Alliance
Minerals Council of Australia
Monash University
Motion Picture Association of Australia

Music Council of Australia
National Farmers' Federation
National Farmers' Federation Trade Committee
Nursing and Midwifery Council
Oxiana
Perth USAsia Centre
Plantation Products and Paper Industry Council
PT ETI Fire Systems
Public Health Association of Australia
Qantas
Queensland Citrus Growers Association
Red Meat Advisory Council
RMIT University
Ronstan
Screen Australia
Selandia Baru Service
Sheep Producers Australia
South Australian Government
Standards Australia
Summerfruit Australia
SunRice
Sutherland Shire Environment Centre
Swisse Wellness
TAFE Directors Australia
TAFE NSW
TAFE Queensland
Telstra
Torrens University
Toyota
United Voice
Universities Australia
University of Sydney
Victorian Government
Visa
Vocus (Nextgen)

Weathertex

Wellard Rural Exports Limited

Wine Australia

Winemakers' Federation of Australia

World Society for the Protection of Animals

Indonesia-Australia Business Partnership Group (IABPG)

Members:

Australian Chamber of Commerce and Industry
Australia-Indonesia Business Council (AIBC)
Ai Group

IA-BPG-consulted Australian stakeholders:

Advisian Worley Parsons Group
AFS Intercultural Program Australia
Australia Indonesia Business Council
AIBC IA-CEPA Forum - Adelaide
AIBC IA-CEPA Forum - Brisbane
AIBC IA-CEPA Forum - Melbourne
AIBC IA-CEPA Forum - Perth
Air Asia X
ANZ
Australian Chamber of Commerce and Industry
Australian Sugar Industry Alliance
BlueScope
Chamber of Commerce of the Northern Territory
Charles Sturt University
Christian Teo and Partners
Darwin Port
Euromonitor
Export Council of Australia
GrainGrowers
International Energy Agency
Lowy Institute
Meat and Livestock Australia
Minor Hotels
Minter Ellison
National Farmers' Federation
Perth USAsia Centre
Standards Australia

ATTACHMENT II CONSULTATION

Comprehensive Economic Partnership Agreement between the Government of Australia and the Government of Indonesia

and associated side letters

(Jakarta, 4 March 2019)

[2019] ATNIA 12

[2019] ATNIF 17

CONSULTATION

The public consultation and stakeholder engagement process on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) commenced with a joint feasibility study between Australia and Indonesia in August 2007. Negotiations were launched in 2010 and reactivated in March 2016. Throughout the negotiations DFAT, in conjunction with other government agencies, has consulted widely with industry and other stakeholders in formulating our positions. A list of businesses and organisations that have been consulted – through consultation events, stakeholder meetings, and phone calls – is set out below.

DFAT also consulted with State and Territory Governments through the Commonwealth-State-Territory Standing Committee on Treaties (SCOT).

Negotiators also benefitted from the participation of the Indonesia-Australia Business Partnership Group (IABPG), a joint business advisory body established by the parties. The IABPG produced two reports for consideration by both Australia and Indonesia. The Australian members of the IABPG and the Australian stakeholders they consulted in preparing their recommendations are listed separately below.

Stakeholders in the public consultation process appreciated the benefits of negotiating IA-CEPA and building on the foundation provided by AANZFTA. The innovative “early outcome” process that delivered a sugar tariff cut and important cooperative projects – including a detailed standards mapping project – succeeded in building momentum and business support. Most stakeholders supported the government’s efforts to pursue a comprehensive trade agreement. Particular interest has been shown in reducing barriers for agriculture and steel, as well as enhancing opportunities for Australian service providers and investors in areas such as professional services, education, energy, tourism, health and transport. Many were especially keen that market access gains achieved under AANZFTA could be expanded, with agricultural stakeholders particularly forceful advocates for improved market access outcomes. Representatives from a range of peak agricultural bodies, including Meat & Livestock Australia, Dairy Australia, and the National Farmers’ Federation, have been consulted

throughout IA-CEPA negotiating rounds. The steel industry was strongly engaged on securing meaningful commercial outcomes.

Civil society and industry groups have not been vocal in articulating any significant concerns in relation to IA-CEPA. The Australian Forest Product Association expressed concern that IA-CEPA might impact the anti-dumping regime or lower Australian standards – it will not. The Australian Fair Trade and Investment Network (AFTINET) provided a submission outlining its concerns, including over transparency, ISDS, temporary movement of workers; pharmaceuticals; and government procurement (the latter two areas are not covered by IA-CEPA).

Engagement with stakeholders will continue after the conclusion of IA-CEPA to raise awareness of the FTA and ensure businesses and consumers take full advantage of the agreement. Austrade runs an Australia-wide outreach programme to provide practical information on how to maximise benefits from Australia's FTAs. DFAT will publish all FTA outcomes and summary factsheets on its website upon conclusion of the FTA.

DFAT-consulted stakeholder list

ACIL Tasman

AGR Matthey

ANZ

Apple and Pear Australia

Architects Accreditation Council of Australia

Australia Indonesia Business Council

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Australian Dairy Farmers

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Australian Horticultural Exporters' Association

Australian Industry Group

Australian Information Industry Association

Australian Institute of Architects

Australian Livestock Exporters' Council

Australian Manufacturing Workers' Union

Australian Meat Industry Council

Australian Medical Services

Australian Nursing and Midwifery Accreditation Council

Australian Peak Shippers Association

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Cattle Council of Australia
Chamber of Commerce and Industry WA
Citrus Australia
Coca-Cola Amatil
Coca-Cola Amatil Indonesia
Commonwealth Bank of Australia
Communications Alliance
Compassion in World Farming
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Public Health Association of Australia
Qantas
Queensland Citrus Growers Association
Red Meat Advisory Council
RMIT University
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Screen Australia
Selandia Baru Service
Sheep Producers Australia
South Australian Government
Standards Australia
Summerfruit Australia
SunRice
Sutherland Shire Environment Centre
Swisse Wellness
TAFE Directors Australia
TAFE NSW
TAFE Queensland
Telstra
Torrens University
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Export Council of Australia
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Lowy Institute
Meat and Livestock Australia
Minor Hotels
Minter Ellison
National Farmers' Federation
Perth USAsia Centre
Standards Australia

**INDONESIA-AUSTRALIA COMPREHENSIVE ECONOMIC PARTNERSHIP
AGREEMENT**

ANALYSIS OF REGULATORY IMPACT ON AUSTRALIA

5 December 2018

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PART 1: INTRODUCTION

1. This Analysis of Regulatory Impact on Australia (ARIA) relates to the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). Australian Prime Minister Julia Gillard and Indonesian President Susilo Bambang Yudhoyono launched negotiations on IA-CEPA in November 2010.
2. A Regulatory Impact Statement was prepared by the Department of Foreign Affairs and Trade (DFAT) in consultation with the Office of Best Practice Regulation (OBPR) in 2009 to inform the decision to commence negotiations (See **Attachment 1 – 2009 Regulatory Impact Statement**).
3. After a pause in negotiations, these were relaunched by Indonesian Minister of Trade Republic of Indonesia, H.E Thomas Trikasih Lembong and Australian Minister of Trade and Investment, the Hon Steven Ciobo MP when they met in Canberra on 16 March 2016.
4. An interim Regulatory Impact Statement was completed by DFAT in consultation with OBPR in 2016 in order to inform cabinet's decision on a negotiating mandate after negotiations were restarted.
5. The substantial conclusion of negotiations was jointly announced by the Australian Prime Minister Scott Morrison and Indonesian President Joko Widodo on 31 August 2018.
6. On the basis of these RIS, among other supporting documentation, Cabinet decided that, of the available policy options, pursuing a high quality bilateral agreement with Indonesia was the likely to produce the most benefit to Australia. Cabinet set the acceptable parameters of a beneficial agreement in the form of a negotiating mandate. An agreement within these parameters has now been achieved and is ready to be tabled in parliament. This ARIA will support the deliberations of Parliament's Joint Standing Committee on Treaties.

PART 2: PROBLEM IDENTIFICATION

7. The Joint Standing Committee on Trade and Investment Growth enquiry *Leveraging our advantages - The trade relationship between Australia and Indonesia* noted 'The trade relationship between Australia and Indonesia is clearly underdeveloped. In 2015-16 Indonesia was Australia's 13th largest trading partner, trailing behind smaller markets such as New Zealand'. Indonesia is a natural market for Australia, with high potential for growth into the future (geographical proximity, large and growing population, economic growth).
8. Indonesia is also an important strategic partner for Australia, with a significant and growing leadership role in the Indo-Pacific via its role in ASEAN and its position as one of the world's largest democracies and most populous Muslim country.
9. It is in Australia national interest to deepen and broaden economic cooperation with Indonesia, as well as other facets of the relationship, and encouraging ongoing reforms that will help Indonesia grow and develop. This was recognised by the government's recent announcement of a Comprehensive Strategic Partnership with Indonesia, of which economic partnership was one of the key pillars.

10. Australia's trading and strategic relationship with Indonesia has been emphasised with the recent global trade environment – and rules-based international order more generally – facing challenges, including through growing protectionist sentiment.
11. Australia is a nation dependent on trading for our success. Australian businesses rely on export markets to sell their products and to access low cost inputs from overseas. The 2017 report *Australian Trade Liberalisation: Analysis of the Economic Impacts* by the Centre for International Economics found that Australian households have benefited from a higher standard of living thanks to cheaper consumer goods and one in five jobs in the Australian economy is dependent on trade.
12. With the World Trade Organization (WTO) Doha Development Agenda Round stalled, major trading economies are increasingly working to decrease barriers to trade via bilateral and plurilateral agreements, within which countries agree to lower existing trade barriers on a reciprocal basis.
13. With Australia's trading partners being proactive in negotiating reciprocal reductions in trading barriers, Australia's businesses will increasingly be at a disadvantage compared to their competitors in other countries unless the government ensures that Australian businesses enjoy the same levels of access. Expanding and deepening Australia's trade and investment relationships is critical to Australia's future economic growth and prosperity.

Barriers impeding Australia-Indonesia Trade and Investment

14. Indonesia will move from being the 16th largest economy into the top 10 by 2030, and be the fourth largest by 2050. By 2030, around 70 per cent of Indonesians will be of working age, supporting a consuming class of around 135 million people and business opportunities will be worth approximately \$US1.8 trillion.
15. In Indonesia, high tariffs and non-tariff measures, including variable customs procedures, red tape and import-licensing arrangements are significant obstacles for Australian business. Indonesian policies are often geared towards 'self-sufficiency', notably in the food and agriculture sectors, with measures that aim to encourage domestic production and discourage imports.
16. In a promising development, Indonesian President Widodo has announced the aim of improving Indonesia's position on the World Bank Ease of Doing Business report, targeting a rank of 40. From a ranking of 109 in 2015, Indonesia achieved a ranking of 91 by 2016, a jump of 15 places. By 2017, Indonesia's ranking remains at 72, due to improvements in similar countries while Indonesia made no progress.
17. Despite much progress, Indonesia's regulatory environment remains uneven.

Tariff Barriers

18. Like most countries, Indonesia has progressively lowered its import tariffs. The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) continues to reduce these in certain sectors for Australian exporters to Indonesia. However, a range of key agricultural exports such as sugar, frozen beef, some horticulture and sheep meat, and some manufactured exports, such as copper cathodes, some iron and steel products and some machinery parts continue to face high tariffs.

Non-Tariff Measures

19. Indonesia maintains non-tariff measures including quotas, bans, import licensing requirements and pre-shipment inspection for a range of products. Between 2009 and 2015, the number of product-level non-tariff measures on Indonesian imports doubled,

expanding the number of products covered by non-tariff measures by over 38 per cent¹. This dilutes some of the benefits created by reductions in both the MFN tariff and tariff reductions under AANZFTA.

20. Indonesia's import licensing restrictions apply to many goods, including alcoholic beverages². Indonesia frequently revises import arrangements for a range of other products, such as sugar, live cattle and horticulture.
21. A number of Australian companies have expressed concern about anti-dumping actions affecting their trade with Indonesia. Concern about the transparency of regulations and administration in Indonesia also has an impact on trade and investment prospects.
22. Indonesia's regulations vary for different Australian imports with, for example, seasonal permits applied to Australia citrus³, unpredictable permits for grapes, and no permits issued for apples, mangoes, melons, bananas or pineapples.

Barriers to Services Trade

23. Australia's exports in education, health, mining, telecommunications, business and professional, financial, tourism and other services into Indonesia are significant but impeded by Indonesia's regulatory regime. Lengthy and costly business licensing, permitting and operating procedures, visa restrictions around expatriate employment and difficulties with governance hamper further growth.
24. Indonesia maintains barriers to services trade in many sectors. Relatively restrictive rules governing legal, accountancy and architecture services, as well as education, telecommunications and construction exist. Australian professionals face challenges in obtaining recognition of qualifications. Indonesia maintains restrictions on services, including limits on foreign equity and nationality requirements. Australian and other foreign educational institutions cannot, for example, establish branches or local campuses in Indonesia.

Investment

25. The Indonesian Government is keen to secure large-scale international investment, yet despite some reforms, investment attractiveness remains low due to factors including:
 - a. Limitations on foreign investment, including foreign investment in a number of sectors being either closed or restricted. Many sectors have investment caps that limit foreign investment to a non-controlling shareholding. Investment caps are also subject to change and changes may apply retrospectively.
 - b. Limitations on expatriate work visas for service, trading and consulting companies.
 - c. Additional permits and costs associated with visiting directors, consultants, auditors and lecturers.
 - d. Shortages of skilled local staff and low levels of labour productivity. While Indonesia has one of the lowest wage costs for manufacturing in US dollar terms in Asia (lower than China, Philippines, Thailand, Malaysia and Vietnam) the advantage is lost when adjusted for labour productivity. Firms also incur large

¹ Stephen V. Marks, "Non-Tariff Trade Regulations in Indonesia: Measurement of their Economic

² WTO Secretariat

³ Citrus import permits in 2017 only issued for months (January to April) and are outside Australia's peak export season (May and June).

indirect costs due to poor logistics, infrastructure gaps, labour skills shortages and complex business licensing requirements.

