




Submission No 33

Inquiry into Australia's Relations with Indonesia

Organisation: Western Australian Department of the Premier and Cabinet

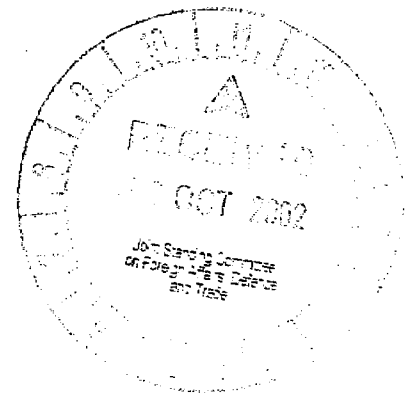
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Department of the Premier and Cabinet
Government of Western Australia

Submission No 33



Mr Cliff Lawson
Secretary
Foreign Affairs Sub-Committee
Joint Standing Committee on Foreign Affairs,
Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Mr Lawson

Review of Australia's Relations with Indonesia

The Chairman of the above Review, David Jull MP, wrote to the Premier in September 2002 requesting contributions from the Western Australian Government.

Western Australian Ministers' Offices were consulted and a number of Western Australian Government Departments have provided submissions. These submissions are attached for the Committee's consideration.

I would appreciate being kept informed of the progress of this inquiry. Should you have any further queries or require further information, please contact Mr Bala Murali, Principal Policy Officer, Federal Affairs, on 08-9222 9516 or e-mail: bmurali@dpc.wa.gov.au.

Thank you for the opportunity to contribute to this important review.

Yours sincerely

Lyn Genoni
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28 October 2002
Att.

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BUILDING AUSTRALIA'S RELATIONSHIP WITH INDONESIA:

SUBMISSION FROM THE DEPARTMENT OF AGRICULTURE, WESTERN AUSTRALIA, TO THE FOREIGN AFFAIRS SUB-COMMITTEE INQUIRY

18 OCTOBER 2002

KEY POINT SUMMARY

1. Western Australia has a strong and established trade relationship with Indonesia. This relationship is largely based around the export of wheat and livestock: Indonesia is Western Australia's third largest agricultural export market.
2. During 2001/02 Western Australian wheat exports accounted for 72% of all Australian wheat exported to Indonesia. In the same period, Western Australia exported live animals to the value of A\$65 m.
3. Indonesia has been identified as one of the most important destinations for future agricultural exports from Western Australia, particularly in the horticulture, livestock, meat and dairy sectors. The Western Australian government and agricultural industry have been working with Indonesia to develop collaborative initiatives of mutual benefit.
4. The Western Australian and Indonesian Ministries of Agriculture have recently drafted a Memorandum of Understanding (MOU) on agricultural cooperation. The purpose of the MOU is to enhance relations between Western Australia and Indonesia and develop cooperation in the field of agriculture.
5. Issues with the potential to impact upon Western Australian trade with Indonesia include the price sensitivity of the Indonesian market, a 10% VAT on cattle imports, and Australian opposition to anti-dumping measures requested by Indonesia flour millers.
6. The Western Australian agricultural sector strongly supports any initiatives designed to build a positive and mutually beneficial relationship with Indonesia.
7. Western Australia and the Department of Agriculture recognise the sensitivities associated with the recent terrorist attack in Bali and will seek direction from State and Federal government agencies prior to progressing involvement in the region.

1. INTRODUCTION

Western Australia has a strong and established trade relationship with Indonesia. This relationship is largely based around the exportation of agricultural commodities. Notwithstanding periods of social and economic upheaval, Indonesia has remained a stable market for Western Australian agricultural exports, particularly in the wheat and livestock sectors.

There are opportunities for Western Australia to build on this relationship and increase mutual trade and investment: the Department of Agriculture is working with Western Australian industry and Indonesian authorities and producers to capitalise on these opportunities.

