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Committee Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House, Canberra ACT 2600
via email: jsct@aph.gov.au

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Dear Committee Secretariat

Re: Submission to the Joint Standing Committee on Treaties inquiry to the Indonesia-Australia Comprehensive Economic Partnership Agreement

AEGIC welcomes the opportunity to make this submission to the Joint Standing Committee on Treaties' inquiry into the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). AEGIC recommends ratification and immediate implementation of IA-CEPA. Indonesia represents an important trade priority for the Australian grains industry.

Australian Export Grain Innovation Centre (AEGIC)

AEGIC is an independent, not-for-profit company established in 2012 to increase value in the Australian grains industry. AEGIC is an investment of the Australian Government through the Grains Research and Development Corporation, and the Western Australian Government. AEGIC has offices, laboratories, milling and baking facilities in Perth and Sydney.

AEGIC increases value in the Australian grains industry by:

- securing current market share by supporting international customers so they can optimise the value of using Australian grain;
- identifying new markets and future opportunities for Australian grain;
- identifying the grain quality requirements of millers, processors, maltsters and brewers to ensure Australian grains meets their needs; and
- innovating to develop new products and opportunities for Australian grain.

AEGIC works to increase value to Australia's 23,000 grain growers. On average Australia produces 45 million tonnes of grain with a farm gate value of \$14 billion. Producing food staples, beverages and fuels from this grain, generates a further \$30 billion. Increasing the value of our \$44 billion grains sector has benefits across the Australian economy.

Indonesian Wheat Market

Indonesia is Australia's largest wheat market. From 2013 to 2018 our wheat exports to Indonesia averaged 4.2 million tonnes per year. This accounts for around 17 per cent of total Australian wheat production, and 23 per cent of exports generating export revenue of \$1.2billion. The demand for

Australian wheat has been driven by supply proximity, the quality of our wheat for noodle production and the processing efficiency of our wheat.

The grains sector represents a cornerstone of the Australia – Indonesia relationship. It not only represents the largest trade of goods to Indonesia; it has also spurred investment into Indonesia's milling and food processing sectors. This investment has created jobs and contributed to export goals for both countries.

AEGIC predicts total Indonesian wheat imports will grow from 9.4mmt, in 2018, to 14.4mmt by 2030. It is vitally important that Australia retains its share of value in the Indonesian wheat market.

Over the last five years imports of wheat from low cost suppliers (Russia, Black Sea and Argentina) have increased to Indonesia. Due to the impact of the 2018 drought in Australia, export of wheat to Indonesia is likely to be less than one million tonnes this year. This represents a dramatic loss of market share and is a direct loss of over \$900 million in export earnings. In 2019, Indonesia has significantly increased its use of lower quality, cheaper wheat to replace Australian supply. This situation is likely to be repeated in 2020 due to continuing drought conditions on the east coast.

Australia must recover the Indonesian market quickly once we have sufficient stock. While prices will be a key determinate of sales, strong relationships supported by good trade policy is vital. It has never been more important for Australia to reach a trade agreement that includes grain and grain products with Indonesia. Business to business and people to people relationships become extremely important when supply is under stress due to factors such as drought. Building enduring relationships through the Australia Indonesia Grains Partnership will have significant benefits for Australia's future trade. This relationship also benefits Indonesia's food security due to the proximity of our supply.

Indonesian Feed Market

In addition to Indonesia's requirement for milling wheat, AEGIC forecasts strong future demand for feed grain. Indonesia is currently consuming over 20 million tonnes of feed grain per annum, with poultry accounting for 87% of use. As meat consumption rises with increasing incomes and urbanisation, the demand for feed grain will rise rapidly. Currently Indonesians consume 7kg of chicken per capita. In contrast, chicken consumption in Malaysia is at 46.5kg per capita. If Indonesia rises to half Malaysia's per capita consumption, demand for feed is likely to exceed 60 million tonnes.

IA-CEPA creates the opportunity for Australia to become part of Indonesia's feed solution by opening the market to 500,000 tonnes of feed wheat, barley or sorghum. This will add another \$125 million to our export earnings and establish a new potential market for our barley and sorghum supply. Under the IA-CEPA this supply opportunity rises at 5% per annum. This creates an opportunity for Australia to become a more significant supplier in the future.

Australia Indonesia Grains Partnership

IA-CEPA provides a critical platform for the development of the Australia Indonesia Grains Partnership. This partnership aims to grow future economic cooperation through technical leadership programs, academic research and study, and vocational training for the milling and feed industries. It will provide support for growth of these industries in Indonesia and build enduring relationships with Australian counterparts. This government and industry partnership will:

- reinforce Australia's traditional position as the single largest supplier of milling wheat to Indonesia;
- allow new trade and investment; and
- bolster relationships between Australia's grain industry and Indonesia's food manufacturing, stockfeed and livestock sectors.

This partnership is extremely important for Australia to rebuild its position as a key supplier off the back of Australia's recent drought.

AEGIC Activities in Indonesia

AEGIC, in partnership with Austrade, has been working hard in Indonesia. We have been engaging the market in the value opportunity Australian grain provides, providing technical support and developing detailed knowledge of the market.

AEGIC has produced several Consumer Demand reports including:

- The Indonesian Wheat Market – its strategic importance to Australia (Appendix 1);
- The Indonesian Noodle Market – its importance to Australian wheat markets (Appendix 2);
- The Indonesian Bread Market-its importance to Australian wheat markets (due for release in September 2019); and
- The Indonesian Feed Market-its importance to Australia grain markets (in planning).

In the last three years, AEGIC has delivered in-market workshops, seminars and training. These include:

- six technical workshops covering baking and noodle technology, ingredients and new product innovation (over 270 participants);
- feed seminars covering the use of barley for chicken nutrition;
- technical exchanges with flour mills to better understand Indonesian soft wheat requirements for production of biscuits and cakes; and
- a new on-line training program providing training for flour milling staff.

Whilst this work has been extremely valuable, more effort is required over the next five years to address the significant loss of market share and value that commenced this year. We need to build stronger relationships with current and future leaders across the flour milling and feed sectors. The proposed Australia Indonesia Grains Partnership that may flow from the trade agreement, will be vital in building skills in Indonesia and creating enduring leadership linkages that will help secure future grain trade.

AEGIC congratulates the government for the progress on the IA-CEPA and fully supports ratification of the agreement. Furthermore, we believe an effectively funded Australian Indonesian Grain Partnership is vital to ensuring Australia maximises the benefit from this agreement.

Yours sincerely,

Richard Simonaitis
Chief Executive Officer