Logistics Costs

26. Logistics costs in Indonesia are estimated at 25 per cent of the cost of manufacturing sales, higher than that of neighbouring countries including Thailand (15 per cent) and Malaysia (13 per cent)⁴. A large proportion of this cost is associated with the need to carry higher inventory levels to accommodate an unreliable logistics chain. Moving freight from Java to Indonesia's outer provinces is hampered by long supply chains, uncertainties in delivery times, and high costs that cover the cost of mostly empty return voyages.

Impact of Other Preferential Trade Agreements

27. Australian businesses are currently at a disadvantage to some key competitors given Indonesia's existing trade agreements. Under the ASEAN Trade in Goods Agreement (ATIGA), Indonesia provides preferential access to ASEAN nations. China also has preferential access to Indonesia compared to Australia on a range of goods under the ASEAN-China FTA.
28. Indonesia has been negotiating an FTA with the EU since July 2016. If finalised, this has the potential to further impact the competitiveness of Australian businesses.
29. The ASEAN Framework Agreement of Services (AFAS) allows Indonesia to offer greater market access to service suppliers from ASEAN countries – including through recognition of qualifications in a range of professions, such as accounting. In practice, Indonesian regulations give advantages to ASEAN service suppliers in 20 sectors, including transport, healthcare and tourism.
30. Some of Australia's existing trade agreements also currently provide preferential access to Indonesia's competitors in the Australian market. For example, tariffs on all China's textiles, clothing and footwear exports to Australia are being eliminated under the China Australia Free Trade Agreement. For Indonesia, these tariffs are not eliminated under AANZFTA until 2020.

Global Mid-Term Outlook

31. The future trajectory of the Australia-Indonesia trade and economic relationship will be affected in part by prevailing global and regional conditions. Global economic growth has been held at around 3 per cent per year since 2010, around 0.5 of a percentage point weaker than the average for the two decades before the global financial crisis (GFC). Weak trade and investment growth, low productivity growth and low inflation remain major vulnerabilities for the global economy.
32. The United Nations Conference on Trade and Development (UNCTAD) estimates global foreign direct investment (FDI) flows fell 23 per cent in 2017, reaching an estimated US\$1.43 trillion, as global economic growth remained weak and world trade volumes posted anaemic gains. FDI flows to developing economies remained stable in 2017 after falling 20 per cent in 2016 (to an estimated US\$671 billion), largely on the back of slowing economic growth and falling commodity prices.
33. However, despite heightened uncertainty, there are also some encouraging signs. Australia's 2018-19 Budget Economic and Fiscal Outlook forecasts global growth at 3.8

⁴ "Improving Indonesia's Freight logistics a plan for action." Jakarta: The World Bank.

per cent in 2017 moving to 3.75 per cent in 2018 and 2019. This is in part due to higher forecast growth in the United States and East-Asian economies in 2017 and 2018.

34. The July 2018 IMF World Economic Outlook forecasts US economic growth of 2.9 per cent for 2018 and 2.7 per cent for 2019 (Budget 2018-19 - 2.3 per cent). Economic activity in the ASEAN 5 (Philippines, Indonesia, Malaysia, Thailand and Vietnam) has remained relatively resilient despite subdued global demand, with economic growth of 5.3 per cent in 2018 and 5.4 per cent in 2019.
35. The Indonesian economy has continued to expand, driven by private consumption and public investment, and economic growth in the Philippines and Vietnam has remained strong
36. Key uncertainties for the global outlook include the pace of growth in China, the impact of Brexit, and tighter global financial conditions. On the upside, the support to economic activity from policy stimulus in the United States and/or China could turn out to be larger than expected, which could translate to a stronger pickup of activity in their trading partners (including Australia and Indonesia). Upside risks also include higher investment if confidence in the recovery of global demand strengthens.

Indonesia's Economic Outlook

37. Despite the challenges outlined above, there are significant opportunities for greater trade, commercial and cultural links between Australia and Indonesia. Indonesia's economy has expanded strongly over recent decades. The poverty rate more than halved from 23 per cent during the Asian Financial Crisis to 10 per cent in 2018. Indonesia's Central Statistics Agency (BPS) reported growth of 5.06 per cent for the year to Q3 2017, with growth of 5.2 per cent in Q3 2017. Indonesia remains the third fastest growing economy in the G20 (behind India and China).
38. Indonesia accounts for more than a third of total ASEAN GDP. Positive growth during the global financial crisis (GFC), compared to the turbulence caused by the Asian financial crisis, illustrates a new resilience to external shocks. While there are important caveats, Indonesia's future economic outlook remains relatively upbeat out to 2030. Based on current trends, Indonesia will move from the 16th largest economy in the world to the ninth largest by 2030, and fourth largest in 2050. A PWC report (February 2017) expects average annual growth of over 6 cent per annum out to 2050, Global Insights estimate annual growth ranging from 5.1 to 6.1 per cent per annum and the US Department of Agriculture expect annual growth between 4.4 and 5 per cent.⁵
39. To fully realise its potential, Indonesia will need to continue structural reform and improve its governance and business climate. The tendency to look inward for growth, change laws unexpectedly and restrict trade to protect local industry are all areas where continued reform would bring significant long-term gains.

Growing Opportunities with a Growing Economic Power

40. Asia is predicted to be home to around two thirds of the world's middle-class by 2030, fuelling demand for resources and commodity exports from both Indonesia and Australia. Under conservative assumptions, Indonesia itself will have a consumer class of 135 million people by 2030⁶. This would support domestic consumption and represent the largest growth in consumers aside from China and India.

⁵ The forecasts come from McKinsey (2012), PWC (2017) and USDA figures from November 2016.

⁶ The consuming class is defined as individuals with an annual net income of above \$3,600 at 2005 PPP.

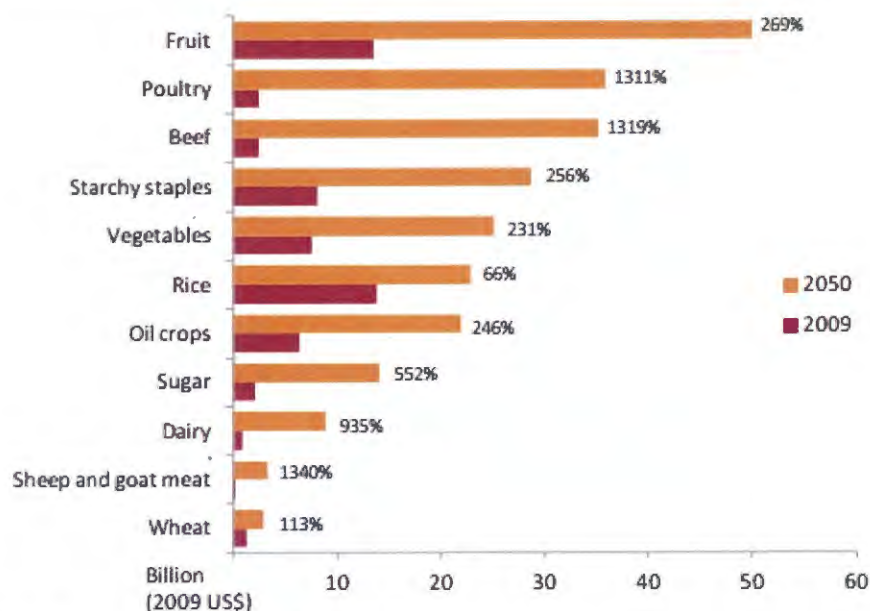
41. Indonesia's urban population could reach 63 per cent in 2030, up from 51 per cent in 2012, with much of the movement anticipated to occur outside of Jakarta. Cities with populations between 150,000 and 10 million people (such as Surabaya, Medan, Makassar and Yogyakarta) will grow faster than Jakarta and contribute more to the economy.
42. These cities are predicted to contribute around 63 per cent of GDP in 2030, compared to Jakarta's 19 per cent. Indonesia has one of the youngest demographic profiles in the world, with 53 per cent of its 257.6 million people below the age of 30. With continued population growth, around 70 per cent of the population are expected to be of working age by 2030.
43. As Indonesia's economic weight grows, and more of its people enter the consumer class, business opportunities in Indonesia will continue to grow. McKinsey (2012) estimates that Indonesia could offer private-sector business opportunities worth approximately \$1.8 trillion by 2030. As wealth grows, Indonesian investors are likely to look to countries offering stable economic returns, particularly in industries with links to their domestic economy, including, for example, food and agriculture.

Opportunities in Goods

Agriculture

44. Indonesia is an important market for Australian agriculture. This importance should increase as Indonesia's economy and middle class grow. In an analysis of Indonesia's food demand to 2050, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES 2015) anticipates that economic, population and urbanisation growth will result in a quadrupling of the value of agricultural food consumption from 2009 levels. (Figure 1)

Figure 1 Agrifood consumption in Indonesia 2009 versus 2050 forecasts



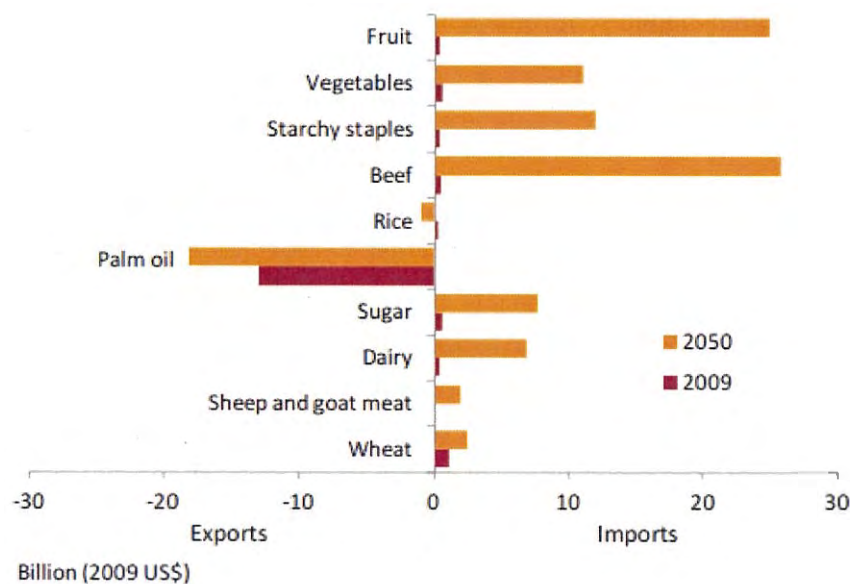
Note: Starchy staples include pulses, potatoes, yams and cassava.

Source: ABARES model output

45. While there is potential for Indonesia to increase its food production and productivity, Indonesia's domestic agricultural sector will face challenges to satisfy the country's growing food demands (Figure 2). There are opportunities for Australian agricultural

goods to supplement Indonesia's demands for quality agricultural products, and to be used as inputs for Indonesian manufactured food products.

Figure 2 Agrifood exports and imports for Indonesia: 2009 versus 2050 forecasts



Source: ABARES model output

46. There are distinct opportunities for collaboration between Australian and Indonesian agrifood business to access third markets. Australian wheat is already used as a crucial input for Indonesia's noodle production, which is then exported to the region. As the region continues to grow, these types of opportunities should expand.

Consumer goods.

47. Indonesia's rapidly expanding middle class represents opportunities for Australian exporters of consumer goods. For example, the rising demand for premium goods has boosted the growth of imported cosmetics and skin care products. Sales of imported cosmetics in 2015 reached US\$441 million and accounted for more than 60 per cent of cosmetics market share in Indonesia.

Manufacturing and specialised equipment

48. There is scope for Australian manufactured and industrial goods to be used as inputs or intermediate products in Indonesian manufacturing, which is increasingly targeting Asian markets.
49. The medical devices technology market in Indonesia is forecast to pass US\$1 billion in 2018. Around 85 per cent of the medical equipment and services market is comprised of imports. Business opportunities primarily exist in surgical equipment, high-intensity focused ultrasound, radio immunotherapy and clinical laboratory equipment used for diagnostic tests, particularly for molecular diagnostics, microbiology, and immunochemistry and genetics testing.
50. There is also scope for Australian innovations, including in the resources sector where Australian companies already supply specialised underground mining equipment.

Opportunities in Services

51. Increased services trade represents the biggest potential for growth partnerships between Indonesian and Australian businesses. There are significant synergies between the services sectors that Indonesia is prioritising for future growth and the sectors in which Australia has expertise.
52. Australia's strengths match Indonesia's priorities in agriculture, education, healthcare, mining, professional, financial and tourism services. In many of these areas Australian exports are showing signs of growth, but there is huge potential for further growth that would help lift productivity across sectors in Indonesia.

ICT, E-Commerce and Fintech

53. Indonesia's digital innovation sector is rapidly evolving, with increasing technical literacy especially among younger age groups. The rate of internet access is rapidly growing. Smartphones are the key platform, with more than 280 million SIM cards in use across the archipelago.
54. E-commerce is growing rapidly in Indonesia. Current government forecasts estimate a surge in e-commerce spending from US\$6.9 billion this in 2017 to US\$14 billion by 2020. Ecommerce is growing between 40-50 per cent annually, making Indonesia one of Asia's more attractive destinations for digital investment. There are opportunities for firms ready to bring in capital, technology and security solutions to partner with local companies to launch their own e-commerce arm.
55. Financial technology services (FinTech) continues to develop rapidly in Indonesia. Total FinTech transactions in Indonesia are estimated to reach US\$37.15 billion by 2021. The Indonesian Government has identified close to 100 local FinTech companies with the potential to help Indonesia's banks, small medium enterprises and non-banking financial institutions. The Financial Services Authority of Indonesia (OJK) has developed new guidelines to encourage greater FinTech investment in Indonesia, based on Australian templates.

Energy and Resources

56. Indonesian energy demand is predicted to grow strongly over the medium term. Population growth will put extreme pressure on Indonesia's energy infrastructure and make identifying new and unconventional energy sources increasingly important for sustaining growth.
57. The Indonesian government has already signalled it wants to see a substantial expansion of renewables and oil and gas exploration. Australian companies providing renewable and exploration services will need to continue monitoring developments in Indonesia.
58. As a major producer of thermal coal, tin, nickel and copper, Indonesia offers opportunities for Australian engineering, technology and mining services companies. Despite 2013-2015 marking a low point in the commodities cycle, Indonesia continued to attract investment and the resources and the energy sector remains a strong contributor to overall GDP.
59. Opportunities exist for providers of mining technology services who can clearly demonstrate productivity gains to Indonesian miners. Demand remains strong for mining (and to a lesser degree exploration) software, specialised and innovative equipment, education and training services and specialised mining consulting.