As Sister-State to East Java, Western Australia participates in technological exchanges and numerous collaborative projects. The Sister-State relationship was established during the 1990s and is managed through the Department of Industry and Technology: the Department of Agriculture actively engages in agriculture-related initiatives.

Whilst there are significant opportunities to increase agricultural trade between Western Australia and Indonesia, the Department of Agriculture recognises the sensitivities associated with the recent terrorist attack in Bali and will seek direction from State and Federal government agencies prior to progressing involvement in the region.

CURRENT AGRICULTURAL TRADE RELATIONSHIP

Indonesia is Western Australia's third largest agricultural export market. In 2001/02 agriculture and fishery exports were valued at \$487 m, an increase of 74% since 1997/98. Close geographic proximity and the need to provide for an increasing Indonesian population, has facilitated this strong trade link. Major exports to Indonesia include wheat, live cattle and meat.

Indonesia is Western Australia's largest wheat export market. During 2001/02 Western Australian wheat exports to Indonesia were valued at A\$381.6 m and accounted for 72% of all Australian wheat exported to Indonesia.

In the same period, Western Australia exported live animals to the value of A\$65 m; the majority of exported animals were cattle. Exports of meat have increased steadily since 1997/1998. In 2001/02 meat exports were valued at A\$17.0m; beef represents the majority of meat exports.

Indonesia is Western Australia's largest export market for sugar. In 2001/02 exports were valued at A\$9.7 million, accounting for approximately 90% of Western Australia's total sugar exports and 70% of all Australian sugar exported to Indonesia.

Western Australia also exports dairy produce, seafood, fresh and frozen fruit and vegetables, and fresh juices to Indonesia.

OPPORTUNITIES AND INITIATIVES

There are significant opportunities for Western Australia to further develop agricultural trade with Indonesia; Indonesia has been identified as one of the most important trade destinations for future agricultural exports from the State.

Export opportunities have arisen for two main reasons. First, the Indonesian agricultural industry is currently unable to satisfy the demands of the nation's growing population. The close geographic proximity of Western Australia places the State in a strong position to help address these shortfalls in domestic supply and to assist in the development of local industry. Second, as Indonesia recovers from recent economic difficulties, agribusiness has become a major growth sector, further increasing opportunities for Western Australian involvement in industry development.

There are mutual benefits to be enjoyed from increased agricultural trade. The low cost of Western Australian commodities can provide an important boost to the competitiveness of Indonesian products and assist in the development of the Indonesian manufacturing sector. Increased exports are of direct benefit to the Western Australian economy.

Mutually beneficial relationships can be built through the transfer of research, education and increased trade. The Department of Agriculture and Western Australian industry is working with Indonesian authorities and producers to capitalise on these opportunities through a number of initiatives.

Horticulture Initiatives: Developing the Indonesian potato industry

Traditionally, potatoes are not part of the Indonesian staple diet. However the introduction of fast food into Indonesia has created a substantial demand for processing potatoes. Consequently, there is significant opportunity to develop the local Indonesian potato industry and increase exports of Western Australian potatoes.

Over the past year, officers from the Department of Agriculture have worked closely with the Western Australian Trade office in Indonesia to conduct a range of industry development programs. During 2002, the Department of Agriculture initiated a six-month seed potato project with the East Java Department of Agriculture. The aim of the project has been to build capacity in agronomy, nutrient and irrigation management, plant pathology, integrated pest and disease management, agricultural economics, group facilitation, post-harvest marketing, and industry development.

In addition, several farmers from the south west of the State have conducted numerous training programs for Indonesian farmers. These programs have had a significant effect in strengthening Western Australian-Indonesian relations.

The Department and Western Australian industry are also working to foster strong relationships with major importers of processing potatoes, in particular, PT Indofood Frito-Lay, and to ensure the consistent high-quality of Western Australian export potatoes.

