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Committee Secretariat
Joint Standing Committee on Trade & Investment Growth
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Inquiry into Australia's trade and investment relationship with Indonesia

This submission has been compiled by Meat & Livestock Australia (MLA) on behalf of the Australian red meat and livestock industry peak councils¹, in response to the Joint Standing Committee's inquiry into Australia's trade and investment relationship with Indonesia.

Indonesia has the 4th largest population in the world with the forecast number of households earning over US\$15000 p.a. (7 million in 2016) forecast to almost triple by 2020. With the majority of the population being Muslim, seafood, chicken and beef are the primary meats consumed – supplemented with a small quantity of sheepmeat. Coupled with strong economic growth, there is tremendous potential for Australian red meat (specifically beef) from both boxed and live sources - providing a range of trade facilitation initiatives are implemented in this highly price sensitive market.

The trade environment

An aspiration of both Indonesia and Australia is for closer economic and trade relationships to develop. Both countries, however, have placed different emphases on approaches to achieve this common goal. On the one hand Australia has focussed on greater trade opportunities and the need to reduce trade barriers. Indonesia, however, has focussed on the need for self-sufficiency and improved price stability, particularly in the food sector.

These differing approaches have caused frustration and market disruption in the boxed beef and live cattle trade between Australia and Indonesia. The Indonesian Government's expressed goal for self-sufficiency in beef has been accompanied by seeking Australian investment in the Indonesian domestic beef market. It has also resulted in restrictions on both boxed beef and live cattle imports from Australia via the control of import permits and the application of other non-tariff barriers to trade.

It is unlikely that the different lines of emphasis will ever disappear entirely, and over recent years there has, unfortunately, been only relatively minor convergence on how the trade should operate – despite the enhanced dialogue with Indonesian authorities, strong alliances amongst supply chain partners (which has seen the Indonesian industry implement enhanced post sale / arrival conditions for Australian live cattle), and improved cooperation – driven via an Australian Government funded food (beef) security partnership.

Australia's current red meat and livestock trade to Indonesia

Despite the at times opaque trading environment and constantly changing import policy regime, Australia has been one of the largest suppliers of agricultural commodities to Indonesia. The market demands significant quantities of Australian live cattle, beef and offal. During 2016, Australia exported 609,985 head of live cattle (representing 54% of total live cattle exports); 61,676 tonnes of chilled / frozen beef (6% of Australia's total beef exports); 1,290 tonnes of mutton; 1,011 tonnes of lamb; and 18,155 tonnes of offal to Indonesia.

¹ Red Meat Advisory Council, Australian Livestock Exporters' Council; Australian Lot Feeders' Association; Australian Meat Industry Council; Cattle Council of Australia; Sheepmeat Council of Australia

Whilst Australia has traditionally been a dominant supplier of Indonesia's beef import requirement, the Indonesian market is becoming increasingly competitive, with imports now permitted from countries which are now free (on a zonal basis) from foot and mouth disease. This has provided the opportunity for product to be sourced from Brazil (beef) and India (buffalo meat) – both lower cost suppliers compared to Australia.

Indian buffalo meat in particular is capturing increased market share in the wet market, retail and manufacturing beef sectors - with 110,000 tonnes expected to be imported (tariff-free) between September 2016 and June 2017 (59,000 tonnes entering Indonesia to the end of January 2017).

This increased competition has seen the Australian industry focus on the need to remove as many of the costs associated with the import regime – whether they are in the form of tariffs or other impediments which detrimentally impact the trade.

Import tariffs

Fortunately, the majority of import tariffs applied to the aforementioned trade volumes are being eliminated under the existing ASEAN-Australia-New Zealand Free Trade Agreement – which will alleviate at least this trade impediment. That said, there are a few tariff lines remaining to be addressed - and these must be a priority under the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) and / or the concurrent Regional Comprehensive Economic Partnership (RCEP) negotiations.

Under IA- CEPA and / or RCEP, all import tariffs should be either reaffirmed as zero or eliminated within an agreed and limited timeframe, upon implementation of any agreement. This must include all tariff lines applicable to livestock, red meat and associated co-products as described in various forms under Chapters 1, 2, 5, 15, 16 and 41 of the Harmonised Tariff Schedule. Current tariffs include: 5% on live cattle; 5% on frozen bone-in beef; 5% on frozen sheepmeat and goatmeat; and 5% on some frozen offal items.

The establishment of a closer economic partnership with Indonesia will assist in enabling the Australian red meat and livestock industry to respond to the growing consumer demand for quality product at a more competitive price. This will also be of direct benefit to Indonesian consumers.

Non-tariff barriers

As indicated, numerous non-tariff barriers (NTB) have, and continue to, impact Australia's supply of boxed beef and live cattle to Indonesia.

Encouraging during 2016, Indonesia issued a new Decree regarding meat imports - which liberalised the previously restricted trade for offal and secondary beef cuts, as well as removing state-owned enterprise trading restrictions and facilitating more liberal local distribution. Key amongst those changes were the inclusion of heart, tongue, feet, liver and lungs along with secondary and manufacturing cuts as eligible imports. Imported product can also now be distributed through local wet markets (previously prevented) providing appropriate cold chain infrastructure is in place.