60. The Indonesian mining industry has suffered from considerable skills shortages, creating opportunities for training providers. Mine safety – an area of outstanding Australian capability – also looms large as a growth opportunity for Australian service providers.

Education

61. Australia remains the number one destination for Indonesian university students studying abroad and is forecast to grow at 7 per cent through to 2024. Austrade estimates that there are over 500,000 Indonesian alumni of Australian education institutions, many of whom are now in senior positions in the private and public sectors. Australia is the number one destination for Indonesians studying abroad, with an approximate 25 per cent share of internationally mobile Indonesian higher education students (UNESCO, 2014; Illuminate, 2015).
62. There are also significant opportunities for Australian institutions to partner with Indonesian industry and the education sector to build capacity, develop programs and deliver training in Indonesia. This is especially the case in the VET sector, which Indonesia has identified as a major driver of economic growth and for which it is establishing new policies and partnerships to align skills with industry needs.
63. Australia can become a key partner by supporting greater links between skills development systems, industry and employers (including Australian employers); engaging with industry to help tailor training to business needs; and developing new industry-led skills development delivery models to meet increased demand.
64. Australian institutions can also tap into opportunities in maritime (port management and safety), engineering-related training (electrical, manufacturing, automotive and mechanical), hospitality (food safety, kitchen operations), tourism (hotel management), health services (allied health and patient care) and training needs in a range of other sectors by providing training in Indonesia and Australia.

Tourism

65. Increased tourism is central to Indonesia's economic growth strategy, which is targeting 20 million visitors by 2020. In response to limited tourism development outside of Bali, the Indonesian government has nominated ten new destinations for development to increase visitation, capitalising on key strengths of price competitiveness, rich natural resources and heritage sites.
66. As a world leader in providing consulting services to grow tourism destinations and innovative attractions and experiences, there are significant opportunities for Australian companies to help develop Indonesia's new tourist areas. Australia's research, marketing, training systems and tourism planning are highly regarded internationally and can readily contribute to growth in Indonesia. There are also opportunities for Australian hotel management businesses, which have a large global footprint and access to well-developed value chains of businesses that provide high-quality products, services and skills to deliver premium visitor experiences.
67. There are significant prospects for growth in visitor numbers and spend by inbound Indonesian tourists to Australia. When choosing a holiday destination, Indonesians value safety and security, value for money, sport and cuisine, world-class nature and welcoming people. Australia performs strongly in all these categories.

Healthcare services

68. Rising affluence is increasing the demand for high-quality health care. However, as an emerging market with infrastructure constraints and a challenging geography, an increasing number of Indonesians are travelling overseas for medical treatment, spending

up to US\$1.2 billion a year. There are opportunities for Australia's world-class healthcare providers and businesses to build capacity across the Indonesian healthcare sector— from the vocational training of doctors, nurses and hospital workers to hospital administration, patient management, after-care and aged care.

69. Over the medium to long term the healthcare IT market is likely to be a major contributor to the sector's growth. Examples of key growth areas are telehealth, telemedicine, electronic medical records, and the use of healthcare mobile applications for point-of-care diagnostics, particularly in remote and rural areas.

Aviation

70. Indonesian domestic air travel is growing at over 5 per cent annually and in 15 years will be the fifth largest domestic air travel market globally. In preparation, the Indonesian government has allocated \$5.4b over the next 5 years to upgrade or build 15 airports annually. In mid-2016, Indonesian airlines had 800 new planes on order and a deficit of 2,500 pilots.
71. Indonesia's demand for international maintenance, repair and overhaul (MRO) services and training, aviation flight training and aviation engineering presents a significant opportunity for Australian business to engage in the aviation industry. Australian companies are in discussions around air traffic control management systems and airport scheduling technology.

Maritime

72. As an archipelagic nation there are significant infrastructure needs in the port sector. Planning from large port developers and operators takes in tourism needs as well as interisland and international connectivity. There are also opportunities for Australian port management capabilities and technology to be overlaid on the port infrastructure.

Global Value Chains

73. The foreign content share of Indonesia's exports is one of the lowest among major economies, partly reflecting relatively high export dependencies on agricultural, food and mining products (OECD-TiVA, December 2016). Australia's supply of products and services (particularly in manufacturing and ICT inputs) that underpin the latter suggests potential for further complementarity to access third markets.

PART 3: OBJECTIVES OF GOVERNMENT ACTION

74. The current trade and investment relationship between Australia and Indonesia could be much stronger given the growing complementarities between our economies, Indonesia's growth trajectory and the opportunities a closer partnership and economic integration would provide in accessing the dynamic Asian markets to our north. Deeper economic integration would strongly complement already close strategic, security and political engagement, and help build stronger people-to-people links.
75. Recognising the gains to be made from closer economic ties, Australia and Indonesia have been working to progressively address barriers and capitalise on opportunities through liberalising trade agreements.
76. The most significant barriers to trade with Indonesia are at the level of government regulation. Australian companies are not able to influence these barriers, so Australian Government action is required. This has been requested by a broad range of Australian businesses (see consultation section).

77. If the Australian government does not act to ensure a level playing field for Australian exporters, those businesses risk being out-competed by others whose home governments have reciprocally negotiated the lowering of trade barriers for their companies.
78. Previous government actions in this space have been successful. The Productivity Commission's 2017 report *Rising Protectionism: Challenges, threats and opportunities for Australia* notes that reductions in Australian government regulation on trade have overwhelmingly improved the quality of life enjoyed by Australians. Australia's deregulated trading environment was an important cause of our resilience in the global financial crisis. Other FTAs have been successful at convincing our trading partners to reciprocally reduce their own barriers, increasing trade and investment.
79. The objectives of government action are to secure tariff reductions on commercially significant Australian exports to Indonesia, secure increased market access in Indonesia for Australian services providers, and to build a strong foundation/framework for economic and other cooperation between Australia and Indonesia.
80. This reduction of barriers to trade will level the playing field for Australian businesses, enabling Australian exporters to compete on an equal level with exporters from other countries.
81. Constraints on government action include domestic sensitivities within Australia and Indonesia. Vested interests in Australia and Indonesia and non-competitive industries currently shielded by government regulation will resist the removal of regulations that prevent competition from imports.
82. In Australia, negative media reporting about trade has tended to focus on community fears that trade could increase migration, decrease available employment in manufacturing and prevent the government from regulating in the public interest. Concerns frequently raised in the media in Australia are addressed in the consultation section.

PART 4: ALTERNATIVE MEANS BY WHICH TO ACHIEVE THESE OBJECTIVES

No Government Action

83. No government action would mean leaving all regulations in place that currently restrict imports and inbound investment to Australia from Indonesia. This would not improve Australian companies' access to Indonesian markets, however it would not prevent them from attempting to export goods and services to Indonesia under existing WTO and AANZFTA conditions.

Unilateral Deregulation

84. The productivity commission⁷ notes 'that there is no reason why Australia could not proceed unilaterally to lower these barriers. Lowering barriers to all countries on a most favoured nation (MFN) basis would confer larger benefits than lowering them preferentially to a relative few. This is because preferential agreements can result in trade diversion, where it is the preferential treatment that makes the agreement partner country the cheaper supplier, giving them an advantage over the lower cost suppliers.
85. Past work of the Commission has highlighted how bilateral agreements have not always delivered the expected benefits or earned the broad support of the community (PC 2010).

⁷ <https://www.pc.gov.au/research/completed/rising-protectionism/rising-protectionism.pdf>

In part, this is due to long phase-in periods for tariff reductions in the most sensitive areas and the costs of navigating multiple agreements with complex rules of origin and regulations, which limit their use by businesses. Recent analysis concluded that rules of origin 'have become a pernicious barrier to trade for Australian businesses' (Crook and Gordon 2017, p. 3).'

86. While from a purely economic perspective, unilateral reductions are the easiest to achieve and require the least amount of effort, analysis by the Productivity Commission understates the benefits of FTAs and overstates the complexities in making use of them.
87. This arises due in part to Australia's trade policy not operating in a vacuum, or under conditions found in the ideal economic model, and due to Trade Agreements being written to address every product that is being exported/imported along with Services, Investment and an increasing range of contemporary issues.
88. Should Australia act unilaterally, other countries would continue to pursue bilateral or plurilateral agreements to the exclusion of Australia and Australian industries. That is, inaction itself can lead to a worsening of Australia's position over time, and short of multilateral agreement to not negotiate further trade agreements, Australia would experience a short term gain, for longer term pain.
89. The international trading environment is already distorted by existing regulations, which include:
 - a. Sanitary and phytosanitary measures;
 - b. Standards, technical regulations and conformity assessment procedures;
 - c. Tariff and non-tariff measures;
 - d. Customs procedures; and
 - e. Existing FTAs.
90. As Australia has already reduced or eliminated tariffs from its major trading partners under existing FTAs, as well as providing duty-free and quota free access to Least Developed Countries under the Generalised System of Preferences (GSP), it is likely that an additional FTA would have a negative effect on trade diversion for Australian importers. This is due to IA-CEPA allowing imports from Indonesia to compete on equal grounds to imports from many of Australia's major trading partners and Least Developed Countries.
91. An example of the benefit of is Australian sugar exporters to Indonesia who received no preferential outcome under the AANZFTA Agreement. In 2015, it was brought to the Australian Government's attention that Thai exporters would be facing an effective tariff of five per cent under the ASEAN Trade in Good Agreement while Australian exporters to Indonesia would continue to face the MFN tariff, effectively 8 per cent.
92. The Australian Sugar Industry Alliance noted that 'We[Australia] went from supplying around a third of Indonesia's sugar imports to almost nothing.'
93. As an early deliverable of the IA-CEPA negotiations and a demonstration of goodwill, Australia and Indonesia were able to make use of provisions of the AANZFTA to bring

the tariffs faced by Australian exporters of sugar in line with that of Thai exporters, with Australia eliminating the tariff on certain pesticides and herbicides.⁸

94. Had Australia not had an existing trade agreement in place, Australian sugar producers would continue to be locked out of the Indonesian market. While transactional, the specific impact on Australian sugar producers could have had major consequences for both producers and the regions they are located in.
95. When it comes to the complexities of using FTAs, IA-CEPA will build off the existing rules for AANZFTA including the Rules of Origin and document certification procedures, including improving on aspects where AANZFTA resulted in a negotiated outcome that Australia sought to improve.
96. Where a business already makes use of AANZFTA, they will already understand many of the rules of IA-CEPA.
97. Businesses are free to decide which Agreement to export their goods under, or not to make use of a FTA at all, and as such, rather than creating a noodle bowl of overlapping FTAs, an additional agreement will strengthen Australian industries ability to trade with Indonesia while minimising the tariffs and barriers they face.
98. It is important to understand that the 'noodle bowl' concept is an issue raised, not typically by individual businesses but, by those who are involved in looking at an FTA holistically such as industry associations, policy makers and academics.
99. Most small or medium enterprises export a fixed and limited number of products across a small selection of tariff lines, meaning that even in the case where they may have a choice between four or five FTAs, they will only need to learn the rules for the FTA which they wish to make use of the available tariff preferences.
100. Where larger businesses need to make use many agreements across a larger range of products these businesses tend to access the services of specialist logistics firms or in-house logistics experts that are experienced in managing the complexities involved in the international movement of goods, which involves matters beyond the trade agreements such as shipping, quarantine and standards.

Multilateral Agreement

101. There are currently no negotiations for a comprehensive multilateral trade agreement advancing in the World Trade Organization. As a result, it is not currently feasible to seek improved market access for Australian exporters through multilateral negotiations.

Plurilateral Agreement

102. The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) has been in force between Australia and Indonesia since 2012, following Indonesian ratification.
103. Australia committed under AANZFTA to eliminate all tariffs on Indonesians goods by 2020.
104. Under AANZFTA, Indonesia has bound 92 per cent of tariff lines at tariff-free treatment in 2017, which will rise to 94 per cent by 2025, with another four per cent having the tariff bound at 5 per cent or less. However, some products will still face high tariffs.

⁸ <http://www.canegrowers.com.au/page/media/media-releases/2017/tariff-news-from-jakarta-gives-aussie-sugar-a-boost>

105. AANZFTA also provides outcomes on services and a regime of investment protections.
106. In addition, AANZFTA provides a platform for economic integration with ASEAN, including through the AANZFTA Economic Cooperation Support Program, an aid-for-trade program funded by Australia and New Zealand. Parties to AANZFTA are currently conducting a General Review to ensure AANZFTA remains relevant to business. However, this review focuses on issues beyond the Australian-Indonesian bilateral relationship, and it is not certain that it would address all the issues identified.
107. In addition to negotiating the bilateral IA-CEPA, Australia and Indonesia are building on the outcomes of AANZFTA through negotiations of the plurilateral Regional Comprehensive Economic Partnership (RCEP).
108. However, plurilateral negotiations have the disadvantage that they bring the economic sensitivities of a larger range of countries, and in the case of RCEP, the Australian government cannot expedite the timing of such agreements' conclusions due to being dependent on a larger number of Parties needing to agree.
109. In addition, plurilateral agreements can sometimes end up being less ambitious than bilateral negotiations because of the need to address sensitivities between the parties, for example, in the case of RCEP, the inclusion of China, India, Japan and Korea means that for some of those countries, this will be the first trade agreement they have negotiated with each other. This also means that sometimes areas of particular interest to Australia may not be covered unless all negotiating parties are willing to discuss them.
110. While RCEP does offer prospects for reducing barriers to trade with Indonesia, the timing of this is uncertain and the number of barriers reduced will be limited by the nature of plurilateral negotiations and may not be able to target some areas of specific commercial interest for Australian companies.

Bilateral Agreement

111. A bilateral FTA with Indonesia would allow Australia to address a broad range of trade barriers that Australian businesses face when dealing with Indonesia.
112. The Australian Prime Minister and the Indonesian President have publically agreed that this option will be beneficial for both Australia and Indonesia and will support the bilateral relationship going forward.
113. Part of the negotiation process involved the establishment of the Indonesia Australia Business Partnership Group (IA-BPG) which now comprises the:
 - a. Australian Chamber of Commerce and Industry;
 - b. Kadin Indonesia (Indonesian Chamber of Commerce);
 - c. APINDO (Asosiasi Pengusaha Indonesia, the Employers' Association of Indonesia);
 - d. AiGroup;
 - e. Indonesia Australia Business Council; and the
 - f. Australia Indonesia Business Council.