Livestock Initiatives: Advancing Indonesian management of cattle feedlots

There are considerable opportunities for Western Australia to participate in the supply of breeder stock, feeder and slaughter cattle; feedlot management; abattoir, meat handling and butchering equipment; and education and training programs. There are also opportunities for Western Australia to increase exports of beef and poultry, game meats, offal, mutton, goat and lamb.

To date, the Department has been focused on working with Indonesian importers to improve the management of cattle feedlots. Better feedlot management will ultimately serve to increase the capacity of the feedlots to handle livestock, bringing mutual benefits of increased trade and livestock availability.

Future collaborative opportunities exist in the goat industry: the Department has received requests from the Indonesian government for assistance in reviewing Boer goat-breeding programs in northern Sumatra and in advising on husbandry and nutrition in the Sulawesi goat industry.

Dairy initiatives: increasing milk production and identifying joint ventures

Given the current under-supply of dairy milk in Indonesia, Western Australian involvement in the Indonesian dairy sector has primarily been focused on the provision of fresh milk and the development of the local milk industry. Due to the advantage of close geographic proximity, the most significant dairy opportunity for Western Australia is in the export of fresh milk.

The Department of Agriculture is currently assessing opportunities to increase trade in fresh milk and other dairy products, as well as identifying opportunities for collaborative research and development.

Grains initiatives: building relationships with major wheat importers

Whilst the Australian Wheat Board handles the majority of wheat-related trade negotiations, the State of Western Australia has been actively involved in building strong relationships with major wheat importers, including P. T. Bogasari Flour Mills. Such relationships are considered vital to the continued export of Western Australian wheat.

Memorandum of Understanding: Western Australia and Indonesia

Following extensive discussions earlier this year, the Western Australian and Indonesian Ministries of agriculture have developed a draft Memorandum of Understanding (MOU) on agricultural cooperation. The purpose of the MOU is to enhance relations between Western Australia and Indonesia and develop cooperation in the field of agriculture.

The memorandum provides a framework for developing cooperation and enhancing trade between Western Australia and Indonesia. The focus of the MOU includes training and education, livestock development, horticultural development, promotion of joint ventures and collaboration in quarantine.

The MOU will be valid for a period of 5 years after ratification, which is proposed to take place during November 2002.

ISSUES OF SIGNIFICANCE

Whilst there are significant opportunities to further develop agricultural trade and investment between Western Australia and Indonesia, there are a number of issues that have the potential to impinge on such opportunities. These issues include:

Price sensitivity

As the Indonesia market is still 'immature' it is also highly price sensitive, creating ample opportunities for Western Australian competitors to dump poor quality produce into the Indonesian market at very cheap prices. This is most clearly demonstrated in the market for fresh fruit and vegetables.

10% VAT on cattle imports

Indonesia has had a longstanding Value Added Tax (VAT) of 10% on cattle imports. However for many years the Indonesian government turned a 'blind-eye' to the collection of these taxes. In 2001, the government announced that not only was it to enforce the payment of the VAT, but that it would also seek to recover, retrospectively, taxes for the previous 12 months. Many importers are refusing to pay their tax bill and there is potential for the industry to be badly damaged as importers try to recoup their losses from a price-sensitive market.

10% luxury sales tax on some processed foods

Since January 1, 2001, a 10% luxury sales tax has been applied to certain processed foods including yoghurt, cheese, and butter. Alcoholic beverages such as wine and liquor have to pay 75 per cent luxury sales tax. Such taxes may have a limiting affect on the development of markets for processed goods.

Potential ban on HGP

The Indonesian government is considering a ban on the importation of livestock containing Hormonal Growth Promotants (HGP's). This may have a negative affect on future exports of livestock to Indonesia.

Wheat dumping

Indonesia is the main market for Western Australian wheat; the Indonesian milling company, P. T. Bogasari Flour Mills, is the major importer of Western Australian wheat. In the past 18 months a number of Australian flour exporters have focused on entering the Indonesian market in direct competition to Bogasari. The Australian government recognises that flour exports to Indonesia represent an opportunity, not only to lower the price of flour-based food in Indonesia, but also to enable Australian producers to 'add-value' at source rather than at the final destination. Consequently, the Australian government has been lobbying Indonesia not to impose the anti-dumping measures requested by Bogasari.

