



Submission No 88

Inquiry into Australia's Relations with Indonesia

Organisation: Department of Agriculture Fisheries and Forestry
Australia (AFFA)

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Department of
**AGRICULTURE
FISHERIES &
FORESTRY -
AUSTRALIA**

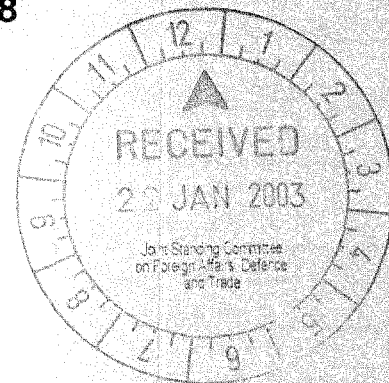


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SECRETARY

Submission 88



Mr Cliff Lawson
Secretary
Foreign Affairs Sub-Committee
Joint Standing Committee on Foreign Affairs Defence and Trade
Parliament House
CANBERRA ACT 2601

Dear Mr Lawson

Further to my interim response to your letter of 5 September 2002 inviting Agriculture Fisheries and Forestry – Australia (AFFA) to prepare a submission to the inquiry of the Foreign Affairs Sub-Committee (FASC) of the Joint Standing Committee on Foreign Affairs Defence and Trade (JSCFADT) into Australia's relations with Indonesia, I am pleased to provide the attached submission which details the extent of the bilateral relationship in the agriculture fisheries and forestry sectors.

Yours sincerely

Michael J Taylor
SECRETARY

20 January 2003



Department of
AGRICULTURE
FISHERIES &
FORESTRY -
AUSTRALIA



Submission

by

The Department of Agriculture Fisheries & Forestry – Australia

to the

Inquiry Into Australia's Relations With Indonesia

by the

**Joint Standing Committee on Foreign Affairs Defence and
Trade**

Foreign Affairs Sub-Committee

November 2002

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1. Current Portfolio Interests

Overview

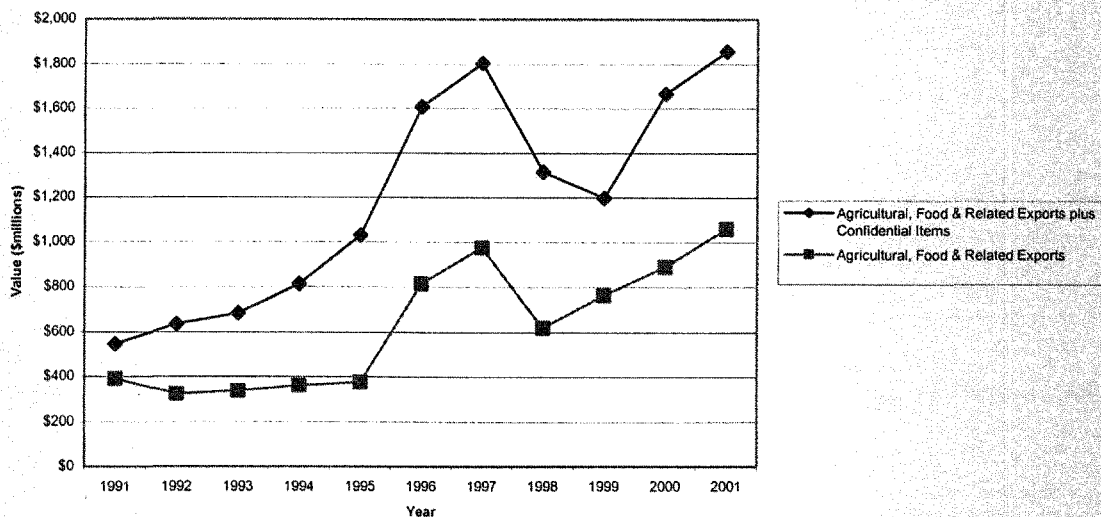
The Department of Agriculture, Fisheries and Forestry - Australia's (AFFA's) contribution to the Australia – Indonesia bilateral relationship is substantial and multi-faceted, encompassing trade and investment support and facilitation, portfolio-management of bilateral fora and sub-fora and the provision of technical cooperation and support, including under bilateral AFFA-sponsored Memoranda of Understanding in a range of specific activity- and industry-related areas, and through both provision of and input to the coordination of international assistance.

AFFA inputs to whole-of-government market access opening and maintenance activities, including the Market Development Group (MDG), in advancing the interests of portfolio industries and provides related technical and capacity building assistance through its International Agricultural Cooperation (IAC), Northern Australia Quarantine Strategy (NAQS) and quarantine capacity building programs.

AFFA contributes to Australian engagement with Indonesia in regional fora including APEC, the CER-ASEAN dialogue, the Northern Australia Quarantine Strategy (NAQS), the Network of Aquaculture Centres in the Asia-Pacific (NACA) and in a range of multilateral fora, including the World Trade Organization (Australia and Indonesia share membership of the Cairns Group of agricultural exporting countries), the United Nations' Food & Agriculture Organization (FAO), International Tropical Timber Organization (ITTO), and the Forum on Forests (UNFF) and international standards setting bodies including the Codex Alimentarius Commission (Codex), the International Plant Protection Convention (IPPC), the Office International des Epizooties (OIE), and the International Union for the Protection of New Varieties of Plants (UPOV).

Portfolio Trade and Investment

Chart 1: Agriculture, Food & Related Exports to Indonesia 1991 - 2001



Source: Composition of Trade Australia 1996-2002 editions

Agriculture, fisheries, forestry and processed food exports contribute substantially to Australia's merchandise exports to Indonesia (see Chart 1). In 2001, portfolio-related exports plus confidential items amounted to \$1.86bn¹ out of total merchandise exports of \$3.2 billion. Indonesia is Australia's sixth most important market for agricultural, fisheries, forestry and food exports plus confidential items after Japan, the United States of America, the People's Republic of China (not including the Special Administrative Region or Chinese Taipei), the Republic of (South) Korea, and the United Kingdom.

In 2001, Indonesia was Australia's largest market for cotton (\$542m) and live cattle (\$175m), a major market for wheat (exact figures are confidential, but over \$500m) and wheat flour (\$28.6m), an important market for milk and cream (\$91m), bovine meat (\$50.5m), forest products (approximately \$40m)² and fruit and nuts (\$22.3m), and our fourth largest market for animal feed (\$38.2m) after Japan, New Zealand and South Korea.³

Portfolio Imports from Indonesia

Major portfolio-related imports from Indonesia in 2001 included paper and paper products (\$143.5m), textile yarns and fabrics (\$101.8m), coffee tea cocoa & spices (\$40.8m), wood simply worked (\$35.7m), pulp & waste paper (\$24.9m) and natural rubber (\$18.5m).⁴

Indonesia has also recently commenced exporting plant-based stockfeed to Australia following the issue of an AQIS permit in July 2002.

Investment, Complementarities and Competition in Agribusiness

Australia is the second largest source of foreign direct investment in Indonesia. Major Australian investments in portfolio-related industries include live cattle import (Austasia), supply chain management (Davids Distribution, Mayne Logistics), food processing (Arnott's, Effem Foods, Coca Cola Amatil, Berryvale, Goodman Fielder, Kraft Foods, Burns Philp), flour milling (Manildra Four Mills), horticultural production (Asia Business Investment Fund), agriculture protection products (Nufarm), and food retail (Dome Café and New Zealand Ice Cream franchises).

The attractiveness of Indonesia as a destination for foreign direct investment in the future, including from Australia, will depend on its capacity to offer stable and predictable political and financial systems and sustainable economic growth. If Indonesia continues to expand economically on the back of increased international trade flows, further opportunities for investment in portfolio industries are likely to be realised. These include a range of crop-based industries, with horticultural production and through chain processing nominated as major agricultural development priorities for the Indonesian Government. Complementarities and further opportunities for investment also exist in livestock-related industries, including live animals production,

¹ See Appendix I for a list of agricultural, fisheries, forestry, food and related exports.

² Australian Forest & Wood Products Statistics, September & December Quarters Edition, Australian Bureau of Agricultural & Resource Economics, 2002.

³ Compendium of Trade Australia 2001, Market Information & Analysis Unit, Department of Foreign Affairs & Trade, May 2002, p199.

⁴ Compendium of Trade Australia 2001, Market Information & Analysis Unit, Department of Foreign Affairs & Trade, May 2002, p200.

feed lotting and stockfeed, and timber products and woodchips and paper manufacturing. Opportunities for cooperation for exports to third markets, including in halal processing could be explored, combining "clean and green" Australian production inputs with the "halal worthiness" of the Indonesian system.

Further opportunities for commercial collaboration also exist in textiles production, particularly through the exploitation of existing synergies between Australian fibre production inputs (principally cotton) and Indonesian milling and textiles manufacturing capacity (including apparel production).

The National Association of Forest Industries (NAFI) has suggested that an opportunity may also exist for Australian companies to increase the export of woodchips to Indonesia as feedstock for their pulp and paper mills (due to their lack of sustainable domestic resources). Australian companies are keen to expand forest product exports to Indonesia.

Indonesian forests are potentially a major source of carbon sequestration and Indonesia therefore represents a potential trade and investment partner in any future international market for carbon sequestration credits.

Pulp and paper manufacturing companies in Europe, North America and Japan are currently looking at investing in new mills to supply the Asia-Pacific region. These companies are considering Australia as competitive choice when compared to South America and Indonesia. Australia's economic performance, legislative and political stability, expanding plantation resource base, strong domestic market and location in the region has resulted in Australia being in a favourable position to attract major investment in a pulp mill.

Indonesia is a competitor to Australia in tropical horticulture, processed food and fisheries products and wood and paper products. Indonesia and Australia share several fisheries in common.

2. AFFA & the Australia - Indonesia Relationship

AFFA provides overall leadership and direction in portfolio policy responses to international agriculture, fisheries, forestry and food trade and investment related issues through seeking to improve the global trading environment for these exports by ensuring portfolio interests are reflected in multilateral trade negotiations, bilateral market access discussions and Australian positions and initiatives in international fora. A key portfolio priority is supporting Australia's agricultural trade through securing better access to international markets. A major day-to-day priority for AFFA is the redress of technical barriers to Australia's agricultural and food exports, including through AFFA's Technical Market Access program (see section below).

One of AFFA's key functions is to protect Australia from the entry, establishment and spread of unwanted pests and diseases that may cause social, economic or environmental damage, while minimising the restrictions on the entry of agricultural commodities. In particular, AFFA is actively involved in maintaining and improving international trade and market access opportunities for portfolio industries through establishing scientifically-based quarantine policies, providing effective technical advice and export certification services, entering into negotiations with key trading partners, participating in multilateral forums and international sanitary and phytosanitary (SPS) standard-setting organizations and collaborating with portfolio industries and exporters.