114. These business organisations are strongly in support of the IA-CEPA as is outlined in a comprehensive position paper presented in 2012⁹ and updated in a submission to the IA-CEPA in 2016.¹⁰ The papers outline a vision for a strategic partnership model that recognises the complementary nature of resources and capacity between the two countries.
115. As well as securing reduced barriers to trade for Australian exporters, IA-CEPA sets up a comprehensive plan of economic cooperation between Australia and Indonesia that will lead to an improved business environment in the future.
116. IA-CEPA also provides a foundation for working together on future regulatory alignment that will lower the cost of doing business further.

Best option

117. The best option to achieve these goals is for the IA-CEPA to enter into force between Australia and Indonesia. The FTA offers the prospect of delivering outcomes across goods, services and investment that respond to contemporary challenges facing Australian business.
118. An agreement with Indonesia, which delivers commercially meaningful outcomes and uses the AANZFTA as its foundation would deliver benefits for Australian exporters and investors, and demonstrate the importance of the bilateral relationship to the broader Indo-Pacific region.
119. Consistent with Australia's other free trade agreements, remaining Australian tariffs on imports from Indonesia will be eliminated, with consumers and businesses across Australia set to benefit from lower prices.
120. The agreement is unlikely to impose major adjustment costs on any region or sector.
121. Savings related to improvements to administrative processes using the Agreement's Rules of Origin, including Certificate of Origin Procedures, are set out in **Attachment 2 – Regulatory Burden Estimate**.
122. The Obligations under IA-CEPA are set out in **Attachment 3 – Obligations in Detail**

PART 5: IMPACT ANALYSIS

Goods

123. Under AANZFTA, 98 per cent of Indonesian exports to Australia are duty free and only two per cent face tariffs; however around 30 per cent of Australian exports to Indonesia are still affected by tariffs. These tariffs are a burden on our businesses and discourage trade.
124. Under IA-CEPA, 99.9 per cent of Australian goods exports to Indonesia will enter Indonesia duty free or under significantly improved and preferential arrangements.

⁹ Indonesia-Australia Business Partnership Group (IA BPG), 31 October 2012, Position paper on considerations towards the Indonesia-Australia Comprehensive Economic Partnership Agreement, available at <<http://dfat.gov.au/trade/agreements/iacepa/Documents/ia-bpg-position-paper.pdf>>

¹⁰ IA BPG, August 2016, Two neighbours, partners in prosperity, available at <<https://www.acci.asn.au/resources/two-neighbours-partners-prosperity-indonesia-australiabusiness-partnership-group-submissi>>

125. Indonesia will offer improved and more certain access for Australia on live cattle, feed grains and horticultural products such as citrus fruits and vegetables (carrots and potatoes). As the centre of Australia's live cattle trade with Indonesia, northern Australia will be a particular beneficiary.
126. IA-CEPA will also offer better access for rolled steel coil, produced in Australia by Bluescope as a feedstock for its Indonesian manufacturing facilities.
127. Through IA-CEPA, Indonesia will lock in the lower sugar tariff that has already been implemented as a result of the 2017 agreement between then Prime Minister Turnbull and President Widodo. Indonesia will also progressively eliminate tariffs on most other products, including frozen beef and sheep meat, dairy, and a range of manufactured steel, copper, plastic, automotive parts and machinery products.

Services

128. Indonesia made limited services commitments under AANZFTA. IA-CEPA is an important opportunity to secure and improve the basis for trade in services between Indonesia and Australia.
129. IA-CEPA will improve certainty for Australian service providers in Indonesia in a range of sectors of commercial interest. Indonesia's commitments represent a significant improvement on its services commitments in AANZFTA. For example, for the first time in any FTA, Indonesia has offered commitments on a wide range of technical and vocational education, ensuring Australian providers can establish certain majority Australian-owned joint ventures in Indonesia and limiting the onerous conditions that have previously applied to the education sector. This is a significant win for Australian VET providers.
130. Indonesia has offered its best ever commitments overall on services in any FTA. These commitments would guarantee that Australian suppliers can establish majority-owned businesses with no geographic limitations, in sectors including private hospitals, tourism, telecommunications, architecture, engineering, construction, infrastructure and a range of mining and energy-related services.
131. Indonesia has offered to lock in future liberalisation for higher education, legal, postal, courier and international maritime services, guaranteeing that Australian providers would benefit from future reforms.

Investment

132. Market access outcomes for Australian investors exceed those in Indonesia's most ambitious agreements to date, with Indonesia for the first time binding meaningful levels of access for investment in key sectors, such as energy.
133. IA-CEPA will deliver important protections for Australian investors, both general protections and investor-state dispute settlement (ISDS), equivalent to and, in some instances, beyond Indonesia's most liberal agreements.
134. Investor protections, including ISDS, are necessary in the challenging Indonesian investment environment. Indonesia presents risks for foreign investors, with an uncertain regulatory climate and increasing economic nationalism. Strong disciplines in the IA-CEPA Investment Chapter, including ISDS, are important to promote and protect Australian investors and investments in Indonesia. The Indonesia-Australia Business Partnership Group called for the inclusion of ISDS in IA-CEPA in its submissions to government.

135. ISDS between Australia and Indonesia is already available under the ASEAN Australia New Zealand Free Trade Agreement (AANZFTA), but that agreement lacks the important safeguards contained in Australia's more recent FTAs.
136. The ISDS chapter in IA-CEPA includes safeguards equivalent to the best Australia has agreed to date (equivalent to our most recent concluded agreement, the Peru-Australia Free Trade Agreement), providing a better balance between the protection of investors and maintaining the government's right to regulate in the public interest.
137. In IA-CEPA, an investor's basis for challenging legitimate Australian regulatory measures is limited by carve-outs, exceptions and other protections for government policy setting. Modern procedural safeguards, such as provision for expedited preliminary objections and costs orders, are included to contain costs and deter frivolous claims. Moreover, the agreement precludes ISDS disputes from being pursued in relation to any public health measure.

Improving the Business Environment

138. In addition to traditional barriers, non-tariff issues, variable customs procedures, red tape and WTO-inconsistent import licensing arrangements are major obstacles for many Australian businesses in the Indonesian market.
139. IA-CEPA will include an innovative new program of economic cooperation. We will use the IA-CEPA economic cooperation program in key areas of mutual interest for Australia and Indonesia, such as strengthening links between Australian exporters and Indonesian processors. It will also help maximise the benefits of IA-CEPA's outcomes in key services sectors such as education, health and tourism.
140. Cooperation under IA-CEPA will strengthen prospects for IA-CEPA's implementation and support reform efforts in Indonesia, which will benefit both Indonesia and Australia. IA-CEPA includes a built-in agenda to include appropriate economic cooperation to facilitate trade and investment and secure support in the Indonesian system.
141. IA-CEPA will improve conditions for Australian exporters in a number of ways. It will guarantee import licences for a number of key products. In addition, for the first time in an Australian FTA, IA-CEPA includes a chapter on non-tariff measures. This will set up a cooperative mechanism to help deal with non-tariff barriers in the Indonesian market. IA-CEPA will also support improvements to customs procedures and provide assistance linked to Indonesia's implementation of the WTO Trade Facilitation Agreement.
142. Australia and Indonesia have agreed to a comprehensive set of domestic regulation disciplines for trade in services to help address behind-the-border barriers such as delays in processing licences and permits. These build on the rules contained in AANZFTA. Australia and Indonesia have agreed to establish a mechanism to promote professional mutual recognition arrangements between relevant bodies and to improve licencing and certification processes for professionals.
143. The Electronic Commerce Chapter reflects the increasing importance of the internet for business, including commitments to ensure service suppliers and investors can transfer information into and out of Indonesia. It will lock in Indonesia's planned liberalisation of its current data localisation requirements – an important outcome for Australian businesses in Indonesia. The Chapter builds on AANZFTA in several other ways. It also prohibits governments from requiring companies to release their software source code as a condition of importation, sale or distribution, and it contains enhanced commitments on paperless trading and electronic signatures.

144. The Competition Policy Chapter seeks to ensure that the trade and investment liberalisation achieved across IA-CEPA is not undermined by anti-competitive practices. The Chapter includes an obligation on Parties to adopt or maintain consumer protection laws to proscribe the use in trade of misleading practices, or false or misleading descriptions.
145. The Transparency Chapter promotes greater transparency in the making and implementation of laws, regulations and government decisions to facilitate predictability and ease of doing business. It requires Parties to establish or maintain impartial and independent tribunals or procedures for the review of final administrative actions. Australia already complies with the Chapter's requirements.
146. The agreement includes a skills exchange component. The Indonesia-Australia Business Partnership Group (IA-BPG) – a grouping of Australian and Indonesian business interests developed to support the negotiation of IA-CEPA – sought a reciprocal skills exchange as an early outcome of the negotiations. Over five years, the exchange will provide a total of 1500 eligible Australians and 1500 eligible Indonesians the opportunity to work in the other country for a maximum period of six months. The maximum number of participants from each country would start at 100 per year in the first year and step up by 100 per year to a maximum of 500 in the fifth year. Each rise in annual intake would be subject to the Participants' mutual approval following a review each year. The sectors available for the exchange would be limited to: financial and insurance services; mining, engineering and related technical services; and information, media and telecommunications services.
147. The skills exchange will operate under existing visa criteria and processing arrangements. It has been designed to adapt to changes in Migration Law and will be subject to regular review. It is limited to a modest number of eligible participants whose visits will be short in duration.
148. The exchanges will help build the capacity of Indonesian workers for skilled work in Indonesia. This is a key area of need in the Indonesian economy and an important component of improving the prospects of increased Australian investment in Indonesia, where a shortage of skilled labour is a significant impediment. The skills package will also help build people-to-people links and increase the Indonesia literacy of Australian businesses – leading to more export opportunities. Significantly, the inclusion of the skill exchange had been instrumental in securing major benefits for Australia under IA-CEPA. These includes significant improvements in market access for Australian exporters – particularly on agriculture and steel – as well as greater access and certainty for Australian service providers and investors, including in areas such as vocational education and training, health, tourism, telecommunications, and mining and energy services.

Supporting the Strategic Partnership

149. Indonesia is one of Australia's most important bilateral relationships. Cooperation spans political, economic, security, development, education and people to people ties. Australia and Indonesia share joint interests in supporting economic growth, safeguarding our open sea-lanes, cooperating to fight terrorism and deter transnational crime, working together to bolster a rules-based international order and celebrating both countries' diversity by building deeper community understanding of each other's societies, languages and cultures. Australia's relationship with Indonesia is central to achieving the goals set out in the 2017 Foreign Policy White Paper. The White Paper notes that

Indonesia is likely to be one of the five biggest economies in the world in purchasing power parity terms by 2030, and it is already a leader in our region, including in ASEAN.

150. In recognition of this, on 31 August 2018, Australia and Indonesia signed the Comprehensive Strategic Partnership. The Comprehensive Strategic Partnership has five pillars: Enhancing Economic and Development Partnership; Connecting People; Securing Our and the Region's Shared Interests; Maritime Cooperation; and Contributing to Indo-Pacific Stability and Prosperity. IA-CEPA will play a direct role in supporting Pillar One: Enhancing Economic and Development Partnership, but will also make important contributions to the other four pillars of the Comprehensive Strategic Partnership.
151. For example, economic cooperation under IA-CEPA will support important reforms and developments in Indonesia to drive growth and prosperity. This work will facilitate trade and provide markets for Australian goods and services, but it will also support sustainable and inclusive economic growth in Indonesia that benefits Australia and contributes to regional growth and stability. IA-CEPA has been designed to contribute to the three objectives of Australia's Aid Investment Plan: Effective Economic Institutions and Infrastructure; Human Development for a Productive Society; An Inclusive Society through Effective Governance.
152. Further, several important telecommunications cables connecting Australia to the rest of the world pass through Indonesian waters. The IA-CEPA Telecommunications Chapter includes specific obligations designed to improve the transparency and predictability of Indonesia's regulation of the installation, maintenance and repair of submarine telecommunications cables in its waters.

PART 6: TRADE IMPACT ASSESSMENT

153. The IA-CEPA will open up market opportunities for Australian exporters and investors in the region.
154. Indonesia has one of the fast growing populations in the region, already ten times the size of Australia's, and Gross Domestic Product (GDP) two-thirds the size of Australia.

Key Economic Statistics

	Australia	Indonesia
GDP – 1998 (USD million)	380.466	115.323
GDP – 2018 (USD million) ^a	1,427.77	1,005.27
GDP – 2023 (USD million) ^a	1,794.43	1,446.43
Population – 1998 (million people)	18.706	201.581
Population – 2018 (million people) ^a	25.182	265.316
Population – 2023 (million people) ^a	27.343	282.591
Gross domestic product per capita, current prices – 1998 (USD)	20,339.65	572.09
Gross domestic product per capita, current prices – 2018 ^a (USD)	56,698.10	3,788.95
Gross domestic product per capita, current prices – 2023 ^a (USD)	65,627.34	5,118.45

Table 1 - Australia's and Indonesia GDP and Population

Source: IMF WEO October 2018, CIA World Fact book

^a IMF WEO October 2018 Estimate

Australia's exports, import and two-way trade with Indonesia

155. Indonesia is Australia's 13th largest two-way trading partner, with Australia's goods exports to Indonesia being a significant component of the relationship.

156. Indonesia is Australia's 14th largest merchandise trading partner, with Indonesia being Australia's 9th largest goods export destination.

157. Indonesia is Australia's 9th largest Services trading partner, with Australia importing twice as much as it exports, driven predominately by personal travel.

		2017	2010
Exports	Goods	7.030	4.491
	Services	1.601	1.231
	Total	8.631	5.722
Imports	Goods	4.212	5,313
	Services	3.696	2.773
	Total	7.908	9.099
Two Way	Goods	11.242	11,173
	Services	5.297	4.053
	Total	16.539	15.226

Table 2 - Australia's trade with Indonesia (A\$ billion)

Source: ABS catalogues 5368.0 and 5368.0.55.004 (July 2018 data)

Impact on Goods Exports

158. Australia's merchandise exports to Indonesia were worth A\$7.03 billion in 2017, with agricultural and resources being key products.