The Indonesian government supports this position and as a result Bogasari has lost market share. Bogasari has suggested that if anti-dumping measures are not imposed, they will purchase wheat from sources other than Australia. If such action were to eventuate, Western Australian exporters would be most at risk, as Western Australia supplies the bulk of grain imported by Bogasari.

The anti-dumping issue is currently being negotiated at a national level through the Department of Foreign Affairs and Trade and the Australian Wheat Board.

CONCLUSIONS

Western Australia enjoys a strong and established relationship with Indonesia. Agricultural exports and collaborative initiatives are fundamental to this relationship.

The State of Western Australia is actively involved in furthering its relationship with Indonesia. Western Australian government and industry are involved in numerous collaborative initiatives of mutual benefit, including the development of the Indonesian seed-potato industry, the advancement of cattle feedlot management in Indonesia, and the development of the Indonesian dairy industry. The draft Memorandum of Understanding between the two Ministries of Agriculture aims to cement the existing relationship and provide a framework for future cooperation.

The Western Australian agricultural sector strongly supports any initiatives designed to build a positive and mutually beneficial relationship with Indonesia.

Submission to the Inquiry into Australia's relations with Indonesia Western Australian Culture and Arts Portfolio

For the attention of: The Foreign Affairs Sub-Committee of the Joint Standing
Committee of Foreign Affairs, Defence and Trade

The Planning and Policy Division of the Western Australian Department of Culture and the Arts has prepared this submission. It includes information submitted by ArtsWA (the Western Australian Government agency responsible for arts development) and the Western Australian Museum.

Sister-State Relationship with East Java

In August 1990, a memorandum of Understanding was signed in Perth between Western Australia and East Java, which formally established a Sister-State/Province relationship.

The origins of the relationship emanated in the Western Australian Government's Indonesian Strategy of May 1990 which focussed on a long-term approach to developing Western Australia's trade and cultural linkages with Indonesia, in particular East Java. The key objectives for the cultural exchange program were to develop artist exchange and residency programs, information and reconnaissance exchanges and to provide support for official activities.

The East Java/Western Australia cultural exchange program was the most active and productive of Western Australia's sister-state cultural exchange programs from 1990 to 1995. Numerous artist exchanges were supported between the two states and official visits took place by officials from the Department of Culture and the Arts and its counterpart in East Java. In addition, independent artists and arts workers received State support to develop projects with East Java.

In 1993, the Governor of East Java presented the Western Australian Government with a double instrument Gamelan orchestra set. A conservation plan for the Gamelan has been prepared and it currently resides at Murdoch University. A sculpture, designed and made by Western Australian artists Ann Neil and Steve Tepper, was chosen as the State's gift to East Java.

Apart from one major project involving Perth's Black Swan Theatre Company (explained in the next section), the Sister-State relationship with East Java has been less active from 1995 to present. This can be attributed to changing priorities of Government and a reduction in funds to support Sister-State related activities. However, Indonesia has remained an area of interest for the State's artists and Museum workers and State funds have continued to support many exciting and ongoing projects

Relations with Indonesia – ArtsWA

From 1998 to 2001, ArtsWA implemented a strategy entitled *Expanding Horizons* to guide its support for international arts activity. Included in *Expanding Horizons* was a commitment to development of opportunities with the Indian Ocean Rim nations, including Indonesia. *Expanding Horizons* is in the process of being reviewed.

Exchanges between individual artists and local arts organisations based in Western Australia with Indonesian based artists occur on a regular basis. ArtsWA sometimes make a financial contribution to such activity through its grants program. ArtsWA also makes an annual financial contribution to Asialink for residencies for writers, visual artists, performing artists and arts managers across Asia, including Indonesia.