To these distinct but related ends AFFA contributes to whole-of-government mechanisms and approaches such as the Market Development Group (MDG) priorities and activities in the Asian region, and by supporting international representation at Australian overseas missions in Paris (OECD), Brussels (EU), Rome (FAO), Washington, Tokyo, Seoul and Jakarta from portfolio budget allocations. AFFA plans to support an officer in Beijing from December 2002. AFFA also supports programs developed through the National Food Industry Strategy (formerly Supermarket to Asia) including the AFFA Technical Market Access Program targeted at reducing or eliminating non-tariff barriers to trade in Australian primary products and, in particular, food into Asia. AFFA also undertakes a range of biosecurity activities, including the conduct of Import Risk Analyses (IRAs), conduct of the Northern Australia Quarantine Strategy (NAQS) involving Indonesia, East Timor and Papua New Guinea (PNG), and technical cooperation activities under the auspices of the Asia Pacific Economic Cooperation (APEC) Agricultural Technical Cooperation Working Group (ATCWG) and other APEC and regional forums.

AFFA's close engagement with Indonesia in bilateral, regional and multilateral fora and mechanisms reflects the considerable importance of the Australia - Indonesia relationship to Australia's agriculture, fisheries, forestry and food industries. Portfolio participation in multilateral fora and in international standards-setting and related bodies, including the Cairns Group of agricultural exporting nation, sees Australia and Indonesia cooperate in the liberalisation of international agricultural and food markets, advancing unilateral and mutual interests in the harmonisation of international regulations affecting both portfolio and non-portfolio goods and services trade and investment, international development and human health. AFFA's strategic approach to involvement in bilateral arrangements benefits portfolio industries primarily through

better market access outcomes and trade and investment facilitation both with respect to the Indonesian market. AFFA's proactive involvement in regional fora helps secure a "forward defence" against biosecurity threats to Australia's agricultural, fisheries, forestry and food industries, and also supports bilateral and regional trade and investment liberalisation and facilitation.

AFFA's bilateral engagement with Indonesia focuses on the Australia-Indonesia Ministerial Forum Working Groups on Agriculture & Food Cooperation and Marine and Fisheries Resources. Key elements of AFFA's contribution to Australia's relations with Indonesia are outlined below.

Engagement in Multilateral Fora & International Standards Setting Bodies

World Trade Organization

Around two thirds of Australia's agricultural production is exported. Australia therefore relies on open international markets and predictable, internationally accepted global trading rules for the profitability and sustainability of our rural industries. It is this realisation that informs AFFA's international outlook and that places input to multilateral trade reform in the World Trade Organization (WTO) and the fora that support WTO processes at the top of AFFA's list of portfolio priorities. These overriding objectives provide important context for AFFA's input to Australia - Indonesia relations, and reflect the fact that the expansion in bilateral trade with Indonesia (and other international markets) over recent years has been underpinned by the lowering of barriers to agricultural and food trade flowing from the Uruguay Round (UR) Agreement reached in 1993. In particular, the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have seen a cut in Indonesia's maximum allowable tariffs for agricultural and food products by 10 percent and the tariffication of non-tariff measures.

In addition to the gains in bilateral trade with Indonesia in portfolio products that have been achieved, Indonesia is an important partner member of the Cairns Group of agricultural trading nations in the advocacy of fair international trade in agriculture.

The Cairns Group of agricultural trading nations (see Appendix II) was responsible for securing important changes to global agricultural trading rules, for the first time, in the Uruguay Round. Australia's engagement with Indonesia and other Cairns Group member countries aims to continue the liberalisation of global agricultural trade in the Doha Round. Indeed, the Cairns Group has been instrumental in securing the inclusion of the following ambitious language in the mandate for the new Round at the 2001 Doha meeting:

"Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support."

More information on the Cairns Group can be found at <http://www.cairnsgroup.org/index.html>.

In the new Doha Round (formally known as the Doha Development Agenda – “DDA”), the role of Indonesia as a developing country will be particularly important if the Group as a whole is to secure further gains in global agricultural trade. At times over recent years, there have been suggestions that Indonesia may leave the Cairns Group, and for this reason support for Indonesia’s continued participation in the WTO and in promoting cohesion in the Cairns Group will remain a key objective of AFFA’s strategic input to the Group. AFFA supports input of portfolio industries to Cairns Group processes through the Agricultural Trade Consultative Group (ATCG), which comprises representatives from agricultural industry peak bodies in Australia. AFFA also supports Cairns Group farm leaders meetings, which include representation from the National Farmers Federation and the peak bodies of other major portfolio exporter groups, as well as industry-specific consultations of grains, meat, sugar, cotton and other industry representatives.

Recent Australian Bureau of Agricultural and Resource Economics (ABARE) research on developing countries and WTO agricultural trade reform has reinforced the message that countries’ preoccupation with increasing exports while maintaining barriers to imports is costly for their economies.⁵ The analysis acknowledges the role for special treatment for developing countries in agricultural trade reform, but warns against using special WTO provisions to justify extra protection. The research findings have been distributed both within the Cairns Group and beyond. Given Indonesia’s importance in agricultural markets and its changeable institutional and policy environment, it is important to continue highlighting the dangers of backsliding on trade reform.

In supporting the interests of portfolio industries in DDA negotiations, AFFA supports from portfolio budget allocations a Canberra-based Chief International Agricultural Advisor with prime responsibility for coordinating portfolio input to the DDA Round.

Agreement on the Application of Sanitary and Phytosanitary Measures

One of the key UR outcomes was the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (the “SPS Agreement”). The SPS Agreement specifically commits Members to “...play a full part, within the limits of their resources, in the relevant international organizations and their subsidiary bodies, in particular the Codex Alimentarius Commission [Codex], the Office International des Epizooties [IOE], and the international and regional organizations operating within the framework of the International Plant Protection Convention [IPPC], to promote within these organizations the development and periodic review of standards, guidelines and recommendations with respect to all aspects of sanitary and phytosanitary measures.”⁶

Australia continues to be very active in these three international organizations and their subsidiary bodies, including encouraging participation of countries of the region, such as Indonesia, to participate in SPS Committee meetings in Geneva, and other Committee activities. For example, AFFA participated in a capacity building seminar in

⁵ Roberts, I., Buetre, B. and Jotzo, F. 2002, Agricultural trade reform in the WTO: Special treatment for developing countries, ABARE Report, Canberra.

⁶ Agreement on the Application of Sanitary and Phytosanitary Measures, Article 3.4

Wellington in March 2002 on the SPS Agreement, in which Indonesia also participated. AFFA also places a strong emphasis on quarantine capacity building (see Quarantine Capacity Building under Bilateral Mechanisms and Instruments) to assist Indonesia to meet the legitimate quarantine-related market access requirements of Australia and other importing countries for Indonesian agricultural produce. AFFA considers that the continued engagement in Codex, IOE and IPPC as central to Australia's biosecurity and trade interests.

For example, the November 2001 meeting of the OIE Regional Commission for Asia, the Far East and Oceania addressed the issues of foot and mouth disease (FMD), arboviruses and BSE, all of concern in Indonesia. AFFA, in conjunction with AusAID and the OIE, has agreed to continue support and funding for the South East Asian Foot and Mouth Disease Eradication Campaign (SEAFMD), a body presided over by AFFA's Chief Veterinary Officer. Australia played a key role, coordinated through the IOE and sustained over many years, in the elimination of FMD from Indonesia. The SEAFMD will next meet in Jog Jakarta, Indonesia in March 2003.

United Nations Forum on Forests and Sub-Fora

Australia and Indonesia both support and promote sustainable forest management (SFM) in international intergovernmental fora such as the United Nations Forum on Forests (UNFF), the International Tropical Timber Organization (ITTO) and the Food and Agriculture Organization (FAO - particularly through its regional arm, the Asia-Pacific Forestry Commission). Australia and Indonesia have a history of cooperating together productively in these fora.

The UNFF is the principal multilateral intergovernmental forum on forest matters. Both Australia (through AFFA) and Indonesia have been actively involved in the Forum. The UNFF oversees the work of the Collaborative Partnership on Forests; the role of which is to coordinate, facilitate, cooperate and harmonise reporting on forestry issues between various UN sub-fora, including the ITTO and the Food & Agriculture Organization (FAO), in which AFFA also participates. A key role of the UNFF is to mobilise political commitment at the national and international levels to support the conservation and development of all types of forests.

The ITTO is comprised of 57 countries split into two groups consisting of consumers and producers of tropical timber (Australia is a consumer member and Indonesia a producer member). The ITTO works toward the goal of achieving sustainable tropical timber production and trade globally. Japan hosts the Secretariat and is the main benefactor of the Organization. Australia supports project funding decisions in the ITTO through annual AusAID funding (currently \$240,000). Australian support is important to the Organization and our reputation is that of being an influential member within the Organization and our region. Indonesia has been a beneficiary from Australian seed funding through the AusAID ITTO funding. AFFA (AusAID) is currently funding six Indonesian forestry projects:

1. Demonstration plantation of *Xantoxylum rhetsa*, *Manikara kauki*, *Alstonia scholaris* and *Whrightia pubescent* to promote a sustainable Bali natural forest - The objective of the program is to promote the planting of indigenous trees for the establishment of sustainable plantation forests. This project was funded in May 2002.

2. Participatory rural appraisal in the planning and establishment of sustainable community based forest management model - This pre-project establishes baseline data on local communities living in the area surrounding the Dusun Aro-Jambi natural forest to assist in the formulation of a model of sustainable community-based forest management (CBFM). This project was begun in December 2001.
3. Strategies for the development of sustainable wood-based industries in Indonesia - This project supports the development of a sustainable wood-based industry in Indonesia through an assessment of log supply and demand, wood processing technologies and capacities; and export markets for Indonesian timber products. Project activities began in April 2002.
4. Forest Science and Sustainability: the Bulungan model forest in Indonesia - The project aims to achieve long-term SFM by integrating social and silvicultural aspects in the Bulungan forest. This project started in 1997, and is near completion.
5. Strengthening sustainable management of natural forests in Asia-Pacific (Indonesia/Australia) - To promote the contribution of best practice harvesting and sustainable management of tropical forests in the region. This project has recently been completed and a report will be presented by Indonesia at the next ITTO meeting in November 2002.
6. Optimum utilisation of Radarsat-Sar data in conjunction with enhanced FCD model to monitor change in the status of forest resources - This project builds on two previous projects and addresses the need to upgrade the existing system to cope with the increased incidence of smoke haze.

Indonesia and Australia also have a history of cooperation on forest issues in the FAO, including:

- A Study on the Global Outlook for Plantations in 1999 was sponsored by the Governments of Australia, Brazil, Chile, Indonesia, New Zealand, South Africa and the United Kingdom, in cooperation with the FAO.
- Australia and Indonesia cooperated in the development of a regional Code of Practice for Forest Harvesting in the Asia-Pacific. The Ministry of Forestry and Estate Crops in Indonesia (recently renamed the Ministry of Forestry) acted as the Task Manager for the FAO Asia-Pacific *ad hoc* Working Group on SFM.