		2012	2017
1	Wheat	1,323.99	1,364.94
2	Crude petroleum	316.29	1,318.66
3	Live animals (excluding seafood)	190.23	602.48
4	Coal	0.04	444.12
5	Sugars, molasses & honey	168.34	331.13
6	Beef, fresh chilled or frozen	119.24	283.54
7	Iron ores & concentrates	0.00	280.83
8	Cotton	240.48	219.85
9	Aluminium	295.60	180.95
10	Confidential items of trade	271.51	168.32
11	Milk, cream, whey & yoghurt	106.82	130.27
12	Zinc	59.26	114.12
13	Ferrous waste & scrap	77.61	95.52
14	Meat (excluding beef), fresh chilled or frozen	42.66	87.41
15	Fruit & nuts	30.83	76.54
16	Animal feed	34.06	71.41
17	Specialised machinery & parts	57.93	69.70
18	Pulp & waste paper	43.98	69.54
19	Pumps for liquids & parts	68.82	55.95
20	Pigments, paints & varnishes	33.70	54.86
	Other Exports	1,009.60	1,009.40
	Total Exports	4,490.97	7,029.53

Table 3- Australia's Top 20 Exports to Indonesia

159. The elimination of barriers to trade is expected to increase the volume and value of trade with Indonesia. **Attachment 4 - specific market access outcomes in detail** lists the benefits for some of the goods outcomes for goods that Indonesia already imports from Australia.

160. It is estimated that, for goods where tariffs are reduced or eliminated beyond existing Indonesia's AANZFTA commitments, some A\$923.4 million of 2015-17 average imports into Indonesia from Australia would face an average \$A23.7 million less tariffs per annum than if IA-CEPA were not to enter into force.

161. This is on top of A\$1.67 billion worth of 2015-17 imports not facing tariffs due to the existing tariff elimination under the AANZFTA agreement in 2018, which otherwise would be A\$220.0 million in duty per annum.

HS Code 2017	Description of Goods	Indonesian Imports from Australia AUD 2015-2017 Average	Average duty saved per annum 2018-2036
0102.29.90	- - - Other	\$60,698,258.33	\$1,972,693.40
0201.30.00	- Boneless	\$34,634,462.33	\$173,172.31
0202.20.00	- Other cuts with bone in	\$26,496,059.33	\$1,092,962.45
0204.41.00	- - Carcasses and half-carcasses	\$4,270,709.33	\$112,106.12
0204.42.00	- - Other cuts with bone in	\$5,615,979.67	\$231,659.16
0204.43.00	- - Boneless	\$4,002,120.67	\$165,087.48
0402.10.41	- - - In containers of a net weight of 20 kg or more	\$117,124,127.67	\$468,496.51
1701.14.00	- - Other cane sugar	\$468,773,997.67	\$13,360,058.93
7312.10.99	- - - Other	\$5,902,463.67	\$125,427.35
7312.90.00	- Other	\$2,492,605.33	\$112,167.24
7314.20.00	- Grill, netting and fencing, welded at the intersection, of wire with a maximum cross-sectional dimension of 3 mm or more and having a mesh size of 100 cm ² or more	\$13,148,150.67	\$558,796.40
7314.31.00	- - Plated or coated with zinc	\$3,062,375.67	\$145,462.84
7403.11.00	- - Cathodes and sections of cathodes	\$91,613,378.00	\$3,252,274.92
8537.20.90	- - Other	\$2,737,273.33	\$104,016.39

Table 4 - Products where more than A\$100,000 of duty is saved per annum due to IA-CEPA when compared to AANZFTA

Tariff rate quotas

162. For several tariff rate quotas (TRQs), the benefit provided by IA-CEPA is that exporters will have a known quantity allowed to be imported into Indonesia for the first time. For example, under current arrangements, Australia grains exporters are not able to export animal-feed quality wheat, sorghum and barley. IA-CEPA provides that up 500,000 tonnes of these animal-feed grains maybe imported in year one.
163. By year ten after entry into force, this will have increased to 775,664 tonnes. This is a new market opportunity that does not currently exist and provides benefits to Australian grains exporters, as well as Indonesian feed-lotters that require the certainty provided by having access to these grains in order to affordably feed the animals on their lots.
164. With a more affluent and growing population, demand for high-quality protein from poultry and beef is expected to continue to increase (see Figure 1 Agrifood consumption in Indonesia 2009 versus 2050 forecasts), making this a potentially lucrative market for Australian grain producers looking to diversify their export market opportunities.
165. Australia exported on average A\$1.2 billion or 4.3 million tonnes of these grains to Indonesia over the 2015-2017 period, taking 16.6 per cent of Australia's exports of these goods over the period. However, these grains were predominantly for human consumption.

166. From day one of the Agreement, new quota arrangements will provide certainty to exporters of the most sensitive products to Indonesia. In total, IA-CEPA contains eight TRQs. These are for:
- a. Live Cattle
 - b. Potatoes
 - c. Carrots
 - d. Oranges
 - e. Mandarins, Clementines, Wilkings and similar citrus hybrids
 - f. Lemons and Limes
 - g. Feed Grains
 - h. Hot/cold rolled steel coil
167. For example, based on recent market prices, should the TRQs be fully utilised:
- a. Live Cattle – Over the first six years, tariff savings in the order of A\$200 million on Australian exports to Indonesia worth A\$4.0 billion.
 - b. Potatoes – Over the first six years, tariff savings of A\$5.2 million dollars would be avoided on A\$48.2 million of exports.
 - c. Carrots - Over fifteen years, tariffs of A\$15.0 million dollars would be avoided in comparison to AANZFTA, and A\$21.2 million in comparison to the MFN rate, on A\$131.7 million of exports.
 - d. Mandarins - Over the first six years, tariff savings of A\$5.2 million dollars would be avoided on A\$48.2 million of exports.
168. Under the IA-CEPA, an exporter or importer who already trades under AANZFTA will understand much of the Agreement's rules of origin, and the inclusion of arrangements for authorised exporters to self-certify documentation when exporting will assist Australian exporters. This will reduce the administrative arrangements an Australian trader needs to be aware of and comply with to access IA-CEPA preferences. **Attachment 2 – Regulatory burden and cost offset estimate** sets these out in detail.

Elimination schedule for Indonesia's tariffs on imports from Australia under IA-CEPA

169. Imports from Australia into Indonesia typically face higher MFN tariffs than imports from Indonesia into Australia. The following table sets out historic data of the trade weighted tariffs faced by imports from Australia into Indonesia.

	Indonesian Imports from Australia USD - 2015	Trade Weighted Tariff – 2013 (Australia)
All Products	4,815,794,517	4.14%
Capital Goods	327,391,593	5.70%
Consumer Goods	413,088,683	5.93%
Intermediate Goods	1,305,058,912	6.15%
Raw Materials	2,770,233,338	2.49%
Maximum Duty (2017)		150.00%
% of tariff lines Duty free (2017)		12.01%

Source: World Integrated Trade System

170. Under IA-CEPA, Indonesia will eliminate tariffs on 94.5 per cent of tariff lines, covering some 78.87 per cent of recent imports from Australia.

171. Importantly, tariffs on sugar will be bound at 5 per cent, comparable with sugar tariffs faced by Indonesia's closest trading partners under the ASEAN Trade in Goods Agreement. This is particularly notable given the two sugar tariff lines are responsible for 6.66 per cent of imports.

172. Likewise, many of the gains from IA-CEPA for Australian merchandise exporters are under TRQs, with live cattle subject to a TRQ accounting for 9.27 per cent imports from Australia.

Staging category	Tariff lines			Imports from Australia 2015-17		
	No.	% of total	Cumulative (%)	A\$ million	% of total	Cumulative
MFN 0%	1,297	11.99%	11.99%	3,511	49.87%	49.87%
0% tariff in 2018	8,922	82.51%	94.50%	2,041	29.00%	78.87%
0% in 2020	10	0.09%	94.60%	283	4.02%	82.89%
0% in 2023	7	0.06%	94.66%	44	0.62%	83.52%
0% in 2025	1	0.01%	94.67%	0	0.00%	83.52%
0% in 2026	8	0.07%	94.75%	0	0.00%	83.52%
0% in 2033	3	0.03%	94.77%	0	0.01%	83.53%
TRQ	16	0.15%	94.92%	684	9.72%	93.24%
Reduced to 5% or less	96	0.89%	95.81%	471	6.69%	99.93%
Reduced from MFN rate	351	3.25%	99.06%	1	0.02%	99.95%
Exempt from commitments	95	0.88%	99.94%	3	0.05%	100.00%
Bound at MFN	7	0.06%	100.00%	0	0.00%	100.00%
Total	10,813	100.00%		7,040	100.00%	

Source: Analysis based on DFAT STARS database

Impact on Goods Imports

173. Australia's merchandise imports from Indonesia were worth A\$4.212 billion in 2017, with resources and manufactures being key products.

Table 5 - Australia's Top 20 Imports from Indonesia

		2012	2017
1	Crude petroleum	2,570.65	870.94
2	Refined petroleum	203.34	351.09
3	Wood, simply worked	175.95	200.93
4	Confidential items of trade	126.84	155.84
5	Footwear	72.23	138.26
6	Specialised machinery & parts	46.37	135.53
7	Monitors, projectors & TVs	96.45	104.59
8	Paper & paperboard	64.30	96.68
9	Other textile clothing	26.85	86.90
10	Rubber tyres, treads & tubes	125.04	83.44
11	Furniture, mattresses & cushions	69.50	82.79
12	Medicaments (incl veterinary)	19.23	74.74
13	Paper & paperboard, cut to size	39.05	69.93
14	Men's clothing (excl knitted)	26.46	61.63
15	Women's clothing (excl knitted)	23.06	60.40
16	Veneers, plywood & particle board	35.47	57.87
17	Cocoa	24.91	53.46
18	Pigments, paints & varnishes	6.29	51.33
19	Women's clothing, knitted	7.63	49.08
20	Manufactures of base metal, nes	29.37	47.25
	Other Imports	2,536.64	1,379.60
	Total Imports	6,325.64	4,212.29

174. Under IA-CEPA, Australia has committed to eliminating tariffs on all IA-CEPA originating products from entry into force of the Agreement.

175. This is consistent with Australia's other Free Trade Agreements, and should IA-CEPA enter into force in 2019, would also be faster than under AANZFTA.

176. IA-CEPA will benefit consumers by increasing the choice of goods available at lower prices. This includes tariffs of mostly 5 per cent on plastics and rubber, textiles, clothing and footwear, iron and steel, motor vehicle components and some machinery and furniture tariffs.

177. Though Australia had already eliminated tariffs for a majority of tariff lines under the AANZFTA, some increased imports and price reductions can be expected as a result of the removal of remaining tariffs, allowing Indonesian produced goods to compete with those goods that already have preferential access, either under Australia's existing FTAs or under the GSP.

178. While Australia will eliminate tariffs on a higher proportion of tariff lines, the trade weighted average as highlighted by the low trade weighted tariffs below shows that for imports from Indonesia into Australia, tariffs are not a major barrier to trade.

2015	Australian Imports from Indonesia USD - 2015	Trade Weighted Tariff – 2016 (Indonesia)
All Products	3,668,914,225	0.14%
Capital Goods	802,714,356	0.02%
Consumer Goods	1,278,701,078	0.26%
Intermediate Goods	738,977,107	0.16%
Raw Materials	758,638,343	0.00%
Maximum Duty		5.00%
% of tariff lines Duty free		47.77%

Source: World Integrated Trade System

Impact on Services

179. The IA-CEPA will contribute to the growth and diversification of Australian exports of services by liberalising barriers and providing more transparent and predictable operating conditions in Indonesia. Australian services exports to Indonesia have grown from A\$1.2 billion in 2012 to A\$1.6 billion in 2017. Australians involved in education, finance, ICT, health, transport and logistics, tourism, mining and professional services sectors all stand to benefit from this deal.
180. Australia and Indonesia have a growing relationship in services trade, with Australia exporting and importing twice the amount of services as Indonesia to the world in 2016.
181. Australian service suppliers are well positioned to take advantage of knowledge and expertise in order to expand into the growing Indonesian market.

	Australia			Indonesia		
	2006	2016	% change	2006	2016	% change
Services Imports – World (USD million)	33,268.60	56,907.28	71.1%	21,560.95	30,637.17	42.1%
Service Exports – World (USD million)	33,108.04	53,210.49	60.7%	9,149.09	24,150.87	164.0%

Source: World Integrated Trade System

182. Australia imports more services from Indonesia than it exports, driven by personal travel services, i.e. the tourism sector. In 2017-18, tourism to Indonesia was worth A\$3.392 billion, or almost 86.2 per cent of Australia's service imports.
183. Australia's main services export to Indonesia is education related personal travel services, worth A\$861 million out of A\$1.292 billion in travel services. Total services exports to Indonesia in 2017-18 were worth A\$1.609 billion.

AUSTRALIA'S SERVICES TRADE WITH INDONESIA (a)
(A\$ million)

	2013-14	2014-15	2015-16	2016-17	2017-18
Total services exports	1,479	1,425	1,495	1,721	1,609
Total services imports	3,188	3,205	3,449	3,683	3,935
Balance on services trade	-1,709	-1,780	-1,954	-1,962	-2,326
Services exports					
Manufacturing services on physical inputs owned by others	0	0	0	0	0
Maintenance & repair services nie	27	16	18	8	8
Transport services	135	123	141	184	138
Travel services	1,071	1,050	1,124	1,336	1,292
Business	42	44	40	48	37
Personal	1,029	1,006	1,083	1,288	1,255
<i>Education-related</i>	651	698	748	804	861
<i>Other</i>	378	308	336	484	394
Construction services	3	5	23	2	2
Insurance & pension services	4	4	5	4	4
Financial services	11	13	12	12	11
Intellectual property charges nie	3	1	5	5	5
Telecom. computer & information services	6	7	12	29	31
Other business services	181	158	136	122	97
Personal, cultural & recreational services	23	35	4	3	3
Government services	15	14	15	16	18
Services imports					
Manufacturing services on physical inputs owned by others	0	0	0	0	0
Maintenance & repair services nie	0	1	1	0	0
Transport services	222	206	200	224	227
Travel services	2,729	2,737	3,018	3,244	3,510
Business	127	100	101	131	118
Personal	2,602	2,638	2,916	3,113	3,392
<i>Education-related</i>	14	13	14	18	21
<i>Other</i>	2,588	2,625	2,902	3,095	3,371
Construction services	0	0	0	0	0
Insurance & pension services	3	3	3	2	2
Financial services	0	0	0	0	0
Intellectual property charges nie	0	0	0	0	0
Telecom. computer & information services	10	9	7	7	8
Other business services	101	106	84	81	54
Personal, cultural & recreational services	21	31	16	1	2
Government services	101	111	121	123	133

(a) Cells in this table may have been perturbed to protect confidentiality.