This reform of previous trade restrictive barriers was brought about by on-going representation and dialogue between the Australian and Indonesia Governments – supported by commercial entities in both countries. It was also aided by a World Trade Organisation dispute led by the United States and New Zealand – with Australia as a third party.

These most welcome improvements to Indonesia's import regime are helping facilitate new trade flows. However a number of NTBs remain including:

- Trade restrictive weight limits on live feeder cattle imports - with a current average maximum weight limit of 350kg per consignment (although this may be increased to 450kg if a new decree is introduced). Ideally, the Australian live export industry seeks removal of an upper weight limit which would broaden supply options, reduce cattle purchase price and likely lower the cost of beef for Indonesian consumers.

- In the past there has been a quantitative restriction on the number of live cattle import permits issued which has made planning of Australian consignments problematic. Fortunately, permit administration procedures have been recently 'streamlined', and currently there is no cap (quota) on import permits.
- While permits can be issued at anytime, they are only valid for 4 months. It would be preferable for trade certainty, shipping and cattle supply purposes, if permits were issued on an annual basis – a beneficial reform, currently under consideration.
- An additional requirement, in line with Indonesia's self-sufficiency objective is that live cattle importers are required to purchase 1 breeder for every 5 feeder cattle destined for feedlots and 1 breeder for every 10 feeder cattle destined for small farm holders. This is despite the market generally requiring solely feeder cattle.
- There is also a prerequisite for all live cattle to be prepared within a registered premises approved by Indonesian authorities. This can have impacts on capacity if there are delays in updating the Indonesian approved premises list.
- Similar to live cattle, beef/offal import permits have also been 'managed' - with import volumes being adjusted on an ad-hoc basis – which again adversely impacts the Australian industry's demand response and thus commercial consignment arrangements. The Australian meat export industry seeks streamlined and transparent import permit administration procedures (including clear and transparent allocation practices), certainty surrounding the validity of the permits and ensuring there is no cap (quota) on the number released.
- There is currently no agreed certification for the import of Australian rendered edible animal fats and oils, including tallow, into Indonesia.

An ongoing partnership between the Australian Government and industry, in-conjunction with Indonesian officials and Indonesian supply chain participants, will be essential in further reducing the impact of and ideally removing these NTBs.

Certification of Australian Meat Export Establishments

Indonesia stipulates that Australian abattoirs / meat processing operations seeking to export to the market must be approved via a state-based Halal certification protocol. This arrangement, whilst acknowledged as a requirement when servicing Indonesia, has the potential to add costs and has previously disrupted trade - and should ideally be re-configured on a national basis. Ongoing confidence in Australia's certification and Halal programs (the Australian Government Authorised Halal Program) by Indonesian authorities, to ensure unimpeded access, is essential.

Livestock Protocols

While the current veterinary protocols with Indonesia for live cattle imports facilitate trade, onerous animal health requirements remain unresolved within the breeding cattle protocols. Sheep and goat protocols also need to be agreed to facilitate trade.

A more conducive consultative environment is required to address these issues and avoid the introduction of any detrimental changes which could lead to trade barriers.

Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector

The Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector (the 'Partnership') provides a bilateral mechanism to further cooperation between Australia and Indonesia – by bringing together government and relevant stakeholders associated with the red meat and cattle sector.

Originally conceived by the Australian red meat and livestock industry, it is now facilitated by the Australian Department of Agriculture and Water Resources (DAWR). The purpose of the Partnership is to synergize Australian and Indonesian strengths and potentials in order to develop the Indonesian cattle sector and improve prospects for long term investment and trade between Indonesia and Australia.

The partnership has endorsed funding (provided by DAWR) for cooperation activities, with a focus on cattle breeding, meat processing, logistics and skills development.

This partnership is an example of a mutually beneficial economic cooperation program which should be used to support momentum in the IA-CEPA negotiations and demonstrate the benefits of a closer economic relationship between Australia and Indonesia.

Consultation with industry representatives

As Indonesia is likely to remain a very price sensitive and hence highly competitive market, capitalising on Indonesia's potential as a growth destination for both Australian boxed beef and live cattle will be partly determined by the complexity of the import regime.

Assessing a construct for enhancing trading relations with Indonesia, will necessitate additional insights on the commercial opportunities and challenges - which have only briefly been outlined by this submission. As such, Australian industry representatives would welcome more in-depth interaction with Committee members in due course.

Desired outcome

The Australian red meat and livestock industry urges the Committee, via the inquiry process, to help drive enhancements to the existing trade relationship between Australia and Indonesia.

Assisting with the establishment of a new vision on how Government and industry should partner more effectively with Indonesia, will not only facilitate improved bilateral interaction, but will be extremely beneficial in deepening and strengthening commercial linkages.

Industry contact

For additional information in relation to the red meat and livestock industry's position on Australia's trade with Indonesia, please contact:

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