Bilateral Mechanisms & Instruments

AFFA's contribution to bilateral relations with Indonesia is substantial, particularly through the Australia-Indonesia Ministerial Forum (AIMF) and its working groups. The AIMF was established in 1992 as a vehicle for formal bilateral engagement at Ministerial level. AIMF meetings typically involve several cabinet ministers from each country at the same forum, enabling substantive bilateral discussions on a range of cross cutting issues. The last meeting of the AIMF was held in 2000. The joint communiqué of the 2000 AIMF meeting is available at:

http://www.dfat.gov.au/geo/indonesia/aust_indo_joint_statement_001208.html

AFFA's contribution to the AIMF process is wide-ranging, encompassing support for the participation of portfolio and other ministers in AIMF meetings through the provision of briefing and advice designed to address bilateral market access issues affecting portfolio interests, and the management and direction of two AIMF Working Groups on: Agriculture and Food Cooperation; and Marine Resources and Fisheries. The activities of the Working Group on Agriculture and Food Cooperation (WGAFC) have been invaluable in underpinning the substantial growth in portfolio bilateral trade over the past decade. The WGAFC has demonstrably strengthened bilateral cooperation between Australia and Indonesia to the benefit of portfolio trade and investment interests. Cooperation in the fisheries sector has been broadened and strengthened by the establishment in 2001 of the Marine Resources and Fisheries Working Group.

AFFA directly supports from portfolio budget allocations the representation of portfolio interests in both working groups with support from the Australian Embassy in Jakarta. This representation is important in addressing Australian bilateral interests at diplomatic level with the Indonesians and in support of the processes of the Australia-Indonesia Ministerial Forum. The next AIMF meeting is scheduled for early 2003 (dates to be confirmed).

Working Group on Agriculture & Food Cooperation

The Australia Indonesia Working Group on Agriculture & Food Cooperation (WGAFC) was established in 1992 by the inaugural AIMF; its prime purpose being to facilitate trade and investment opportunities in the agriculture, food and agribusiness sectors. Both the WGAFC and its task forces are co-chaired by Australian (AFFA) and Indonesian Ministry of Agriculture & Fisheries (MAF) officials and encompass broad participation by the private sectors of both countries. The work programs of the Task Forces (implemented intersessionally) are considered by annual formal WGAFC plenary sessions, and task force reports and work programs are presented to AIMF meetings. The task forces consider proposals for bilateral cooperation projects designed to provide trade and investment opportunities for Australian agricultural and food industries while at the same time providing highly targeted development assistance for Indonesia. As such, the WGAFC process has been very successful in its development and targeting of strategic assistance in support of bilateral trade and investment with Indonesia. Indeed, the WGAFC contributed to Australia's success in maintaining market access for Australian agricultural and food exports to Indonesia during both the Asian currency crisis and the East Timor action, through the maintenance of an open

dialogue on agricultural issues and the provision of capacity building in support of established strong relations in agricultural trade and investment.

Informal WGAFC quarantine consultations also provide a useful forum to discuss bilateral biosecurity-related issues that arise from time to time.

Another key way that WGAFC adds value to the bilateral trade and investment relationship is in providing an "official" forum for business introductions (the task forces mainly comprise business representatives) that develops stronger, and ultimately more commercially productive, relationships in the agribusiness area than is the case with "non-official" mechanisms. WGAFC also adds value to bilateral trade and investment by raising awareness of trade and investment opportunities among Indonesian and Australian business and by providing a cooperative atmosphere in which to address bilateral trade irritants and seek mutually agreed solutions.

Greater commercial cooperation has been facilitated by WGAFC through its discussion and negotiation of regulatory issues and through special purpose business seminars and meetings organised to coincide with WGFAC meetings. For example, at the ninth meeting of WGAFC, held in Perth in March 2002 a quality assurance seminar was held in conjunction with the meeting for the benefit of industry participants.

The work program of WGAFC is conducted primarily by its four task forces in Meat Dairy & Livestock; Horticulture; Food Processing Transport Storage and Distribution, and; Agribusiness Support Systems, which all strongly reflect private sector priorities in bilateral trade and investment in these areas of cooperation.

Meat Dairy and Livestock Task Force

The Meat Dairy and Livestock Task Force (MDLTF) has proven an important forum for facilitating Australian exports of live cattle and meat to Indonesia by facilitating and consolidating contacts between live cattle exporters and importers and by providing a forum to regularly update market forecasts of Australian supply and Indonesian demand.

MDLTF meetings have been strongly supported by Australian red meat and dairy industries in the past and the commercial sectors of both countries continue to recognise the value of the task force process. Specific issues addressed by the Meat and Livestock Task Force have included:

- developing a Memorandum of Understanding between the Australian Livestock Exporters' Association and Indonesian Lot Feeders to provide a continuing mutual exchange of market intelligence,
- ensuring the adequacy of shipping arrangements to meet the expanding trade,
- provision of market research on the development of the Indonesian meat market,
- development of a trading language for the Indonesian domestic industry (based on the AUS-MEAT language), and
- technical support and training projects in slaughter and processing, cattle breeding enhancement, cattle breeding, management and marketing for smallholder farmers and feedlots, and livestock quality control in Indonesia.

More recent joint projects include research into the development of a viable sheep industry in Indonesia, a Western Australia Boer goat training program; and Northern

Territory beef and feed training program; the Indonesian dairy feed management and milk hygiene projects; and East Java-Australia cooperation for import of fattened cows by small-scale farmers.

Further cooperative activities through AFFA's quarantine capacity building program to be investigated are: assistance with foot and mouth disease prevention and diagnostic kits for rabies eradication on Flores Island; establishment of livestock Quality Assurance Programs in Indonesia; and extension of quality assurance assistance for Indonesian animal health laboratories. In addition, Meat and Livestock Australia is examining extension of training for Indonesian butchers; Livecorp is looking to provide technical assistance on cattle breeding; and Indonesian and Australian interests are exploring the possibilities for commercial exports of damara sheep to Indonesia.

Horticulture Task Force

The primary purpose of the Horticulture Task Force is to facilitate cooperation and information exchange that will mutually benefit each nation's trade and investment opportunities, strengthen their horticultural sectors, and assist in market development. The Horticulture Task Force has proven a valuable mechanism for developing linkages between private sector interests of both countries and facilitating expansion of trade in horticultural products. Australian firms gain from their involvement in consultancy work, potential investment opportunities and collaborative projects that build capacity in Indonesia, while Indonesian firms gain better management tools to improve their industry performance and trade opportunities.

In addition, Task Force participants have been able to raise and often resolve business concerns and horticultural market access issues. They have exchanged ideas on industry and governance issues covering matters such as industry levies and the use of service companies to undertake sectoral research and development. The Task Force has also addressed issues such as improving skills and knowledge, which has involved delivery of training by Australians to Indonesian farmers; discussion on ways to improve productivity and management of production; as well as canvassing potential for joint ventures.

Horticulture Improvement Case Study

The major cooperative projects agreed at the ninth meeting of the Working Group on Agriculture and Food Cooperation (WGAFC) in 2002 included a program of horticulture improvement to be implemented simultaneously in four Indonesian provinces. This major initiative is designed to build the capacity of Indonesian horticultural processing. It emphasises increasing quality assurance and food safety in the Indonesian supply chain through demonstration projects. As well as boosting the international competitiveness of Indonesian horticultural production, the project provides gains for Australian industry by boosting consumer confidence in horticultural products and through the provision of consultancy contracts for Australian firms, as well as delivering capacity building and consumer education to the benefit of Indonesia. In these ways, the project is expected to facilitate and build greater consumer demand for Australian products over the longer term.

Specific project elements aim to improve skills, practices and understanding of quality assurance and food safety issues along the horticulture supply chain, through the development of resource kits, the delivery of farmer, packinghouse and retail staff

training, and the development of training models that are locally sustainable and ongoing.

Food Processing Transport Storage and Distribution Task Force

The current focus of activity of the Food Processing Transport Storage and Distribution Task Force (FPTSDF) is in facilitating the trade in processed foods between Australia and Indonesia. This role has included maintaining a dialogue with the Indonesian Agency for Drug and Food Control over new Indonesian food labelling laws and Australia's Holding Order system for imported foods.

Indonesia has recently introduced new food laws and regulatory arrangements for the registration and labelling of processed food products in the Indonesian market. These new laws have significant potential to impact on the smooth flow of food products, especially perishable products, from Australia to the Indonesian market. Under the auspices of the WGAFC and the Task Force, a delegation of senior Indonesian health officials was invited to Australia to familiarise itself with Australia's food standards and the enforcement and compliance arrangements for our processed food industry in 2000. The visit also provided the opportunity for the delegation to meet with a range of food companies active in the Indonesian market and to enable it to see first hand the high standards of safety and quality of Australia's food manufacturing sector.

Personal contacts developed through Task Force meetings have opened and maintained lines of communication supporting ongoing dialogue on the implementation of the new Indonesian laws. These have enabled AFFA to work with the Indonesian authorities and industry groups in improving the efficiency of operation of the regulatory arrangements. An additional benefit has been our ability to meet an Indonesian request for advice on the development and implementation of regulatory arrangements for foods derived from genetically modified (GM) ingredients. This appears likely to result in Indonesia introducing a system of GM regulation compatible with Australia's regime.

In particular, the FPTSDF provides a forum for discussion and providing timely information and advice on Australia's system of Holding Orders affecting imported food products that fail to meet our labelling requirements. The number of outstanding holding orders against Indonesian food products imports has been an ongoing issue in the bilateral food trade for several years, and the Working Group and the Task Force provide useful mechanisms for addressing this and other sensitive food trade concerns.

Agribusiness Support Systems Task Force

The Agribusiness Support Systems Task Force (ASSTF) is a forum for promoting cooperation in agribusiness trade and investment between Australia and Indonesia. A major focus of this Task Force has been the exchange of information on the implications of current and emerging food safety and quality requirements in the global agri-food sector. The ASSTF complements other State government and private sector initiatives currently underway by providing facilitated meetings between Australian service providers and key Indonesian government and business representatives, particularly in the areas of food safety and quality assurance.

While the ASSTF does not restrict its activities solely to food safety and quality, it is clear that this is currently the Indonesian Government's highest priority, particularly in

As Indonesia is only now beginning to implement standardised food safety and quality programs, there is considerable potential for commercial and other collaboration in this area, particularly given Australian experience and knowledge. Australian service providers would stand to be major beneficiaries as there is expected to be ongoing consultancy and training opportunities as the Indonesian systems are developed and implemented.

More generally, AFFA portfolio stakeholders will benefit in the medium-long term if there is a consistent and harmonised approach to food safety and quality taken by Indonesia and within the region.

Further information on WGAFC is available at:

<http://www.affa.gov.au/content/output.cfm?ObjectID=D2C48F86-BA1A-11A1-A2200060B0A03908>

Working Group on Marine Affairs and Fisheries

The Working Group on Marine Affairs and Fisheries (WGMAF) was established in June 2001 at a meeting between the then Minister for Forestry and Conservation, the Hon Wilson Tuckey MP, the then Minister for the Environment and Heritage, Senator the Hon Robert Hill and the Indonesian Minister for Marine Affairs and Fisheries, HE Dr Rokhmin Dahuri. Marine and fisheries issues had previously been addressed outside the AIMF and Ministers agreed to establish the Working Group as a way to institutionalise current collaboration across the spectrum of marine issues. The issues addressed in the Working Group primarily involve the Fisheries, Environment and Science portfolios, with AFFA taking the lead in co-chairing the Working Group with the Ministry of Marine Affairs and Fisheries in Indonesia.