Based on ABS catalogue 5368.0.55.003.

184. Australia's current education services exports to Indonesia will assist with the future development of the nation and build long term relationships. In terms of tourism, Australia is an important destination for Indonesians with non-education personal travel growing 5.5 per cent per annum since 2012-13. Indonesia provides Australia with a young, growing market, with growing consumer demand allowing for a diversification in offerings.
185. The recognition of Australia as an important destination for study is reflected in the growing use of Student Visas, with Student Visas up from 8,224 in 2007-08 financial year to 9,104 in 2017-18.
186. While not comparable to Department of Home Affairs visa data, data from the Department of Education highlights that students coming from Indonesia have moved away from higher education towards VET based courses, making up nearly half of the commencements in 2017-18.

Visa's Granted (Department of Home Affairs)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 to 30 Septemb er 2018	10 year trend growth %
Tourist	48,583	52,912	61,586	67,423	71,219	73,900	76,571	74,845	78,645	97,963	93,671	21,099	6.34%
Business	12,823	11,046	14,119	15,892	15,837	15,309	13,563	11,241	10,758	13,224	13,076	3,192	-0.77%
Working Holiday Maker			100	98	99	176	437	288	776	1051	1562	206	46.04% ^a
Student Visa	8,224	8,681	8,729	8,088	8,211	8,060	8,862	9,178	8,810	9,323	9,104	2,889	1.05%
Temporary Resident (Skilled) Visas	1236	958	495	762	1207	1053	748	718	716	723	548	196	-4.17%
Temporary Graduate Visa	34	697	576	362	985	1,101	638	572	758	863	1,101	362	19.45%
	70,900	74,294	85,605	92,625	97,558	99,599	100,819	96,842	100,463	123,147	119,062	27,944	4.86%

^a 8 Year trend growth

Source: Department of Home Affairs <https://data.gov.au/organization/immi>

Enrolment and Commencement data for international students 2002 - 2017

Year	Enrolments						Commencements					
	Higher Education	VET	Schools	ELICOS	Non-award	Total	Higher Education	VET	Schools	ELICOS	Non-award	Total
2002	12,846	3,731	1,351	2,018	1,056	21,002	5,474	1,603	461	1,580	699	9,817
2003	12,973	3,096	1,242	2,009	1,072	20,392	5,038	1,469	441	1,539	698	9,185
2004	12,016	2,556	1,028	1,616	892	18,108	4,371	1,236	330	1,192	535	7,664
2005	10,889	2,272	787	1,442	712	16,102	3,905	1,040	192	1,131	451	6,719
2006	9,999	2,204	586	1,462	656	14,907	3,549	1,177	176	1,179	431	6,512
2007	9,240	2,765	471	1,634	701	14,811	3,428	1,548	151	1,330	465	6,922
2008	8,826	3,876	379	2,199	730	16,010	3,666	2,297	140	1,852	461	8,416
2009	9,254	5,147	329	2,257	852	17,839	3,943	2,799	130	1,800	555	9,227
2010	9,389	5,742	325	1,888	940	18,284	3,644	3,198	137	1,478	582	9,039
2011	9,331	5,684	303	1,736	787	17,841	3,640	3,489	115	1,445	416	9,105
2012	9,016	5,930	286	1,564	635	17,431	3,317	3,522	122	1,316	408	8,685
2013	8,716	5,893	264	1,598	633	17,104	3,244	3,534	108	1,347	385	8,618
2014	8,469	6,773	227	1,765	652	17,886	3,278	4,374	91	1,538	425	9,706
2015	8,469	8,190	223	1,733	644	19,259	3,333	5,320	99	1,437	389	10,578
2016	8,735	8,578	213	1,542	681	19,749	3,519	5,235	82	1,326	449	10,611
2017	9,274	8,270	228	1,358	838	19,968	3,599	4,735	87	1,095	567	10,083
2018YTD 2007 – 2017 10 year trend growth rate %	9,511 -0.51%	7,650 9.93%	206 -6.98%	965 -3.00%	796 -1.06%	19,128 2.28%	3,541 -0.68%	3,792 10.97%	75 -5.82%	755 -2.67%	489 -0.80%	8,652 3.05%

2018 YTD to September 2018.

Source: Department of Education and Training - <https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2018.aspx#Explanatory>

Investment

187. An area of importance raised by investors was that the agreement addressed various aspects of law, including Investor-State Dispute Settlement, to provide certainty that would enable businesses to make long-term investments in Indonesia.

188. Many of these investors are Australian minerals and resource companies, which already have investments in various projects in the region. The outcomes provided under an FTA, such as this, enable investors to make better-informed investment decisions by helping to minimise the sovereign risks.

Australia's Investment position with Indonesia

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Rank 2017	% share 2017	% change 2016-2017
Australia investment abroad	2,916	2,717	2,279	2,439	2,657	3,084	3,532	3,969	4,822	5,355	5,410	6,942	9,760	8,094	8,440	9,291	10,734	-	0.5	15.5
Australian direct investment abroad	519	469	594	607	926	1,396	1,875	2,089	3,068	3,319	3,642	5,075	7,500	5,308	5,553	6,226	7,541	11	1.3	21.1
Foreign investment in Australia	412	377	362	513	568	514	424	630	334	409	444	494	1,124	1,326	1,403	1,233	1,044	-	0.0	-15.3
Foreign direct investment in Australia	np	np	-6	np	np	np	np	np	np	np	np	-12	-8	13	-9	np	np	-

Source: ABS Catalogue 5352.0 - International Investment Position, Australia: Supplementary Statistics, 2017

PART 7: CONSULTATION

189. The public consultation and stakeholder engagement process on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) commenced with a joint feasibility study between Australia and Indonesia in August 2007.
190. Negotiations were launched in 2010 and reactivated in March 2016. Throughout the negotiations DFAT, in conjunction with other government agencies, has consulted widely with industry and other stakeholders in formulating our positions.
191. A list of businesses and organisations that have been consulted – through consultation events, stakeholder meetings, and phone calls – is set out in **Attachment 5 - Stakeholder Consultations**.
192. DFAT also consulted with State and Territory Governments.
193. Negotiators also benefitted from the participation of the Indonesia-Australia Business Partnership Group (IABPG), a joint business advisory body established by the parties.
194. The IA-BPG produced two reports for consideration by both Australia and Indonesia. The Australian members of the IA-BPG and the Australian stakeholders they consulted in preparing their recommendations are set out in **Attachment 6 – Indonesia-Australia Business Partnership Group (IABPG)**.
195. Stakeholders in the public consultation process appreciated the benefits of negotiating IA-CEPA and building on the foundation provided by AANZFTA. The innovative “early outcome” process that delivered a sugar tariff cut and important cooperative projects – including a detailed standards mapping project – succeeded in building momentum and business support.
196. Most stakeholders supported the government’s efforts to pursue a comprehensive trade agreement. Particular interest has been shown in reducing barriers for agriculture and steel, as well as enhancing opportunities for Australian service providers and investors in areas such as professional services, education, energy, tourism, health and transport.
197. Many were especially keen that market access gains achieved under AANZFTA could be expanded, with agricultural stakeholders particularly forceful advocates for improved market access outcomes. Representatives from a range of peak agricultural bodies, including Meat & Livestock Australia, Dairy Australia, and the National Farmers’ Federation, have been consulted throughout IA-CEPA negotiating rounds. The steel industry was strongly engaged on securing meaningful commercial outcomes.
198. Following announcement of conclusion of the IA-CEPA, the following industry comments in support of the IA-CEPA were published by DFAT:

National Farmers' Federation (Fiona Simson, President)

199. The National Farmers' Federation congratulates the Government on concluding the Indonesia-Australia Comprehensive Economic Partnership Agreement. Trade is critical to the growth of Australian agriculture and Indonesia is a vital trade partner for Australian farmers.

200. IA-CEPA locks in important new trade opportunities for our meat, grains, sugar, dairy and horticulture producers. It ensures Australian farm exports can contribute to Indonesia's economic growth by providing high quality food and fibre to Indonesian consumers. IA-CEPA creates new opportunities for Australian farmers and Indonesian processors to partner in exporting to the world.
201. The NFF applauds the Government's ongoing commitment to negotiating valuable FTAs including ChAFTA, JAEPA, KAFTA and now IA-CEPA. Opening international markets is critical to agriculture's aim to reach a production value target of \$100 billion by 2030. IA-CEPA and Australia's other FTAs lock in those trade opportunities and provide the market certainty needed to help us reach that target.

The Australian Industry Group (Innes Willox, Chief Executive)

202. Members often nominate at the border and behind the border barriers as the biggest obstacles to expanding in to the Indonesian market. The ground breaking agreement to dedicate an entire FTA Chapter to non-tariff measures, as well as streamlining the export documentation requirements, will give Australian exporters the confidence to have another look at this growing market.

Australian Chamber of Commerce and Industry

203. The Australian Chamber of Commerce and Industry has had a strong, long term interest in the completion of the Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA), and in particular our involvement with the Business Partnership Group. We are pleased that it seems that a number of the recommendations from this Group have been included in the negotiated outcomes. For example, "economic cooperation" will be a feature to support both countries to develop stronger links between supply chains and related investments that will assist to realise the opportunities embedded in the dedicated chapter areas.

Australia Indonesia Business Council (AIBC) (Phil Turtle, National President)

204. The Australia Indonesia Business Council, as the peak organisation involved with the promotion and facilitation of trade and investment between Australia and Indonesia, is delighted to see the finalisation of IA-CEPA and congratulates all involved in its formulation. The Australia-Indonesia relationship is an important yet historically underdone one, and this Agreement promises to kick-start a new era of Trade and Investment between our countries. With important outcomes delivered across a broad range of sectors, the AIBC looks forward to playing an important role in socialising IA-CEPA within the business community, ensuring the opportunities created are widely known and pursued.

Australian Services Roundtable (Jane Drake-Brockman, Chairman of the Board):

205. The Australian Services Roundtable, the peak business body for the Australian services industries, said the Australia-Indonesia Comprehensive Economic Partnership Agreement (IA-CEPA) is a stand-out success on multiple fronts and will contribute to improved services sector competitiveness in both economies. It further demonstrates the Australian government's determination to champion better deals for services, including for SMEs.
206. The FTA breaks new ground on services trade, investment, business visits and e-commerce outcomes with Australia's geographically closest fast-growing South-East Asian trading partner. Over time the deal will enable enhanced business

partnerships, greater technical inter-operability and a more seamless regulatory environment for services and data flows as the transformation to the digital economy evolves. SME exporters in both countries will benefit.

207. The deal involves market opening not only in Tourism and Education but also in Mining services, Health, Hospital and Aged Care services, in Architecture and Engineering and a range of other knowledge-intensive Business Services."

Minerals Council of Australia (Tania Constable, CEO)

208. This is a good outcome for the Australian and Indonesian resources sectors.
209. The agreement's provisions will create more scope for Australia's world-leading mining services firms to partner with Indonesian businesses in developing that country's extensive minerals and energy resources.
210. This will not only provide new export opportunities for Australia – it will also support economic growth and development in one of Australia's nearest and most important neighbours.
211. The agreement's tariff reductions for copper cathodes and steel products will improve market access for these resources-based commodities. Cheaper input costs will also boost the competitiveness of a number of Indonesia's manufacturing industries.

Specific goods-related groups

Australian Livestock Export Council (ALEC) (Simon Crean, Chairman)

212. The Australian Livestock Exporters Council (ALEC) commends and welcomes the Australian Government for the common ground and substantive outcomes achieved through the completed IA-CEPA. This is an agreement of great significance which our organisation and peer red-meat bodies have long argued for and supported.
213. The structure of the agreement to support sustainable expansion of Australian live cattle feeder and breeder export volumes out of northern Australia port gateways into the largest market of Indonesia, has many important elements under the completed free trade agreement.
214. Critically it complements Indonesia's policy goal of achieving greater security and access to protein through expanding free trade, whilst playing to Australia's strength with its large northern Australian cattle industry and established supply chain so ably equipped to support this market.
215. The collective efforts of Australian DFAT and DAWR officials during the IA-CEPA discussions and negotiations is recognised by industry, along with the former Australian Trade Minister and Prime Minister who embraced the need for closer economic ties between both nations.

Meat & Livestock Australia (Andrew McCallum, Global Manager - Trade and Market Access)

216. IA-CEPA is a most welcome addition to the suite of FTAs the Government has concluded with key trading partners. Indonesia is a customer for significant quantities of Australian live cattle, beef and offal and has a steady requirement for sheepmeat (albeit smaller volumes). IA-CEPA will not only deliver additional trade liberalisation (by building on the ASEAN-Australia-New Zealand FTA outcomes) it will also provide a framework for a more market orientated import regime. This in turn will deliver benefits for both our sector as well as the

Indonesian supply chain – including importers, retailers and foodservice operators. On behalf of the red meat and livestock industry I extend our thanks to Australia's negotiating team for their tireless effort.

Bluescope (Mark Vassella, Managing Director and CEO)

217. BlueScope is very pleased that the Australian Government has secured a high quality, comprehensive agreement with Indonesia.

218. The outcome on hot rolled coil (HRC) and cold rolled coil (CRC) steel opens up the potential to more competitively export steel products from our Port Kembla Steelworks to BlueScope's operations in Indonesia. This is a win-win for Australia and Indonesia: it will boost Australian steel exports; while also ensuring that BlueScope's operations in Indonesia, which employ over 500 Indonesians, have access to a wider range of high quality, competitively priced feedstock.