Three major arts initiatives between Indonesia and Western Australia have occurred in recent times.

- The State of Western Australian has long-standing Sister State relationships with East Java, Indonesia. Black Swan Theatre Company made a very important contribution to the East Java relationship with their 1999 Festival of Perth production of *The Year of Living Dangerously*. Black Swan Theatre Company continues to have a close relationship several arts organisations in East Java and is supported in this work by ArtsWA and the Department of Industry and Technology.
- The 'Gilgamesh Project' brings together a unique partnership of international artists and institutions, including Nova Ensemble of Fremantle, Perth, Warogus of Bandung in West Java, Indonesia and the Daksha Sheth Dance Company of Kerala, India. Initiated in 1999, this project will result in a production incorporating contemporary Indian, Indonesian and Australian dance and music. Previews of this on-going project have featured at the JakArt 2001 Festival in Indonesia and the Perth International Arts Festival (PIAF) in 2001 and the forthcoming 2002 PIAF. ArtsWA has provided financial support for various components of this project from 1999 – 2002.
- There is a long-standing exchange in textile traditions between Indonesia and Western Australia. Most recently, Western Australia textile artist Jennifer Dudley attending the opening and seminars for the exhibition 'Tracking Cloth' in Yogyakarta, Indonesia in 2002. ArtsWA covered the cost of airfares for Jennifer Dudley to attend this event.

Culture and the arts can play a key role in building a positive and mutually beneficial relationship between Australia and Indonesia. This role could be further increased with the provision of specific resources addressed to this end.

Relations with Indonesia – Western Australian Museum

Biodiversity Survey

- The Western Australian Museum has a long-standing and ongoing relationship with its Indonesian national counterpart, the Museum Zoologicum Bogoriense (MZB). For nearly 15 years the two institutions have conducted collaborative research projects on the taxonomy, biogeography and ecology of vertebrate fauna on the islands in the eastern archipelagos of Indonesia, immediately to the north of Australia, which have resulted in the publication of over 80 research papers and the description of over 40 new taxa. Consequently, the Western Australian Museum holds one of the most significant collections of Indonesian fauna outside Indonesia. Several colleagues from the MZB have also undertaken and completed postgraduate training at the University of Western Australia under joint supervision by Museum staff and there have been several exchange programs between staff of the two institutions.

Cultural Studies

- The Museum has a strategic commitment to developing and supporting stronger ties with its near neighbours in the Indian Ocean Rim in the areas of research partnerships, commercial ventures and cultural exchanges. For example in 2001, Anna Edmundson of the Museum's Anthropology Department was sent to Indonesia for one month's intensive language training at Salitiga University in Central Java in order to maintain her high fluency level in reading/writing and speaking Indonesian. Ms Edmundson is currently involved in a long-term research project with the Sabah State Museum in Malaysian Borneo, but will be travelling to Indonesia next year to investigate the possibility of conducting material culture research in Irian Jaya.

Maritime Studies

- The relationship of Western Australian Museum with the DKI Museums Jakarta (Museums of Jakarta province) has come a long way in the last year or so. In May 2001, two staff from the DKI Museums visited the WA Maritime Museum and the WA Museum Geraldton to explore the possibility of building a replica stone portico in Jakarta. Subsequently Museum Bahari organised an International Seminar on the Stone Portico in Jakarta in October 2001. Dr Rik Malhotra was invited to make presentations at the seminar. He gave two lectures – 'Replica Reconstruction of the Portico' and 'Building and Journey of Replica Longboat of Batavia to Jakarta'. He also received a strong interest from the Directors of DKI Museums to set up sister museum relationships as well as in receiving the replica long boat in Jakarta when she sails to Jakarta from Geraldton.
- The interest of the Indonesian Government in the Replica long boat seems to be very strong. On the occasion of the launch of the replica long boat project by the Minister on 9 July 2002, the Cultural Attaché represented the Indonesian Ambassador to Australia. He promised all possible support to the re-enactment of the journey part of the project by the Indonesian Government.