The WGMAF aims to better coordinate existing cooperative efforts and to facilitate future cooperation in the areas of fisheries and aquaculture management, research and development, marine environmental conservation and marine biotechnology research and development to the benefit of the fisheries industries of both countries. The first officials' meeting of the Working Group, held in April 2002, agreed upon several areas for cooperation including: cooperation to combat illegal, unreported and unregulated (IUU) fishing; sustainable fisheries management; aquaculture development; the marine environment; marine biotechnology; fishery products, safety, quality, product development and trade promotion; education, training and capacity building; poverty reduction; and marine, coastal and small islands development and management.

AFFA also facilitates an operational meeting between Australian, Indonesian and East Timorese fisheries officials on an annual basis (as part of the Northern Australia Fisheries Management Workshop) and the outcomes of this forum are reflected in WGMAF deliberations. AFFA expects there will be a need to provide funding support for both meetings (to facilitate Indonesian participation) and activities of the Working Group for some time.

Tripartite Committee on Agricultural Health and Quarantine

Australia, Indonesia and Papua New Guinea are members of a Tripartite Committee on Agricultural Health and Quarantine (TCAHQ). Australia participates in this Committee

as a key element of our "forward defence" of Australia's biosecurity. The Committee's objectives include:

- notification to member countries of exotic pest/disease outbreaks;
- provision of assistance with training of quarantine personnel; and
- provision of technical assistance in the event of a pest outbreak.

The TCAHQ was intended to meet every two years but has met less frequently; the most recent meeting was held in Jakarta in March 2001. Australia's contribution to the TCAHQ is provided through the Northern Australia Quarantine Strategy (NAQS).

Northern Australia Quarantine Strategy

The Northern Australia Quarantine Strategy (NAQS) was established to address the quarantine risks arising from the proximity of Australia, Papua New Guinea, East Timor and Indonesia. NAQS is a discrete program administered by the Australian Quarantine and Inspection Service (AQIS) with input from Biosecurity Australia (BA).

NAQS activities in Indonesia are undertaken in collaboration with Indonesian Government authorities and are conducted under a Memorandum of Understanding on Collaborative Animal and Plant Health and Quarantine Activities (see "Agreements and Memoranda of Understanding") and specific contracts with providers of key quarantine-related services. The Indonesian agency with prime carriage of activities under this MoU is Indonesia's Agency for Agricultural Quarantine (AAQ). NAQS incorporates the following sub-strategies:

1. Identification and assessment of agricultural quarantine risks;
2. Monitoring and surveillance for pests and diseases of plants and animals in northern Australia, Papua New Guinea, East Timor and Indonesia;
3. Promotion of quarantine awareness; and
4. Quarantine regulation with particular emphasis on the Torres Strait, which potentially forms a "bridge" between Australia and Papua New Guinea/Papua (formerly Irian Jaya).

Australia and PNG are vulnerable to exotic disease incursions through the Indonesian province of Papua. Once established in Papua, the risk of an exotic disease spreading across the 725km common border with PNG and through the closely distributed chain of islands in the Torres Strait into Australia is of concern to both countries.

Papua is unique among Indonesian provinces in that it has a thriving animal and plant export trade to other parts of Indonesia due to its comparatively favourable animal and plant health status. However, due to increasing development in the area and the concomitant rise in traffic of people and goods into the province, there is a risk that pests and diseases of quarantine concern will enter and become established in Papua.

In recent years, Australia and PNG have suffered incursions of several exotic pests and diseases, including Japanese Encephalitis, Asian honeybee and fruit fly. NAQS monitoring and surveillance activities have shown that each of these incursions has followed a similar pattern from western areas of Indonesia to Papua and then across the border into PNG. Once in PNG, several have moved south into the Torres Strait and subsequently on to the Australian mainland.

Current NAQS Activities in Indonesia

The major activities undertaken in Indonesia under the NAQS program are surveys and capacity building and support.

Surveys

Plant and animal health surveys involving scientific personnel from both Australia and Indonesia are conducted in alternate years in the Province of Papua and in West Timor (although this program has been interrupted since 1999) to monitor for an agreed target list of biosecurity hazards that are present in Indonesia. Testing and identification are carried out at Indonesian and Australian laboratories. Results are recorded in the NAQS database and are published following clearance by Indonesia. Other 'one-off' surveys are occasionally organised to areas such as Nusa Tenggara Timur (NTT) to target specific needs. The surveys provide the mutual benefits of early warning of new pests and diseases that have entered Indonesia, and a body of information on the type and range of endemic pests and diseases we confront.

Contract with INI ANSREDEF

NAQS and BA have a program of collaborative activities with the Indonesian Ministry of Agriculture, which is managed by the Indonesia International Animal Science Research and Development Foundation (INI ANSREDEF) under contract to AQIS. The current contract is dated 5 December 2001 for a term of 3 years and provides for services to be delivered by INI ANSREDEF including surveys and monitoring in Indonesia for plant and animal pests of quarantine concern, and facilitation of effective liaison with a range of agencies active in animal and plant health in eastern Indonesia. The benefits of 'on the ground' support personnel with good Indonesian and English language skills are invaluable in negotiations on sensitive quarantine issues.

Preparations were made for a joint animal survey of Papua in collaboration with the Ministry of Agriculture in October/November 2002. This survey was initially scheduled for March 2001 but has been postponed three times due to security and administrative issues. Unfortunately, the survey team were recalled to Australia shortly after their arrival in Papua, on DFAT advice following the Bali bombing. The conduct of a joint plant health survey is still planned to occur in early 2003 but there will be a need to carefully monitor security over the next few months. Consideration of the rescheduling of these activities will be undertaken once security considerations can be addressed.

Capacity building projects

In pursuit of NAQS objectives, AQIS and BA provide quarantine capacity building of counterpart staff in Indonesia, Papua New Guinea and East Timor and regularly conduct training, and provide infrastructure support for these countries. NAQS is currently assisting with the second phase of the AusAID GSLP-funded *Papua Quarantine, Animal and Plant Health Support* project (see Government Sector Linkages Program). The aims of this project are to implement policy and legislation support activity and commence public awareness work on quarantine issues. AusAID is funding the third phase of this project which aims to deliver enhanced quarantine inspection and systems, training in field surveillance and monitoring, facilities and training in sugarcane quarantine, training in monitoring, identification and control of fruit flies, and support for quarantine public awareness initiatives.

Owing to the large coastline of Papua, the degree of marine movements in the area, the importance of agricultural industries to community well being, the potential for trade in agricultural commodities, the lower health status of other Provinces of Indonesia and the risk to essential crops in PNG and rural industries in Australia, it is envisaged that quarantine support will be required for Papua for some years. A limited amount of technical and communications equipment is also provided to facilitate the Indonesian run biosecurity-related programs. In addition, it is planned to apply training programs developed for sugarcane and fruit flies to other provinces in Indonesia. Incremental annual gains in quarantine security appear to be achievable and a sounder approach than major efforts that realise mainly short term benefits. For these reasons NAQS and BA intend to reflect specific areas of Indonesian and Australian quarantine concern in capacity building projects on an ongoing annual basis.

Trade Facilitation in Plant Varieties

Australia has encouraged Indonesia to develop a regulatory framework consistent with the International Convention for the Protection of New Varieties of Plants, in order to facilitate trade with Indonesia in plant varieties. As a result of these activities, Indonesia is now close to meeting its WTO commitments regarding harmonisation of regulatory regimes in plant varieties intellectual property. These activities have included:

- In 2000 AFFA provided support in the Indonesia-Australia Specialised Training Program Phase II (training in intellectual property for Indonesian officials). The program was coordinated by IP Australia, though AFFA provided a Plant Breeders Rights component to a number of Indonesian officials. There has been some one-on-one follow up eg with the Faculty of Law, Gadjah Mada University, Yogyakarta etc
- In March 2002, AFFA hosted discussions with the Indonesian Agency for Agricultural Research and Development (Dr Joko Budianto, Director General) and the Australian Centre for International Agricultural Research (Dr Colin Piggin), Canberra, 14 March 2002 on options for the implementation of a PBR framework in Indonesia.

Agreements and Memoranda of Understanding

Memorandum of Understanding on Collaborative Animal & Plant Health & Quarantine Activities

Australia and Indonesia are signatories to the MOU on Collaborative Animal and Plant Health and Quarantine Activities. The current MOU is effective for a period of five years expiring in 2003. The following activities are identified in the MOU:

- conduct of annual quarantine consultations including exchange of technical information on animal and plant health status and quarantine methodology;
- conduct of joint surveillance and monitoring activities, and other projects in the context of NAQS;
- development of effective national quarantine strategies designed to protect both signatory countries from the entry of pests;
- promotion of collaborative research to safeguard animal and plant health and quarantine security;

- support for the development of collaboration between scientific institutions in signatory countries; and
- promotion of quarantine awareness and other forms of quarantine related activity that may be of mutual benefit.

Australian Fumigation Accreditation Scheme for Indonesia

The Indonesian Agency for Agricultural Quarantine (AAQ) and AQIS signed the "Agreement between the Agricultural Quarantine Agency of the Republic of Indonesia and the Australian Quarantine and Inspection Service on Activities Under the Australian Fumigation Accreditation Scheme for Indonesia" at the ninth WGAFC in March 2002. This Agreement is in accordance with the MoU between the Government of the Republic of Indonesia and the Government of Australia on Collaborative Animal and Plant Health and Quarantine Activities and details the administrative arrangements for managing the Australian Fumigation Accreditation Scheme on an ongoing basis.

The Agreement was a direct result of AAQ and AQIS efforts to address problems associated with inadequate methyl bromide fumigations and to increase the effectiveness of fumigation practices and Indonesian Government regulation over export fumigation activities in Indonesia. This issue was first addressed at the 8th meeting of the WGAFC in which AFFA agreed to assess the feasibility of coordinating suitable training and evaluation measures for Indonesian fumigators and AAQ staff.

Australia-Indonesia Memorandum of Understanding regarding the Operations of Indonesian Traditional Fishermen in Areas of the Australian Fishing Zone and Continental Shelf – 1974

As part of 1974 negotiations to delineate seabed boundaries, Australia and Indonesia entered into a Memorandum of Understanding (MoU) which recognised the rights of access for traditional Indonesian fishers in shared waters to the north of Australia. This access was granted in recognition of the long history of fishing in the area by traditional Indonesian fishers, enabling the continuation of their customary practices in targeting species such as trepang, trochus, abalone and sponges. New guidelines under the MoU were agreed in 1989, in order to clarify access boundaries for traditional fishers and take into account the declaration of the 200 nautical mile fishing zones. The MoU area became known as the MoU Box.

A Commonwealth Scientific and Industrial Research Organisation (CSIRO) report into reef top species in the MoU Box area was completed in 1999. The report indicated that reef top stocks in the MoU Box area were severely depleted. Recognising the existence of a shared problem, Australian and Indonesian officials met to discuss the issue, and in April 2002, a Joint MoU Box Management Committee was established to develop and implement an MoU Box Management Strategy. AFFA is playing the lead Australian role in the development of the Strategy.