219. We congratulate the government, including the former Trade Minister The Hon Steven Ciobo, for their hard work and close liaison with industry in achieving this important outcome.

GrainGrowers (John Eastburn, Chairman)

220. GrainGrowers, representing Australian grain farmers, commends the Australian and Indonesian Governments for the progression and finalisation of IA-CEPA. IA-CEPA will cement the existing relationship between Australian and Indonesian milling wheat industries whilst allowing new trade, investment and relationships to flourish between Australia's grain industry and Indonesia's food manufacturing, stockfeed and livestock sectors.

AUSVEG (James Whiteside, Chief Executive Officer)

221. AUSVEG, representing Australia's vegetable and potato growers, welcomes the finalisation of the IA-CEPA. The efforts of the Minister for Trade, Tourism and Investment and DFAT, working together with their Indonesian counterparts to finalise negotiations, are greatly appreciated by the Australian vegetable industry. In particular, the agreement made for carrot and potato exports – two of the Australian vegetable industry's key export crops – provides a strong basis for developing sustainable trade in fresh vegetables between Australia and Indonesia.

Citrus Australia (David Daniels, Market Access Manager)

222. With the conclusion of IA-CEPA, Citrus Australia is optimistic about the outcomes from the agreement.

223. While the tariff reductions under the proposed agreement are certainly welcome, the increased certainty provided for Australian citrus in Indonesia will be even greater news.

224. This outcome will allow the Australia citrus industry to build stronger long-term business relationships with Indonesian customers, and provide better business certainty along the value-chain.

225. As a close neighbour of Australia, the Indonesian market has strong growth potential and if the current offer by Indonesia is realised, we can expect to see export volumes increasing.

226. Australian citrus complements the product grown in Indonesia, filling different market segments. We look forward to working with our customers in Indonesia to grow demand for citrus in Indonesia across the board.

Australian Dairy Industry Council (Terry Richardson: President)

227. Indonesia is a major destination for our Australian dairy exports and ranks as Australia's third largest dairy export market on value terms. Indonesia's demand for dairy is set to continue to build on the back of its increasingly affluent 260 million strong population. As Australia's nearest neighbour with strong existing ties with our dairy industry, the conclusion of IA-CEPA will enhance the naturally emerging opportunities that are presenting themselves in that key market. From this perspective the conclusion of IA-CEPA is a very welcome outcome for the Australian dairy industry. The Australian dairy industry will continue to work with Indonesian food processors to grow demand for dairy products across the Indonesian market.

Canegrowers (Paul Schembri, Chairman)

228. Improving the conditions for trade with our nearest neighbour is a great outcome for the Australian sugar industry. The change in tariff from an effective 8% to 5% puts us on a par with our competitors in that market and provides the opportunity to increase our exports to Indonesia from their present level of 350,000 tonnes to more than 1 million tonnes. Indonesia is a growing market and one which we are perfectly situated to supply with quality sugar well into the future. We look forward to a long and mutually beneficial relationship.

Specific services and investment-related groups

Austmine (Robert Trzebski, Chief Operating Officer)

229. Austmine welcomes news of the conclusion of IA-CEPA. For over 10 years now, Indonesia has consistently ranked among the top 5 export destinations for Australian exporters of Mining Equipment, Technology and Services (METS) and remains a region of future growth in the resources sector. IA-CEPA should encourage more Australian METS exports to Indonesia, to the mutual benefit of our countries.

TAFE Directors Australia (TDA) (Craig Robertson, Chief Executive Officer)

230. TAFEs in Australia look forward to working with the Indonesian Government, technical education institutes and industry to assist in developing skills programs for Indonesians. The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) supports and encourages this collaboration to help Indonesian firms lift their capability through skilled workers to enable trade with Australia and across the globe.

Sustainable Skills Ltd (Nigel Carpenter, CEO)

231. The IA-CEPA has enabled a much improved understanding of how Indonesia's workforce skills opportunity is central to Indonesia's social and economic development. Australian experience in delivering industry-based training can help Indonesia to deliver job-ready trained workers. Sustainable Skills Ltd. welcomes the significant opportunity IA-CEPA opens for world-class Australian training providers to contribute to skilling the Indonesian workforce into the future.

Engineers Australia (Angela Frawley, General Counsel)

232. Engineers Australia welcomes the opportunity to work cooperatively with Indonesia to foster mutual recognition arrangements for professional engineering qualifications and services. The IA-CEPA will be significant in supporting and building upon an existing global dialogue about trade in professional engineering services and we look forward to exploring the benefits that the agreement will provide.

Other Stakeholder Views

233. Civil society and industry groups have not been vocal in articulating any significant concerns in relation to IA-CEPA. The Australian Forest Product Association expressed concern that IA-CEPA might impact the anti-dumping regime or lower Australian standards – it will not.
234. The Australian Fair Trade and Investment Network (AFTINET) provided a submission outlining its concerns, including over transparency, ISDS, temporary movement of workers; pharmaceuticals; and government procurement (the latter two areas are not covered by IA-CEPA).
235. The Department takes all concerns raised by stakeholders seriously and works with other Departments and State Governments to ensure that, while there may be differences from the positions raised by stakeholders, these are considered as part of Australia's overall negotiating position.
236. In addition to ongoing individual stakeholder consultations with directly interested stakeholders, the Department hosts stakeholder updates biannually to provide interested organisations an opportunity to find out about the state of play of current negotiations and provide input into those negotiations. Time is made at these meetings for side discussions on particular matters that arise, as well as individual meetings with key negotiators to discuss specific matters of concern.
237. Along with consultations, there have been enquiries and reports into Australia's trading relationship with Indonesia which are set out in **Attachment 7 - Additional Reports**.
238. Engagement with stakeholders will continue after the conclusion of IA-CEPA to raise awareness of the FTA and ensure businesses and consumers take full advantage of the agreement. DFAT and Austrade run an Australia-wide outreach programme to provide practical information on how to maximise benefits from Australia's FTAs. DFAT will publish all FTA outcomes and summary factsheets on its website.
239. The Department welcomes submissions at all stages of the negotiation from individuals and organisations on the potential opportunities and impacts of a free trade agreement (FTA) with the Indonesia. Written submissions may take several forms, from a short email through to a more comprehensive analytical paper. Information on making submissions can be found at:

Website	https://dfat.gov.au/trade/agreements/not-yet-in-force/iacepa/Pages/public-submissions-to-the-indonesia-australia-comprehensive-economic-partnership-agreement-negotiations.aspx
Email	ia-cepa@dfat.gov.au
Mail	Regional Trade Agreements Division Department of Foreign Affairs and Trade RG Casey Building John McEwen Crescent Barton ACT 0221

PART 8: CONCLUSION

240. It is in Australia's interests to enter into a bilateral FTA with Indonesia, given the IA-CEPA is expected to:

- a. deliver commercially meaningful market access gains that will benefit Australian agriculture, resources, energy and manufacturing exporters, service providers, consumers and investors;
- b. secure Australian exporters' competitive position in one of the fastest growing countries in the Asia-Pacific;
- c. deliver faster and deeper market access gains than are possible through multilateral WTO negotiations;
- d. be consistent with WTO requirements for free trade agreements; and
- e. complement Australia's efforts to seek additional trade liberalisation from Indonesia through the WTO and regional mechanisms.

241. It should be noted that:

- a. the removal of tariffs on merchandise imports from Indonesia will lead to a small reduction in tariff revenue, should the Agreement enter into force in 2019 and will marginally affect the government's fiscal position. This reduction has been accounted for under AANZFTA for 2020 and subsequent years. The tariff reduction will also result in lower costs to Australian consumers; and
- b. Australia will eliminate tariffs on all originating products from entry into force of the Agreement.

PART 9: IMPLEMENTATION AND REVIEW

242. In line with Australia's treaty-making processes, once agreed, the text of the FTA will be tabled in Parliament. The Joint Standing Committee on Treaties (JSCOT) will then conduct an inquiry into the FTA and report back to Parliament.

243. Following consideration by the JSCOT, Parliament will consider any legislation or amendments to existing legislation that may be necessary to implement an agreement prior to treaty action being taken.

244. Australia will need to make the following legislative changes in order to implement the obligations in IA-CEPA.

- a. The *Customs Act 1901* and the *Customs Tariff Act 1995* and relevant customs regulations will need to be amended to incorporate the preferential tariff rates that will apply to goods imported from Indonesia under IA-CEPA.
- b. Changes will be required to the *Export Control Act 1982* to provide authority to administer a tariff rate quota on steel.
- c. A Ministerial determination will need to be made under section 140GBA of the *Migration Act 1958* to implement the IA-CEPA exemptions from labour market testing for Indonesian intra-corporate transferees and independent executives.

245. DFAT and other government agencies will use existing resources to implement the IA-CEPA.

246. There are no costs or losses of tariff revenue for Australia associated with the entry into force of IA-CEPA because Australia will have already eliminated all tariffs under AANZFTA by the time IA-CEPA enters into force.

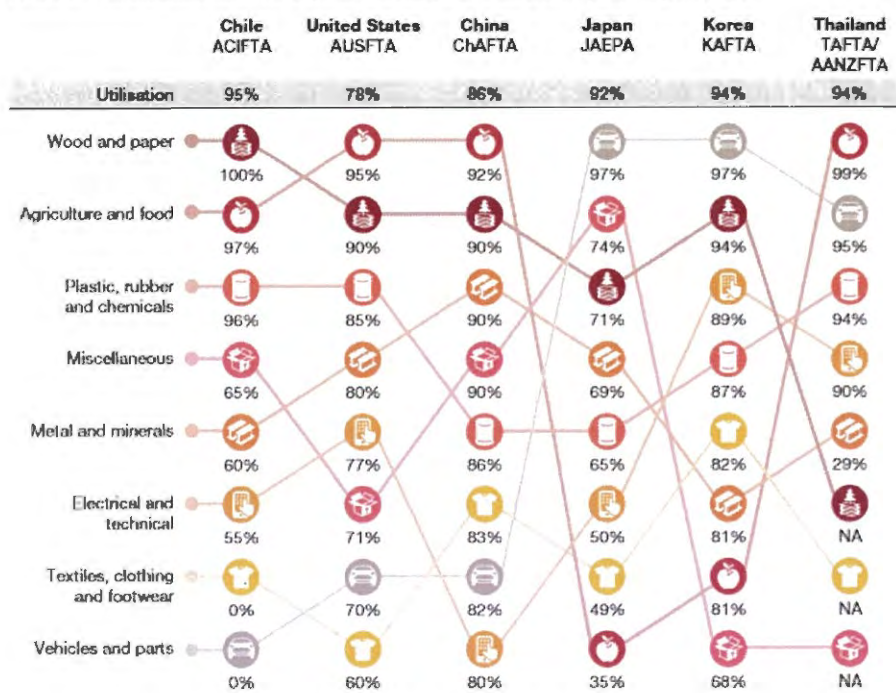
247. Australia will provide Indonesia with economic cooperation to support its implementation of IA-CEPA and to support further liberalisation efforts in Indonesia.
248. IA-CEPA is expected to enable Australian exporters to increase the value of their sales to Indonesia and contribute to economic growth in both countries.
249. The operation and effectiveness of the FTA will be addressed through working groups, Senior Officials Meetings, Ministerial Meetings and future reviews of the FTA. In advance of these meetings and any formal review, DFAT will invite submissions from the public and consult with stakeholders to identify concerns regarding the implementation of the FTA.
250. The government is committed to helping businesses, particularly SMEs, make the most of opportunities FTAs may provide for those businesses, including through:
- a. the government's FTA seminar series;
 - b. Austrade and DFAT support for the outreach of third parties, for instance by speaking at third party events, and providing materials to support third parties running their own activities;
 - c. detailed online information about FTAs, including factsheets summarising outcomes and guides for businesses;
 - d. FTA 'helpdesks' (email inboxes and a dedicated hotline) where SMEs and members of the public can contact FTA experts with specific questions or issues;
 - e. the FTA Portal, a website assisting businesses that contains easy-to-access information about the specific benefits of Australia's FTAs in both goods and services as well as trade data
 - i. the Portal has attracted over 210 000 unique users since its launch in 2015 and is attracting 2,600 users each week;
 - f. the Austrade "FTA Toolkit" designed for use by third party providers including industry associations and state and territory governments. The FTA Toolkit brings together government FTA related collateral in one online asset library, including: case study videos, guides, factsheets, and industry specific information; and
 - g. an Austrade FTA grant for member-based business organisations to deliver knowledge-based seminars and workshops.
251. The FTA seminars are delivered jointly by Austrade and DFAT, drawing on the networks of Commonwealth, State and Territory Governments, and regularly include representatives from Austrade's TradeStart network, AusIndustry, and Efic.
252. DFAT and Austrade have delivered 105 seminars since March 2015 engaging with more than 4200 business and other representatives, with 73 held in regional and 32 in metropolitan areas
253. Participants are surveyed after each seminar with responses to date indicating a high-level of satisfaction.

254. In 2017-18, 79 per cent stated all or most of their objectives were being met with a further 21 per cent agreeing some of their objectives were being met. Eighty three per cent would recommend the seminar to a peer or colleague and 88 per cent reported an increased understanding of how to use and benefit from an FTA as a result of attending a seminar.

255. The Department also has an ongoing work program with existing FTA partners to monitor the use of trade agreements. This includes through methods such as exchanging data on the use of tariff preferences in order to better understand whether the preferences granted under an agreement are being used by exporters and importers.

256. In particular, the Free Trade Agreement Utilisation Study - PricewaterhouseCoopers (PwC) Report identifies areas where FTA preferences are underutilised. This information helps identify industries or sectors where greater outreach may be required.