- The Maritime Museum is keen to advance the project involving the delivery of a replica of the Batavia's 1629 stone portico to Jakarta Maritime Museum, symbolically completing the Batavia's voyage.

Exhibition opportunities

The WA Museum is keen to explore synergies between trade and other business and cultural programs. The Museum could develop travelling exhibitions that enhance Trade and business talks, through encouraging better cultural understanding between Australia and Indonesia.

Conclusion

The terms of reference for the Inquiry into Australia's relations with Indonesia include a focus on "building a relationship that is positive and mutually beneficial". Cultural exchange must be acknowledged as an important tool towards this end.

Arts and culture can play a vital role in developing long lasting bonds between people and regions. They are an important dimension of foreign affairs, acting as tools of communication for both government and the community. They help to promote understanding and respect of cultural differences and are invaluable assets in creating goodwill, which is essential to the establishment of ongoing and mutually beneficial trade relations.

Western Australia is uniquely placed to contribute to the development of a stronger cultural relationship with Indonesia. Our proximity to Indonesia and shared identity as countries on the Indian Ocean rim, has led to ongoing cultural relations that could be enhanced and expanded with additional support.



Government of
Western
Australia

**Western Australia's
State Development Portfolio
Response to the Federal
Inquiry Into Australia's
Relations With Indonesia**

Noted

[Signature]

23.10.02

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1 INTRODUCTION

Western Australia enjoys good working relations with Indonesia at the strategic, economic and cultural levels as outlined in this submission.

This submission outlines recommendations to the Federal Government, which will assist in enhancing Government relations with Indonesia.

2 STRATEGIC

2.1 WA Trade Office in Indonesia

Western Australia was one of the first Australian states to establish its own representative office in Indonesia. This office still exists in Surabaya, Western Australia's Sister State/Province. Subsequently, a second office was established in Jakarta in June 2001 to further enhance business and trade opportunities for Western Australian business. The Jakarta office is co-located with the Austrade office, which further enhances trade links between the two countries.

Both offices play a major facilitative role in assisting and supporting Western Australian businesses seeking opportunities in Indonesia and Indonesian businesses considering investment in WA.

2.2 Sister State Relationship

In August 1990, the State of Western Australia and the Province of East Java formally signed a Memorandum of Understanding establishing a Sister State Relationship.

The MOU provides a framework for the development of long-term commercial and cultural linkages. The MOU has identified the following areas of cooperation:

- Economic, Commerce, Industry and Tourism;
- Science, Technology and Administration; and
- Education, Culture, Manpower, Social Welfare, Youth and Sports.

The agreement was signed for a period of 5 years and has subsequently been renewed twice. The latest agreement focuses on a more facilitative role for government including greater funding of activities by the private sector and associated stakeholders.

The MOU also provides a framework for the Western Australia – East Java Exchange Program, which seeks to identify specific projects that can be developed on a collaborative, commercial basis for industry and the service sectors. The activities for the exchange program are negotiated and signed on an annual basis. The 2001/2002 Exchange Program includes areas such as animal husbandry, women's issues, education, vocational school management, environment management, horticulture, fisheries, parliamentary exchange, health and culture.

2.3 Airline Routes

Direct flight routes have been well established between Perth and Denpasar, Bali. More recently direct flights have been established between Perth and Jakarta. From the 28th October 2002 there will be three flights a week by Garuda airlines from Perth to Jakarta. Qantas currently have two flights a week to Jakarta.

2.4 Australia Indonesia Business Council

The Australia Indonesia Business Co-operation Committee (AIBCC) was formed in 1971 with the broad aim of promoting business relationships with Indonesia. Other aims of the Council include providing services to members in relation to Indonesia, fostering friendship and cultural understanding, promoting trade and investment, technical and economic cooperation and tourism between the two countries and assisting Indonesian trade associations in Australia. The WA Branch of the AIBC boasts a healthy and active membership.