Agreement between the Government of Australia and the Government of the Republic of Indonesia Relating to Cooperation in Fisheries – 1992

The 1992 Fisheries Cooperation Agreement has provided an expanded framework for fisheries and marine cooperation between Australia and Indonesia, encompassing information exchange on research, management and technological developments, complementary management of shared stocks, training and technical exchanges, aquaculture development, trade promotion and cooperation on illegal fishing.

Consultations under the Agreement have been held annually (where possible), and it was agreed in April 2002 that further cooperation under the Agreement would be undertaken within the auspices of the AIMF Working Group on Marine Affairs and Fisheries. AFFA has provided financial assistance to facilitate Indonesian participation in bilateral meetings held under this agreement, and expects to provide financial support for future Indonesian attendance and participation in bilateral fisheries talks.

Bilateral Assistance

AFFA operates a range of capacity building initiatives in quarantine in addition to the capacity building support provided under the Northern Australia Quarantine Strategy (see separate Northern Australia Quarantine Strategy section), and provides assistance to Indonesia through its International Agricultural Cooperation program and the AFFA Technical Market Access Program. AFFA also provides support and coordinates portfolio priorities for funding under AusAID's Australia – Indonesia Government Sector Linkages Program (GSLP), and inputs to research priorities of the Australian Centre for International Agricultural Research (ACIAR).

Capacity Building in Quarantine

While Australia's strict quarantine laws are necessary to protect Australia's environment and our plant, animal and human health against exotic pest and disease incursions, these laws and the quarantine Import Risk Analysis (IRA) process have given rise to accusations internationally that Australia uses quarantine as a defacto barrier to trade. Australia provides capacity building support to a range of countries in the region in the sanitary and phytosanitary (SPS) area to ease tensions with our trading partners, support Australian exports, increase understanding in Indonesia and other regional markets of Australia's approach to sanitary and phytosanitary measures, and build the SPS capacity of our trading partners. The AFTA-CER SPS capacitybuilding program, which covers the countries of the south-east Asian region, has a \$3.6 million budget. As a major agricultural and food trading partner, Indonesia is a priority recipient of SPS capacity building support.

Specific SPS capacity building initiatives include training of AAQ officers on AQIS technical courses, and funding for Indonesian officials to participate in meetings in a range of fora where Australia and Indonesia have shared interests. All of these activities add substantial value to the bilateral relationship by focussing on areas of complementarity.

Australia also funds a limited amount of capacity building focussing on training AAQ staff in survey methods (see Northern Australian Quarantine Strategy). While benefiting Australia through early warning of changes in health status, the work clearly also benefits Indonesia by gathering information which enables Indonesia to demonstrate freedom of specific conditions for trade purposes, meet international reporting obligations and implement control measures where warranted.

Further collaboration with Indonesia would be of substantial mutual benefit, both in terms of enhancing the understanding of the pest and disease situation in the region as well as building capacity in the region to identify and take action against specific pests and diseases.

Current projects include:

1. Arthropod Pest Collections and Plant Pest Herbaria

One particular major impediment to the completion of Import Risk Analyses (IRAs) is the provision of pest and disease lists from the country(s) of origin for the commodities for which access has been sought. This also applies to Indonesia.

2. Rabies Eradication

Following the entry and spread of rabies on the island of Flores in 1997 and requests for assistance in eradication from the Indonesian Government, Australia has responded by sending appropriate consultants to investigate the possibility of control and eradication. AFFA funded the participation of a dog ecologist, as the attempted elimination of dogs by Indonesian authorities had not been successful. On the recommendations of an OIE funded consultancy, Biosecurity Australia is now funding the provision of equipment and reagents to enable fluorescent antibody testing to take place in Flores avoiding the current delays in submitting samples to the Disease Investigation Centre at Maros in Sulawesi. Training in the maintenance and use of the equipment, including a fluorescence microscope, will be undertaken by technicians from Maros. The main advantages of rapid diagnosis will be quicker prophylactic treatment for people bitten by rabid dogs, avoidance of prophylaxis in people bitten by non-rabid dogs and better data on the distribution and spread of the disease.

3. Duck Viral Enteritis Research

The status of duck viral enteritis is unknown in Indonesia. It is a disease of potential economic significance to Indonesia and quarantine concern for Australia, as it has the potential to harm both agriculture (food ducks) and tourism (wild ducks, geese and swans). Subsequent to the successful development of a suite of serological and virus isolation tests by The Australian Animal Health Laboratory (AAHL) in Vietnam, AAHL has now transferred this capability to Indonesia. The consultancy included training in the epidemiology of the disease and limited survey work.

4. Collaboration on monitoring for foot and mouth disease

The program of collaboration on monitoring for foot and mouth disease in Indonesia was planned in response to the diminishing capacity of Indonesia to monitor for FMD in its risk areas during the economic crisis, and its decision to stop importing reagents from the UK following the outbreak there, so that monitoring ceased. The program comprises training in survey design and implementation (complete in June '02), animal disease recognition at AAHL, emergency animal disease response training, public awareness in risk areas and transfer of diagnostic capacity. Biosecurity Australia (BA) has received specific funding for this program and NAQS is sharing the costs of the animal disease recognition training.

International Agricultural Cooperation (IAC)

The International Agricultural Cooperation (IAC) program is funded under AFFA's Farm Growth Through Export Growth project, which is part of the Agriculture Advancing Australia (AAA) initiative. The IAC provides funds for key bilateral cooperation projects with major markets for portfolio exports, including Indonesia, which are strategically designed to assist in the favourable resolution of new market maintenance issues that threaten to disrupt existing markets for Australian agricultural and food products.

The Farm Growth Through Export Growth program complements the work of AQIS and Biosecurity Australia, helping to achieve acceptance of and compliance with Australia's import risk regulations, through negotiation and communication and by providing assistance to key trading partners in the form of education and technical assistance. A focus of the international cooperation activities under the program is to identify opportunities to gain access for new products into existing markets (market development) and to open entirely new markets (market access) to portfolio exports.

Current IAC projects include the following initiatives:

Quality Assurance for Animal Health Laboratories in Indonesia

The aim of this project is to enable animal health laboratories to meet international standards required for certification for export and for testing of imports, thereby facilitating Australian exports of live animals to Indonesia. Proficiency testing of a selected panel of tests is based on the respected Australian National Quality Assurance Program for animal health laboratories. Laboratory managers from the national laboratory and two regional laboratories have been trained in quality assurance systems at AAHL and the Victorian Institute of Animal Science and are currently establishing the panel tests and quality assurance systems in their home laboratories. There will be a period of proficiency testing followed by Australian assistance in rectifying any problems in the testing methodology or QA system.

Milk Hygiene Improvement

Poor milk hygiene in the Indonesian dairy industry results in very high levels of bacterial contamination, and most of the milk produced is used for milk powders. Indonesia is a major importer of Australian dairy products. AFFA is currently coordinating a 'Clean Milk Program' in Indonesia with assistance from the Australian Dairy Corporation. This milk program aims to improve the quality of and consumer confidence in local milk, thus increasing returns to Indonesian producers, and stimulating increased consumption of and demand for fresh milk and other dairy products. It is a win-win situation for both countries since Indonesian farmers benefit through higher returns and Australian industry benefits through exporting more dairy products to an expanded market.

In one element of this project, five workshops were conducted throughout Java in August 2002 providing 134 dairy advisers with training in the basic principles of milk hygiene, and assistance in developing action plans to implement cleaner milk production. The focus has been on post-farm gate hygiene in Milk Collection Centres and Milk Cooling Units. A follow up visit to monitor changes in practice is planned for early 2003. Given the success of this project to date, AFFA is currently considering another Clean Milk Project to train additional Indonesian dairy farmers and milk handlers in milk hygiene and quality assurance with GSLP funding once this present initiative is complete.

AFFA Technical Market Access Program

The Technical Market Access Program (TMAP) component of the NFIS has the objective of facilitating trade to Asian markets, including Indonesia, by addressing, in consultation with industry, technical impediments to Australian agri-food products in international markets. In addition, AFFA's Technical Market Access Program has

helped secure better access for Australian exports through the negotiation of import protocols and clearance procedures. Indonesian protocols and procedures particularly affect Australian bulk products exports such as meat and live animals as well as field crops and horticultural products to the Indonesian market. AFFA's input to bilateral negotiations not only helps to open new markets for portfolio exports but also serves to improve the quality of that access, including by reducing costs to exporters.

Recent activities have included the joint hosting, with Australian industry, of a visit by Majelis Ulama Indonesia for the purpose of accreditation of Australian Islamic organizations for halal certification, presentations to visiting Indonesian authorities on Australia's halal systems and ongoing representations to reverse the proposed restrictions on synthetic hormonal growth promotants (HGP) in livestock and meat production.

Australia – Indonesia Government Sector Linkages Program

The Australia – Indonesia Government Sector Linkages Program (GSLP) is an AusAID administered direct aid program designed to fund capacity building support projects delivered by Australian Government agencies to Indonesian counterpart organizations. AFFA determines portfolio priorities for GSLP projects, which it coordinates to complement related activities in IAC, NAQS and AFFA-administered quarantine capacity building initiatives. AFFA has been granted funds in three GSLP (annual) funding rounds to undertake an ongoing program of quarantine, animal and plant health support for the Province of Papua.

One existing GSLP project (which is administered by Environment Australia) that is contributing to Australia's efforts to improve management arrangements in the MoU Box, is examining alternative livelihood options for traditional Indonesian fishers. AFFA has assisted in the selection of consultants and provided some financial supplementation for this project, which is due to be completed in 2003.

Animal and Plant Health Support for Papua

This project aims to strengthen agricultural quarantine in Papua and develop the animal and plant health capacity required to support quarantine. The strengthened quarantine, animal and plant health capacity will minimise risk of entry and spread of diseases, pests and weeds, some of which have the potential to cause significant economic harm to rural areas, threaten food supplies and affect human health. The risk of spread to PNG and northern Australia will be reduced.

In phase one, activities undertaken included training of field animal health workers in survey design, training of veterinarians in exotic disease recognition at the Australian Animal Health Laboratory, quarantine inspector training, plant health training, and some infrastructure support.

The current phase planned to deliver policy and legislative development, quarantine public awareness, animal and plant health surveys, development of plant health target lists, plant health training and emergency animal disease response training. The policy and legislative components and the public awareness elements are ongoing. The plant and animal health surveys were scheduled with the joint animal and plant health monitoring trips due in late 2002 and early 2003. These activities have now been put on

hold following the 12 October 2002 incident in Bali. The last three components of this phase have been completed successfully.

NAQS and Biosecurity Australia have successfully bid for GSLP funding for a third phase of this project. Phase three has received approval in principle from the Indonesian Ministry of Agriculture and will involve improving animal and plant quarantine inspection systems at seaport and airports, enhancing animal and plant health survey capacity, training and facilities for sugarcane quarantine, training in fruit fly detection and identification, and will build on the previously developed public awareness program.

Komodo Aquaculture Project

Under the 2001 GSLP funding round, AFFA coordinated the delivery of a \$55,000 training program to develop marine finfish aquaculture in the Komodo region. The aims of this project were to provide an alternative source of high-value marine finfish (particularly groupers) and to provide alternative livelihoods for local coastal communities.