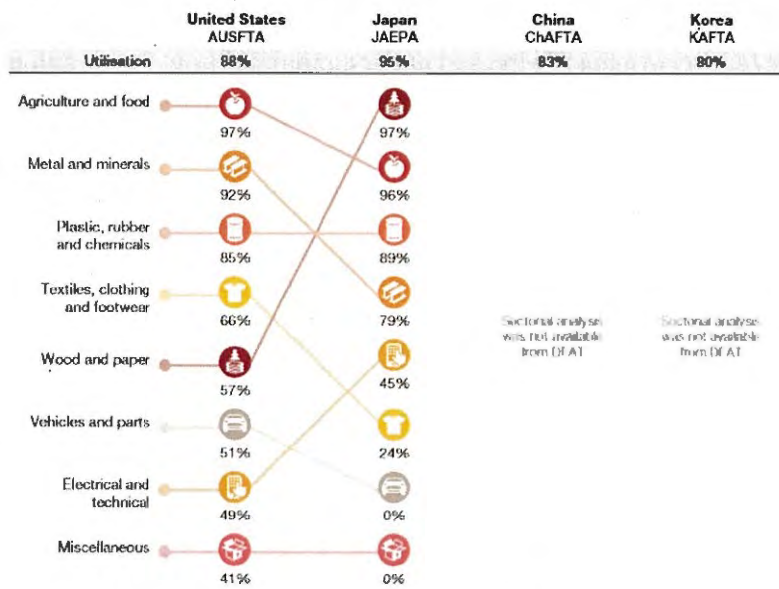
Figure 2: FTA utilisation rates for imports into Australia, total and by product group, 2016



Source: TheCredible using ABS Catalogue No. 5008.0 import (seasonal data) (downloaded from the DFAT STARS database). Data provided by IY A.

Note: Product groups ranked by FTA utilisation rate. Ranking on a scale of trade base rates differ. Where 'NA' indicates that the utilisation was not able to be calculated as the denominator of the equation is zero. This means that there are no applicable imports in that category with a MFN tariff in the category with a MFN tariff under another preference.

Figure 3: FTA utilisation rates for Australian goods imported into other countries, total and by product group, 2018



Source: PwC analysis using data provided by DFAT and the World Bank Integrated Trade Solutions, Official Statistics, Japan and the United States International Trade Commission

Note: Product groups ranked by FTA utilisation rate. Totalling all values of trade flows may differ.

<https://dfat.gov.au/about-us/publications/trade-investment/Pages/free-trade-agreement-utilisation-study-pwc-report.aspx>

ATTACHMENT 1 – 2009 REGULATORY IMPACT STATEMENT

REGULATION IMPACT STATEMENT: INDONESIA-AUSTRALIA FREE TRADE AGREEMENT

1. This Regulation Impact Statement relates to forthcoming negotiations towards an Indonesia-Australia Free Trade Agreement (IAFTA).

A. Problem Identification

2. In July 2007 Australia and Indonesia agreed to undertake a joint feasibility study on the merits of a bilateral free trade agreement (FTA). The feasibility study finds that a bilateral FTA with Indonesia would provide worthwhile benefits to Australia. The study shows that the greatest gains would be achieved under an FTA that would eliminate tariffs and non-tariff barriers to all trade between the two countries. The objective of an FTA negotiation ought to be to achieve commitments that go beyond those made in the World Trade Organization (“WTO-Plus”) and the ASEAN-Australia-New Zealand Free Trade Area (“AANZFTA-Plus”) and that aim to remove all barriers to bilateral services trade. Economic modelling undertaken by the Centre for International Economics (CIE) indicated that a bilateral FTA with Indonesia would result in gains of \$3.2 billion of GDP to Australia by 2030. The report also concluded that improved access to the Indonesian market accounts for almost all projected GDP and consumption gains for Australia and is manifestly more important than economic gains attributable to opening up the Australian economy to greater trade and investment flows from Indonesia.
3. Indonesia is an important market for Australia. Australia’s trading relationship with Indonesia was valued at \$10.3 billion in 2007, accounting for 2.3 per cent of Australia’s total trade in goods and services (2007 figures). Indonesia is Australia’s 11th largest trading partner and third largest trading partner in ASEAN. In 2007, Indonesia purchased \$3.9 billion (2.3 per cent) of Australia’s merchandise and \$896 million (1.9 per cent) of our services exports.
4. Australia has a lengthy history of investment in Indonesia, dating back to 1959. However, both countries acknowledge that bilateral investment links could be stronger. At the end of 2007, Australia’s total investment in Indonesia (including portfolio investment) was \$3.4 billion, of which direct investment amounted to \$1.8 billion, making Indonesia our 20th largest investment destination. Indonesian investment into Australia is limited, with total inward investment (including portfolio investment) amounting to \$409 million at the end of 2007, representing just over 4 per cent of total foreign investment in Australia.
5. The recently concluded AANZFTA will provide for significant reduction of tariff barriers faced by Australian exporters to Indonesia. As part of its AANZFTA commitments, Indonesia will eliminate tariffs on 93.2 per cent of tariff lines by 2025. At the end of the transition period, in 2025, 96.7 per cent of Indonesia’s tariff lines will be in the 0-5 per cent range. While only 1 per cent of tariff lines are excluded from Indonesia’s tariff commitments, this includes a range of products of trade interest to Australia, including some sheep meat and frozen beef lines, wine, rice, maize and sugar. For a range of other products of trade interest to Australia, Indonesia is reducing but not eliminating tariffs, including some on live cattle, certain categories of sheep meat, frozen pork, processed seafood, some dairy products, some fresh and processed fruit and vegetables, some motor vehicles, and some iron and steel lines. For a third group of products of trade interest to Australia, including motor vehicles and some automotive parts lines, tariffs are being eliminated but not within commercially relevant timeframes.

6. Despite a significant reduction in tariffs through commitments made by Indonesia under AANZFTA, the treatment of about US\$91 million (or 3.5 per cent) of Australian agricultural exports to Indonesia (2005) will not change after AANZFTA enters into force, specifically sugar, rice, wine and some meat products. A bilateral FTA would provide an opportunity to seek tariff elimination for agricultural exports, which have been excluded from Indonesia's AANZFTA commitments. (sugar, rice, wine and some meat products). Where tariffs have either not been eliminated or the rate of removal is gradual, a bilateral FTA could seek to accelerate or improve on tariff commitments made under AANZFTA, specifically in turnips, mandarins, some livestock and meat products and dairy products.
7. An ambitious FTA could create opportunities for Australia in a wide range of manufactures, notably US\$78 million worth of industrial products (3.1 per cent of Indonesia's 2005 imports from Australia), US\$20.5 million worth of refined copper cathodes and sections of cathodes, Australian oil products, exports of iron and steel products and plastic products, including tubes and pipes, floor coverings and stoppers, worth US\$ 4.4 million in 2005, which have either been excluded under AANZFTA or the tariff reduction timeframe is not commercially realistic.
8. There is also considerable scope for improved outcomes to be achieved in a bilateral FTA regarding automotives. Under AANZFTA, Indonesia's commitments on motor vehicles do not provide for elimination until 2014 (for larger engine cars), 2019 (for smaller and medium engine cars) and 2013 for a range of tariff lines in the automotive parts sector. Given the complementarities between Australia and Indonesia in this sector, eliminating tariffs would benefit both countries.
9. Indonesia's services commitments under AANZFTA, like its WTO commitments, are relatively modest and maintain numerous restrictive reservations in its market access and national treatment commitments on services, including on foreign equity and nationality. Under a bilateral FTA, Indonesia could commit to reform or eliminate some of these impediments to Australian exporters. For example, Indonesia has relatively restrictive rules governing legal, accountancy and architecture services, as well as education, telecommunications and construction.
10. In 2007, Indonesia introduced new investment legislation extending national treatment to foreigners and a negative investment list that liberalises equity requirements in a number of sectors. Likewise, a new mining law was passed in late 2008, the commercial significance of this, however, remains unclear until the implementing legislation is passed. AANZFTA provides for post-establishment treatment of foreign investors and investment and provides for a work program to develop investment and market access schedules, covering national treatment issues such as pre-establishment foreign equity limits. The impact of a bilateral FTA on investment will depend not only on the degree of reform undertaken by Indonesia (via the elimination of existing impediments to foreign investment), but also on the degree to which reforms undertaken by Indonesia are made subject to new binding commitments under a bilateral FTA.

B. Objectives

11. Australia's broad negotiating objectives in IAFTA are to:
 - a. Achieve a comprehensive and genuinely liberalising FTA that is supportive of the multilateral trading system;
 - b. Deliver improved market access for Australian exporters of goods and services and investors to the Indonesian market that provides commercial benefits and a platform for securing continuing trade and investment liberalisation in the future;
 - c. Seek more transparent and predictable conditions for Australian traders, service suppliers and investors in Indonesia; and

- d. Position Australia to strengthen our strategic engagement with Indonesia
- e. Maintain competitiveness as Indonesia does FTAs with other trading partners.

C. Options

12. Australia has a number of options for addressing the market access problems identified in Section A above – through multilateral, bilateral and regional negotiations.

Multilateral

13. The Government's highest trade priority remains achieving a successful conclusion to the WTO Doha Round of multilateral trade negotiations. This is because the WTO negotiations offer the greatest opportunity to reduce barriers to trade and for Australia to increase access to overseas markets across agriculture, industrial products and services. Further liberalisation of trade through the conclusion of the Round will be key to stimulating growth in the global economy. Since it was launched in 2001 the Round has made important progress, particularly at the WTO Ministerial Meeting in July 2008.

Regional

14. Australia has continued to promote trade liberalisation at the regional level through the AANZFTA and the Asia-Pacific Economic Cooperation (APEC). In November 2008, the Minister for Trade, the Hon Simon Crean, MP, announced that Australia would participate in negotiations for a Trans-Pacific Partnership Agreement (TPP), expanding on the existing Trans-Pacific Strategic Economic Partnership Agreement (between Brunei, Chile, New Zealand and Singapore). Initial parties to the TPP negotiations are likely to comprise Brunei, Chile, New Zealand, Singapore, Australia, the United States, Peru and Vietnam.
15. The AANZFTA is the first time Australia has negotiated a plurilateral FTA, a key objective of which was to ensure that Australia maintains access to ASEAN markets at least as good as that provided to ASEAN's other FTA partners.

Bilateral

16. The global spread of FTAs gained pace in the mid-1990s and accelerated following the failure of the Seattle WTO Ministerial Meeting in 1999. Australia was part of this trend in seeking to conclude FTAs where these offered the prospect of delivering significant benefits more quickly than might be possible through a WTO round. Since 2003, Australia has concluded bilateral FTAs with Singapore, Thailand, the United States, and Chile. Australia also has FTA negotiations underway with China, the Gulf Cooperation Council, Japan, Korea and Malaysia. In addition, a joint FTA feasibility study has been finalised with Indonesia and a study is underway with India. ASEAN member countries too have substantial FTA negotiating agendas, with Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, all having completed bilateral FTAs.
17. Indonesia has concluded FTAs with...

D. Impact Analysis

18. A wide range of stakeholders identified an interest in IAFTA during a call for public submissions prior to the launch of negotiations. These stakeholders included groups and individuals from the agricultural sector, the manufacturing sector, the services sector, trade unions, employer organisations, state governments and public interest groups.
19. The IAFTA, once implemented, could be expected to have impacts on a number of these stakeholders. There is considerable potential for the IAFTA to create new trading opportunities and contribute to boosting Australia's investment relationship with Indonesia

1.

Compliance costs

20. The main area of additional costs for exporters associated with the AANZFTA would be in relation to complying with the rules of origin provisions required to claim preferential tariff treatment, including obtaining certificates of origin. These costs would be most relevant to the Australian manufacturing sector, due to its use of imported components and parts, but should not be significant.

Trade Unions

21. One of the main concerns of trade unions, as highlighted in the public submission process... while noting a reduction in Australian tariffs, including the higher tariffs in the textile, clothing and footwear (TCF) and passenger motor vehicle (PMV) sectors. The main adjustment costs for Australian industry are likely to be in these areas.

Industry Groups

22. Industry groups were broadly in favour of negotiating IAFTA, provided the agreement was comprehensive in nature and delivered clear benefits to Australian industries. As discussed in the analysis above, liberalisation will occur across a broad range of tariff lines in all sectors – including agriculture and manufacturing – and will create substantial new market access opportunities for Australian exporters of goods and services.

State governments

2. Australia's state governments identified themselves as stakeholders in the negotiation of the IAFTA. The nature of the issues raised by state governments related to...

Public interest groups

23. The IAFTA is likely to have a positive impact on Australian consumers. There should be increased benefit for consumers as falling Australian tariffs provide greater choice across many product lines, including in TCF and PMV. IAFTA provisions on services should also see increased choice in service providers.

Small business

24. The overall impact of IAFTA on small business is likely to be positive. Many of the sectors which are expected to benefit from the FTA contain a significant number of small businesses. These include the dairy sector, beverages, construction, and a range of services industries where barriers to entry are high.
25. In addition, provisions designed to ensure transparency, consistency, and predictability, in the application of customs laws and regulations would increase certainty and also reduce costs for small businesses.

Federal Government

26. The main impact of AANZFTA on the Federal Government will be the loss of tariff revenue. The Treasury has estimated that...

E. Consultations

27. Public submissions were sought prior to the commencement of the AANZFTA negotiations and around xx written submissions were received, including from the South Australian, Victorian and Western Australian governments. Submissions from these governments recognised the potential benefits of an FTA between Australia and Indonesia, and agreed on the need to negotiate a comprehensive, high quality agreement.
28. During the negotiation of IAFTA, DFAT officials will held regular consultations with relevant Commonwealth agencies, state and territory governments and other stakeholders, including industry, unions and public interest groups, to ensure that their views informed development of the Government's negotiating strategy.

29. Commonwealth agencies will be consulted via regular inter-departmental committee meetings and participation of relevant agencies in the Australian delegation to negotiating sessions.
30. State and territory governments will be consulted through regular senior State and Territory Trade Officials Group (STOG) and Commonwealth-States Standing Committee on Treaties (SCOT) meetings, teleconferences and regular visits by the AANZFTA negotiators to state and territory capitals.
31. Consultations with industry will be substantial with DFAT...

F. Recommended Option

32. On balance, it is in Australia's interests to enter into an FTA with Indonesia, given the Agreement will:
 - a. deliver significant market access commitments that provide benefits to Australian producers, exporters, consumers and investors and a platform for securing continuing trade and investment liberalisation in the future;
 - b. deliver these market access gains in a faster timeframe than appears possible through the WTO Doha Round;
 - c. achieve sufficiently comprehensive and reform-oriented WTO-plus commitments to ensure that the IAFTA is consistent with WTO obligations;
 - d. impose small adjustment costs that would be outweighed by the overall economic gains to the Australian economy; and
 - e. not detract from our ability to continue to negotiate trade liberalisation in other fora – WTO, regional or bilateral.