Other recent GSLP projects have included support for rehabilitation of an arthropod pest collection in Bogor (2000), and the translation of Australia's food import regulations into Bahasa Indonesia (1999).

New GSLP Projects

AFFA plans to submit proposals in late 2002 for AusAID GSLP funding to support its current work on the MoU Box Management Strategy, and to assist Indonesia to build its fisheries management capacity. Other priority projects in the new GSLP funding round will likely include another milk hygiene project to train additional farmers and Indonesian dairy staff, further stages in the fumigation accreditation scheme for Indonesia, and plant disease herbaria and arthropod pest collections. AFFA will also provide further support to Environment Australia in the management of the GSLP project on Alternative Livelihoods for Traditional Fishers who access the MoU Box.

Australian Centre for International Agricultural Research Activities

While not a portfolio body, the Australian Centre for International Agricultural Research (ACIAR) provides substantive support for Indonesia in a range of projects in agriculture, fisheries and aquaculture, forestry and food production. AFFA Secretary Mike Taylor is a current member of the ACIAR board, and AFFA staff frequently participate in ACIAR projects. Indonesia is a prime recipient country for ACIAR funding.

ACIAR coordinates a number of projects through their Australia-Indonesia Collaborative Fisheries Research program, including hatchery and grow-out technology for grouper aquaculture; remediation and management of degraded shrimp ponds; disease control programs for shrimp farmers; management of shared fisheries (snapper, artisanal shark and ray, tuna); development of mud crab culture centres; and community-based management of Terubuk fisheries. While AFFA plays no direct role in these projects, AFFA often uses the research results to guide management decisions. In particular, the outcome of the shared stocks research will be essential to the joint management of the fisheries, which will be pursued through the AIMF WGMAF.

ACIAR is also supporting a project to assist Indonesia and the Philippines develop a framework for combating illegal, unregulated and unreported (IUU) fishing in northern Indonesian waters. Additionally, expansion of the Indonesian tuna port monitoring program from March 2002 is the first project under the new umbrella arrangement between the Indonesian Ministry of Marine Affairs and Fisheries and ACIAR, and aims to build Indonesian capacity to monitor and manage its Indian Ocean stocks and comply with its international obligations.

Engagement with Indonesia in Regional Fora

Asia Pacific Economic Cooperation (APEC)

Despite its non-binding nature, engagement with the countries of the region through Asia Pacific Economic Cooperation (APEC) has underpinned advances in agricultural trade liberalisation among APEC member economies, including Indonesia. APEC's (Bogor) goals of free and open trade and investment in the Asia Pacific Region by 2010 for developed countries and 2020 for developing countries and its support for trade liberalisation in the WTO have helped boost momentum for WTO trade reform. Thus APEC's objectives are broadly consistent with AFFA's portfolio interests.

Australian leadership is vital to the success of APEC processes, not only in the pursuit of APEC's Bogor goals but also in ensuring the success of APEC's complementary efforts in trade facilitation. AFFA pursues its interests in regional trade and biosecurity issues and supports Australia's leadership role in APEC in part through portfolio participation in APEC sub-fora. In particular, AFFA coordinates Australian Government input to agriculture, fisheries, forestry, processed food and biosecurity aspects of APEC processes, including the Agricultural Technical Cooperation Working Group, the Industry, Science and Technology Working Group (and its Standards and Conformance Subcommittee), the APEC Fisheries Working Group and through support for specific trade facilitation initiatives.

APEC Agricultural Technical Cooperation Working Group

The Agricultural Technical Cooperation Working Group (ATCWG) is APEC's premier forum for addressing areas of technical cooperation and the provision of assistance in the agriculture- and, arguably, food-related fields. The ATCWG has also been a very useful forum for advancing portfolio interests in specific areas, such as biotechnology regulation and electronic transmission of health certificate information. AFFA's support for the ATCWG has been important to Working Group's operations and its successes over a number of years.

Technical Support in Biosecurity

AFFA supports, and has undertaken through ATCWG, a range of biosecurity activities in the region, including Indonesia. In particular AFFA has hosted a number of meetings and seminars that have provided training for scientists and regulators from a range of Indonesian agencies.

AFFA also coordinates priorities for portfolio-related assistance through AusAID's APEC Support Fund and, through its input to ATCWG meetings and briefing provided in support of Australian (non-portfolio) participation in other APEC fora, is able to assist the participation of Indonesia and other countries. APEC-related assistance and

APEC Support Fund funding has substantial spin-off benefits in promoting stronger bilateral relations between Australia and Indonesia. These workshops include:

- APEC Workshop to Contain Transborder Movement of Plant Pests: Diagnostics Brisbane July 2001
- Second APEC Workshop on Phytosanitary Risk Assessment Cairns June 1999, and
- APEC Workshop on Animal Health Risk Assessment Brisbane 2000.

Australia is co-shepherd, with the US, of the ATCWG sub-group on Plant and Animal Quarantine and Pest Management.

Biotechnology Regulation

AFFA has participated in the ATCWG's sub-group on Research Development and Extension of Agricultural Biotechnology (RDEAB). The RDEAB was formed in 1997 to disseminate information on the new technology, to continue technical cooperation, and to encourage capacity building in agricultural biotechnology. As such, RDEAB activities both support Australia's domestic regulatory processes relating to GM products and assist us to influence the GM regulatory regimes of many of our major trading partners. Since 1997 the RDEAB Sub-Group has organised six workshops addressing current issues related to agricultural biotechnology and AFFA staff have been actively involved in these and other elements of the ATCWG over the past five years. These workshops have aimed to promote least trade restrictive and science-based regulation of biotechnological innovations in support of portfolio interests.

APEC Industry, Science & Technology Working Group

While AFFA does not participate directly in APEC's Industry, Science and Technology Working Group (ISTWG), APEC partner countries have, from time to time, used the ISTWG, and its Standards and Conformance Subcommittee, as an alternative forum to raise issues affecting portfolio interests. These have included GM regulation and the promotion of SPS regulation potentially inconsistent with Australia's conservative quarantine regime, as well as capacity building assistance in biotechnology and other areas. AFFA has contributed briefing to and coordination support of non-portfolio participation in the ISTWG and its sub-fora in defence of portfolio interests, and in ensuring that, where possible, agriculture-related issues are addressed through the ATCWG and ATCWG-endorsed processes.

APEC Fisheries Working Group

The APEC Fisheries Working Group (FWG) was created by the 1991 APEC Senior Officials' Meeting and aims to promote:

- the conservation and sustainable use of fisheries resources;
- sustainable development of aquaculture and habitat preservation;
- development of solutions to common resource management and problems;
- the enhancement of food safety and quality of fish and fisheries products; and
- sector specific work relating to trade and investment liberalisation and facilitation.

Aquaculture and trade in live fish have been important foci of the APEC FWG. A number of Australian sponsored projects relating to aquaculture and trade in live fish have been of significant benefit to Indonesia directly, including the *Collaborative APEC*

Grouper Research and Development Network, Farming the Reef and the Capacity and Awareness Building on Import Risk Analysis for Aquatic Animals.

These and other of the FWG projects are undertaken in collaboration with the Network of Aquaculture Centres in the Asia-Pacific (NACA - see Regional Aquaculture Cooperation).

APEC Capacity Building Program

APEC's specific trade facilitation goals include harmonization of regulations, paperless trading and a five percent reduction in transaction costs in the region by 2005. In support of Australia's leadership role in trade facilitation in APEC, AFFA contributes to specific capacity building initiatives in a range of areas of direct and relevance to the trade in portfolio-related goods.

E-Cert Pathfinder

One way APEC pursues its trade facilitation objectives is through so called "pathfinder" initiatives designed to provide models of best practice in trade facilitation in the region. AFFA, with the New Zealand Ministry of Agriculture, is contributing to a major electronic certification pathfinder initiative called "E-Cert".

Australia and New Zealand have secured the adoption of electronic transmission (e-cert) for sanitary and phytosanitary health certificates, as one element of APEC's pathfinder initiatives in electronic transmission of import/export documentation. The E-Cert initiative was approved by the August 2002 APEC Senior Officials Meeting in Puerto Vallarta, Mexico.

Australia and New Zealand have now agreed on a web-based system and will be working together to promote electronic certification in the region. Australia, New Zealand, Canada and the United States have agreed to certify meat trade electronically by mid-2003 and other countries are expected to follow. The system will also be made available for Australian export of dairy, fish, grain and horticulture products.

Electronic transmission of health certificates offers substantial benefits to Australian exporters in reduced costs, timely and secure delivery of data and reduced security risks, as well as offering advantages for public health and food safety and quality of traded goods. As a significant market for Australian meat, AFFA's E-Cert initiative will most immediately improve the trading environment for Australian exports in the Indonesian market and the region.

Movement of Live Aquatic Animals

In May 2000, an AFFA officer and an Australian consultant prepared and delivered a training course on aquatic animal health management to the Indonesia Inter-Institutional Workshop on National Strategy Development for the Implementation of the Asia Regional Guidelines on Health Considerations for the Responsible Movement of Live Aquatic Animals. This workshop was the fourth in a series conducted by AFFA staff in Southeast Asian countries between 1998 and 2000, each supported through AusAID's APEC Support Program.

The Workshop's 45 participants prepared a draft National Strategy document on "Health considerations for the Responsible Movement of Live Aquatic Animals". After

the Workshop, this document was further developed by the participants, approved by the responsible Indonesian authority, and ultimately presented during the Final Workshop of the FAO/NACA jointly sponsored project "Assistance for the Responsible Movement of Live Aquatic Animals".

AFTA-CER Closer Economic Partnership

The dialogue established between the members of the ASEAN Free Trade Area and the Australia New Zealand Closer Economic Relations Agreement for a Closer Economic Partnership (CEP) between the two groupings aims to support initiatives designed to more closely integrate member economies and the region. AFFA supports the harmonisation of regulations and other trade facilitation activities of the CEP through the provision of briefing to CEP meetings and through AFFA's plant health initiatives in the region (see Regional Initiatives in Plant Health). CEP-sanctioned activities to be conducted by AFFA, and involving Indonesia, include:

- participation of several Indonesian institutions in an AusAID-funded stock take and needs assessment of arthropod pest and plant pathogen collections in ASEAN,
- Indonesian participation in an AusAID funded initiative to foster information exchange on plant health among ASEAN countries, and
- a Brunei- and AusAID-sponsored workshop to develop a work plan for developing/rehabilitating arthropod pest collections and plant disease herbaria in ASEAN countries (scheduled to be held in March 2003).

Plant Breeders Rights and the Promotion of Trade in Plant Varieties in the Region

In pursuit of expanded Australian exports of intellectual property in plant varieties through the recognition of Plant Breeders Rights (PBR) in the region, AFFA has encouraged a number of countries, including Indonesia, to join the International Union for the Protection of New Varieties of Plants (UPOV). In support of this work AFFA has conducted a number of recent seminars in the region in which Indonesia has also participated, including:

- a 1996 Workshop in Indonesia on Plant Breeders Rights Issues in Asia;
- a UPOV/WIPO/WTO Seminar on "Sui Generis Systems of Plant Variety Protection" in Thailand in 1999;
- a 1999 Master Class in Intellectual Property Aspects of Biotechnology in Perth, 2 December 1999; and
- a UPOV Regional Technical Meeting for Asian Plant Variety Protection Systems and Workshop on the Principles of Technical Examination and the Preparation of National Test Guidelines in China in July 2001.

While Indonesia is still to become a party to the UPOV convention, it has made substantive progress in implementing a regulatory regime to facilitate the trade in plant varieties, and Australian exports of plant variety rights to Indonesia have begun to flow.

Regional Fisheries & Aquaculture Initiatives

Convention for the Conservation of Southern Bluefin Tuna

Indonesia is an important potential partner in Australia's efforts to pursue sustainable management of the global Southern Bluefin Tuna (SBT) fishery. The only known spawning ground for SBT straddles the high seas and the Indonesian exclusive economic zone, and Australia therefore considers Indonesia's participation in the Commission for the Conservation of Southern Bluefin Tuna (CCSBT) as crucial. Indonesia is also a stakeholder in SBT catch monitoring in Indonesian ports.

Australia is leading efforts to encourage Indonesia to participate as a "cooperating non-member" in the CCSBT. At the recent CCSBT meeting held in October 2002, Indonesia participated as an observer, and good progress was made on a resolution to establish the status of cooperating non-members to facilitate Indonesia's future participation. It is expected this resolution can be agreed out of session. The next step in this approval process is to negotiate requirements for cooperating non-member participation with Indonesia. AFFA's goal is for these arrangements to be finalised before the next CCSBT meeting in October 2003.

In recognition of the importance of SBT catch monitoring to the sustainable management of the SBT fishery, the CSIRO/Research Institute of Marine Fisheries (RIMF) Indonesian port monitoring program was established in 1992. The program is recognised by the Scientific Committee of the CCSBT Commission, in which AFFA participates, as providing the best available data for assessing Indonesian catch of SBT. The SBT program is currently being expanded to include the Indonesian ports of Mauro Baru and Cilacap and the existing program in Benoa has also expanded. The expanded program is a collaborative effort between ACIAR, the Indian Ocean Tuna Commission (IOTC), AFFA, CSIRO, RIMF and the Institut Pertanian Bogor (IPB).

As well as the funding Australia provides through ACIAR and AFFA to the Indonesian port monitoring project (see Australian Centre for International Agricultural Research), Australia is providing funding towards projects in Indonesia that are linked to the CCSBT Scientific Research Program (SRP). The SRP was established by the eighth meeting of the CCSBT in October 2001. The Australian Government has pledged three million dollars over three years to cover Australia's contribution to the SRP.

Regional Aquaculture Cooperation

Australia also enjoys strong collaborative relations with Indonesia on many aspects of aquaculture research and industry development. Strategic linkages and cooperation on joint projects are largely facilitated by inter-governmental organizations such as the Network of Aquaculture Centres in the Asia-Pacific (NACA), APEC Fisheries Working Group (FWG) and the FAO Committee on Fisheries (COFI). Key areas of common interest and collaboration in the Asia-Pacific region include:

- encouraging sustainable aquaculture development for food security, as a source of income and as an ecologically sustainable alternative to illegal and destructive coral reef fishing practices,
- encouraging trade in aquaculture products,
- prevention and management of fish disease outbreaks, and

- joint research and development on the life-cycle and productivity of aquaculture species of shared interest.

One key project on which Australia has been collaborating with Indonesia is the APEC/NACA/ACIAR Collaborative Grouper Research and Development Network. The project assists the development of a sustainable grouper aquaculture industry as a means of addressing the issues of ecologically destructive and illegal fishing practices for live reef and aquarium fish species in the Asia-Pacific region. Productive, on-going working relationships, including research collaboration, have been established between the Gondol Fisheries Research Station, Bali, Indonesia and the Northern Fisheries Research Centre, Cairns, Australia on grouper health and husbandry. Examples of activities undertaken as part of this project include:

- a workshop was held in Medan, Indonesia from the 18th-20th April 2000. The focus of the workshop was on grouper culture, but the workshop explored management strategies required to support the sustainable development of seafarming in the Asian region, with emphasis on technology transfer and management strategies for the benefit of farmers and coastal people.
- a researcher from the Sam Ratulangi University, Faculty of Fisheries and Marine Science, applied for and was awarded an APEC Collaborative Grouper R&D Network staff exchange to undertake collaborative research at Northern Fisheries Centre (NFC), Cairns, Queensland, Australia, to assess methods to selectively breed rotifers in order to develop smaller strains. The exchange was undertaken from August to October 2000.
- a training course on grouper hatchery production was held in May 2002 in Bali, organised and supported by the Ministry of Marine Affairs and Fisheries, Indonesia, NACA, ACIAR and APEC.

Indian Ocean Tuna Commission

After encouragement sustained over several years from Australia, Indonesia indicated in November 2002 its intention to join the Indian Ocean Tuna Commission (IOTC) in 2003. Australia will continue its efforts to facilitate Indonesian participation in the Commission.

Asia Forest Partnership

One initiative discussed at the recent meeting of the World Symposium on Sustainable Development (WSSD), was a proposal to establish an Asia Forest Partnership (AFP) to address sustainable forestry and other issues, including illegal logging, rehabilitation and the control of fire, in the Asia Pacific Region. Indonesia and Japan have already announced an intention to participate, and may invite Australia to join.

While AFFA is concerned that the proposed new regional grouping could duplicate the work of existing fora, it is considered that the AFP could usefully assist with the implementation of the United Nations Forum on Forests (UNFF) work program. No consideration has yet been given to any formal Australian participation in AFP.

The Asia-Pacific Forestry Commission is the regional arm of the FAO Forestry Department (see Multilateral Forestry Cooperation), through which Australia engages Indonesia and other countries on forestry issues.

Regional Initiatives in Plant Health

While the capacity of plant health services in the region is variable, to a greater or lesser extent no ASEAN country can provide an adequate description of the health status of their agricultural crops. As a consequence, Australia is vulnerable to uncertain risks posed by pests and diseases in ASEAN countries to our agricultural industries. AFFA, through the Office of the Chief Plant Protection Officer (OCPPO), supports the improvement of the capacity of regional countries, including Indonesia, to describe the health status of their plant industries in initiatives covering:

- diagnostic capabilities,
- surveys to populate plant disease herbaria and arthropod pest collections,
- skills to maintain disease herbaria, arthropod and pathogen collections to an acceptable international standard, and
- installation of information management tools to allow the extraction and manipulation of data contained in these herbaria / collections.

The purpose of AFFA's regional initiatives in plant health is to expand the network of plant health agencies in the region that collaborate in exchanging information on plant pests of mutual concern and in strengthening plant health infrastructure. Benefits to Australia of this regional outreach include:

- better intelligence on pests and pathogens of concern to Australia;
- improved capacity of the countries of the region to manage plant health in all countries' interests; and
- improved capacity of plant health services in Australia to contain transborder movement of plant pests.

AFFA's regional initiatives in plant health assist Indonesia by improving Indonesia's capacity to manage plant health and boost agricultural productivity, contain the internal movement of plant pests (a major problem for Indonesia), and enhancing the capacity of Indonesian plant health scientists to undertake pest risk analysis and expand opportunities to access new markets (knowledge of the plant health status of a country is fundamental to the capacity to undertake pest risk assessments). As such, these initiatives also support improved bilateral relations with Indonesia and support Australia's exports by improving understanding in Indonesia and within the region of Australia's positions on quarantine-related market access issues.

Future plant health initiatives in the region are supported under the ASEAN Australia Development Cooperation Development (in support of CEP), the APEC Support, GSLP and Quarantine Capacity Building programs administered by AusAID.

3. Agricultural Trade & Investment Environment in Indonesia

Political and Regulatory Environment

Prior to the events of 12 October in Bali, Indonesia's transition to a modern, inclusive and decentralized democracy – after 30 years of autocratic rule – was on a slow but consistent path. In addition, during 2000, 2001 and most of 2002, Australia and Indonesia had achieved considerable progress in overcoming the strains generated by the 1999 East Timor intervention, and in re-establishing a cordial and businesslike relationship. These developments had augured well for a continued expansion of trade in portfolio exports into the future. However, a number of challenges in the political and regulatory environments will continue to confront portfolio exporters, including anti-Western sentiment, corruption, and ongoing changes to the institutional environment.

Anti-Western Sentiment

Following 11 September 2001, the Indonesian Government took a firm approach to protecting foreign interests in the face of rising anti-Western sentiment. Any rise in anti-western sentiment in the context of the current “war on terror” may hamper trade in agricultural and food products with Indonesia. While it is difficult to predict any future change in Indonesian attitudes towards Australia, and it is hoped that the 12 October Bali bombing might dampen anti-western feeling in Indonesia, any changes for the worse may have implications for both bilateral trade and for other processes, such as meetings of the Working Group on Agriculture and Food Cooperation, which support bilateral trade and investment.

Corruption

Though now a more democratic society, Indonesia's institutional environment remains complex, and Indonesia's government and business cultures are often difficult to distinguish. Governmental decision-making is often opaque and regulatory processes lack predictability and consistency, with corruption still a major factor in Indonesian commerce and therefore in portfolio trade with Indonesia. Any further moves by Indonesia in tackling corruption can be expected to deliver greater stability, predictability and cost efficiency to exporters of portfolio commodities, food products and live animals.

Evolving Institutions

Notwithstanding these ongoing difficulties, Indonesia's ongoing democratic maturation was increasingly evident prior to the advent of the Bali bombings, with Australia's bilateral trade in agricultural, fisheries, forestry and food products becoming increasingly subject to the internal political influences on trade that prevail in any large democracy. Analysis of the nature of recently emerged bilateral agricultural trade irritants (see Bilateral Issues) supports this view. It is clear that, given the greater number of emerging trade irritants and the continuing complexity of the Indonesian regulatory environment, the commitment of substantial resources will be needed to even maintain current market access levels for portfolio exports.

Any effects of the Bali bombings on Indonesia's institutional environment remain to be seen. In particular, political factors are likely to come more sharply into focus in the lead in to the 2004 Presidential elections, which are shaping as a considerable challenge for President Megawati Sukarno Putri.

Over the past two years there have also been a number changes in governmental administrative arrangements in Indonesia affecting portfolio interests, including:

- the Indonesian Agricultural Quarantine Agency is now a distinct directorate under the umbrella of the Indonesian Ministry of Agriculture but responsible directly to the Minister of Agriculture (MoA),
- new Directorate Generals in the Indonesian MoA (moved from the Indonesian Department of Industry and Trade) dealing with Agricultural inputs, and with Agricultural processing and marketing, and a food security unit dealing with food safety issues, have been created, and
- a recent restructure of the Indonesian federal system of governance included devolution of responsibility for a number of functions, including economic development as well as responsibility for some quarantine functions, from the National Government to the provinces.

These changes have potential implications for portfolio industries that are currently being examined by AFFA. There are also particular implications for the WGAFIC, including its structure and makeup, and AFFA is considering possible changes to the WGAFIC before it next meets. AFFA will prepare an issues paper for consideration by the WGAFIC Indonesian co-chair.

Economic Environment & Outlook

October 12 Bali Bombing

Indonesia's economic outlook can best be described as uncertain in the wake of the 12 October Bali bombing, with Indonesia's economic growth forecast of 3.9% for 2002 now unlikely to be realised. While the October 12 Bali attack had an immediate and serious impact on the Indonesian economy, particularly the economy of Bali, the economic impact on Australia's valuable agricultural relationship with Indonesia remains to be seen. One key factor will be the impact on the Indonesian currency and its ramifications for trade in portfolio products. Any deterioration in the exchange rate will make agricultural and food imports more expensive for Indonesia and could lead to a contraction in trade. Most immediately, it seems likely that the food service sector, particularly suppliers of western style food aimed at the tourist market, will be affected by a downturn in tourism, at least in the short term. In the context of tighter security arrangements, any restrictions on shipping or personnel movements could also have a negative impact on portfolio trade and investment.

Economic Reforms

Following the 1997 currency crisis, Indonesia accelerated the rate of economic reform, including the removal and reduction of a number of trade restrictions⁷. While over the months preceding 12 October, some trade restrictions were reintroduced and some tariffs raised, Indonesia remains one of the most liberalized markets for agriculture and

⁷ Department of Foreign Affairs and Trade, *Subsistence to Supermarket II: Agrifood Globalisation and Asia; Volume IV: Asia and the Agrifood Trade Framework*, Commonwealth of Australia, 2002. p67.

food products in the region. In particular, the Megawati administration had undertaken a number of positive steps to improve economic confidence in Indonesia. Indonesia had made good progress on IMF-sanctioned reforms, including privatisation of a range of state-owned enterprises, and repayment of its foreign debt. These reforms had underpinned a recovery in the Rupiah and, by the end of 2001, Australian exports of agricultural, food and related exports to Indonesia had recovered to pre-Asian Crisis levels, and seemed set to continue to grow strongly into the future.

Agricultural, Fisheries, Forestry and Food Trade and Investment Barriers

Following the Uruguay Round of WTO negotiations, and in line with APEC's goals of free and open trade and investment in the Asia Pacific region, Indonesia made major tariff reductions on a unilateral basis⁸, applying a range of tariffs on agricultural and food products far below its WTO-bound rates. Since the UR, Indonesia has also reduced and removed a number of non-tariff measures, including local content requirements applying to the dairy sector (removed in 1998) and soybean cakes used for animal feed (removed in 1996).

In late 1997, the Indonesian Government removed the import monopsony of the National Logistics Agency (BULOG) on rice, soybeans, sugar, wheat, wheat flour and garlic. In 1998 the Government abolished the Clove Marketing Board and removed remaining barriers to the domestic sale and distribution of other commodities such as cashew nuts, oranges and vanilla, and cut tariffs on agricultural commodities across the board, to a maximum of five per cent for most agrifood products.⁹ These lower trade barriers since the Uruguay Round mean that any recovery in the Indonesian Rupiah will create the scope for strong growth in portfolio exports to Indonesia.

Casting a shadow on this otherwise progressive outlook is the fact that, since 1998 when import licensing applied for only rice and alcoholic beverages, import licensing has been reintroduced for sugar, soybeans and corn.

Current Bilateral Issues

General

While a number of bilateral issues, including access for Indonesian stockfeed to Australia, and holding orders on imported Indonesian food products, have been a source of irritation over recent years, during the course of 2002 these issues have either been resolved or have diminished somewhat in their significance. Indeed, over recent months, Indonesian grievances have been surmounted by Australian market maintenance concerns for wheat (Bogasari protest purchases from other supplier countries), wheat flour (anti-dumping investigation and tariff rise), sugar (tariff rises) and live cattle and meat (proposed ban on synthetic HGPS), as well as hiccups in customs clearance of pork consignments, and Indonesian requests to inspect all meat establishments exporting to Indonesia.

This recent emergence of Australian agricultural and food market access issues with Indonesia has brought AFFA's contribution to bilateral engagement with Indonesia, including through AFFA-managed bilateral fora, more closely into focus over the

⁸ *ibid.*

⁹ *Ibid.*

course of 2002. This change in the "balance of grievances", combined with the move into overall merchandise trade deficit post-Asian crisis following a number of years of strong merchandise trade surpluses in Australia's favour during the early and mid-1990s, affords an opportunity for AFFA to reconfigure its involvement in the bilateral relationship, including through WGAFC.

Tariffs

Despite reductions in Indonesia's tariffs, remaining exceptions to Indonesia's five percent tariff on agricultural items include vegetable oils (applied at 10%), sugar (up to 35%) and alcoholic beverages (170% for wine & spirits, 40% for beer), and live fish (15%) with quotas maintained only on milk powder (40% out of quota tariff) and rice (90% out of quota tariff).¹⁰ In addition, while in general the Indonesian Government has applied international (Codex) standards in respect of labelling, shelf life, advertising and pesticide maximum residue limits, more sophisticated anti-dumping, quarantine and standards regimes have caused market access difficulties for some Australian food exporters.¹¹ Indonesia also maintains subsidies on fertiliser production.¹²

Reducing these remaining barriers to portfolio exports is most likely to be achieved through WTO negotiations but may also be advanced through bilateral discussions and broad support for APEC processes.

Illegal Fishing and Sustainable Fisheries Management

IUU fishing by Indonesian vessels in the Australian Fishing Zone (AFZ) occurs across the whole of the northern AFZ. Heavy fishing pressure and the loss of marine habitats in Indonesian waters are thought to have made fishing in the AFZ increasingly attractive. Given Indonesia's expressed need for institutional capacity building in its own jurisdiction, and the fact that IUU fishing is one of many challenges faced by Indonesia, Australia will continue its efforts to engage Indonesia in several fora, but primarily the WGMAF, to address this long-running issue.

It has also been identified that Indonesian ports are being utilised by international IUU fishing operators, which primarily target Southern Ocean Patagonian Toothfish stocks. Indonesia has expressed a willingness to work with Australia in eliminating this problem, which Australia regards as a high priority.

Cooperation to progress the MoU Box Management Strategy is also a priority for the bilateral fisheries relationship, along with the cooperative management of shared stocks such as snapper and shark. Australia will also continue to work with Indonesia to facilitate their participation in regional fisheries management organizations such as the CCSBT and the IOTC.

Forest Fire Management

Indonesia has significant and complex fire problems and forest fires cause huge financial losses (the economic and ecological loss due to the 1997-1998 wildfires exceeded several billion dollars (US) (ADB 1999). At the national level, a new Directorate of Forest and Estate Fire Operations was established in early 2000 under the Directorate of Nature Protection and Conservation, Ministry of Forestry and Estate

¹⁰ op cit, pp71-74.

¹¹ op cit, p68.

¹² Ibid.

Crops (recently renamed the Ministry of Forestry). The new Directorate consists of four Sub Directorates that are committed to dealing with the fire problem at a national planning level. However, past experience has shown that national planning efforts have little impact at the provincial and district levels. Development of institutions and organizational structures at the provincial and district levels are needed to focus on environmental and fire prevention education in addition to fire suppression operations.¹³

Many projects relating to Indonesia's fire problems have been undertaken in recent years by Australian agencies. For example, the NSW Rural Fire Service and AusAID completed a project aimed at developing a local and immediate, "on-the-ground" response to forest fires in the province of West Kalimantan and based on this experience, the NSW Rural Fire Service is currently working with the Ministry of Forestry in Indonesia and the ITTO to develop a project proposal to establish a forest fire management service in West Kalimantan. It is hoped that this project will be presented to the ITTO in time for the November 2002 Council meeting round of funding. ACIAR also recently funded a workshop in the Northern Territory that brought together both Indonesian and Australian participants to discuss key fire management issues.

Illegal Logging

Illegal logging is a significant issue in Indonesia at present. Last year AFFA attended an international conference on Forest Law Enforcement and Governance hosted by the World Bank Institute and the Government of Indonesia with funding support from the USA and the UK. The conference resulted in an unprecedented and historic Ministerial Declaration committing those East Asian countries in attendance to combat illegal logging, associated illegal trade, and other forest crimes. The declaration represents the first international commitment by governments to combat corruption in the forestry sector. In order to advance the objectives of the Declaration, governments undertook to establish a regional task force.

In May 2002 in Bali a preliminary meeting of the task force took place, comprising representatives from NGOs, industry, civil society, Governments and other relevant stakeholders. However, Australian representatives did not attend.

¹³ Food and Agriculture Organization, Country Fact Sheet – Indonesia, 2001

Appendix I - Portfolio Related Exports to Indonesia 1991 - 2001

SITC Code	Commodity Category	1991*	1992*	1993*	1994*	1995*	1996*	1997*	1998*	1999*	2000*	2001*
0##	Food & live animals remainder	23,341	27,006	33,890	46,064	40,967	49,725	46,234	19,082	33,121	45,835	56,039
001	Live animals	6,010	9,889	29,391	64,907	143,023	213,691	213,054	17,997	69,308	143,630	174,585
011	Bovine meat f.c.f.	3,877	5,614	11,512	17,151	31,522	41,881	60,904	7,243	36,429	47,794	50,453
02#	Dairy products and eggs remainder					23,318	22,983	23,109	7,643	17,305	22,813	24,447
022	Milk and cream	18,124	16,229	31,250	32,303	25,460	47,864	55,462	37,167	47,766	64,055	90,867
023	Butter	4,925	6,569	12,490	7,356							
041	Wheat	136,087										
046	Flour of wheat					250	123	58	1,700	21,703	19,340	28,647
057	Fruit & nuts fresh or dried	4,662	18,250	30,846	23,189	32,341	35,128	42,487	5,895	12,375	20,760	22,269
061	Sugars molasses and honey					19,546	44,212	60,511	2,603	2,031	1,687	3,065
081	Animal Feed	6,495	13,997	18,487	12,941	13,044	19,048	27,106	6,227	10,466	29,935	38,182
240	Cork and wood						3,629	288	3,903	9,515	31,546	4,292
263	Cotton	186,626	224,793	168,622	155,990	205,213	300,662	366,353	463,645	452,795	436,610	541,548
268	Wool					14,927	17,715	35,589	10,905	6,717	9,588	14,152
650	Textile yarns & fabrics					10,103	14,068	29,159	21,891	27,219		
651	Textile Yarn						3,544	14,729	13,260	16,969	15,823	9,972
988	Confidential items	156,437	311,880	347,003	453,329	469,887	792,885	828,450	696,457	433,228	776,299	797,384

Figures in AUD\$1,000's

*Where no individual values are provided, export figures are included under Confidential Items.

Appendix II – Cairns Group Members

1. Argentina
2. Australia
3. Bolivia
4. Brazil
5. Canada
6. Chile
7. Colombia
8. Costa Rica
9. Fiji (non-current member)
10. Guatemala
11. Indonesia
12. Malaysia
13. New Zealand
14. Paraguay
15. Philippines
16. South Africa
17. Thailand
18. Uruguay