When the AIBCC was established, a counterpart organisation was formed in Jakarta and during the past 25 years the two bodies have worked closely together. The two organisations have organised Joint Business Conferences, which have been attended by business people from both countries and often are attended by Ministers from each government. The Department of Industry and Technology (DoIT) is an ex-officio member of the AIBCC.

2.5 Consul of the Republic of Indonesia

The position of Honorary Consul of the Republic of Indonesia was upgraded to a full Consul in August 1993 to represent the Indonesian Government in Western Australia.

The Consulate in Perth facilitates and promotes economic, social and cultural links between the Governments of Indonesia and Western Australia. The Indonesian Consulate in Perth works in four sections:

- **Economic Section:** Promotes trade and economic cooperation by working closely with a number of government and business sectors such as Department of Industry and Technology, Department of Foreign Affairs and Trade, Chamber of Commerce and Industry (WA) and the Australia-Indonesia Business Council;
- **Social and Cultural Section:** Promotes social and cultural links and supports the cultural needs of about 10,000 people of Indonesian origin residing in Western Australia;
- **Consular Section:** Provides consular services and attends to matters such as passports and visas. It works closely with the Department of Immigration and Multicultural Affairs, Australian Police and the Department of Fisheries; and
- **Administration Section:** Attends to all administrative functions required for the smooth operation of the Consulate office.

2.6 Key Visits

During the year 2001/2002 there have been visits by Members of Parliament and dignitaries to both Western Australia and Indonesia. These visits are significant as they signal the strengthening of strategic links.

- the Vice Governor of East Java visited Perth in January 2002;
- the Working Group on Agriculture and Food Cooperation (WG AFC) Meeting was held in Perth from 5-7 March 2002. This meeting was attended by 127 delegates from Indonesia as well as three provincial governors: Governors of Sulawesi, South Kalimantan and South Sulawesi;
- Parliamentary visit to Indonesia by Mr Tony McRae, MLA and Mr Mick Murray MLA in July 2002; and
- Minister of Agriculture, Forestry and Fisheries, the Hon. Kim Chance MLC visited Indonesia in July 2002.

3 ECONOMIC

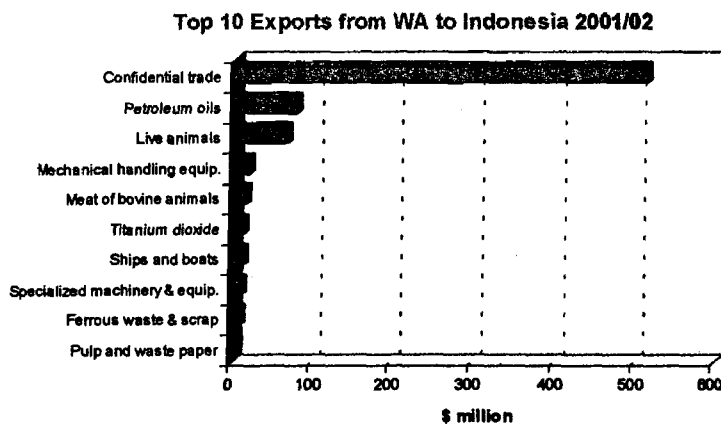
3.1 Overview of Trade and Investment

Western Australia is Australia's most export-oriented State. The State's population of 1.9 million, comprising 10% of the Australian population, produces more than one quarter of Australia's export income.

Western Australia has developed strong commercial links with Indonesia leading to bilateral trade worth close to \$1.8 billion annually.

In 2001/2002 Western Australia generated around \$A800 million of export income from its commercial ties with Indonesia.

The following graph shows the major exports to Indonesia for 2001/2002¹:



During the 2001/2002 period the State imported goods and services to the value of A\$985 million from Indonesia (showing a deficit balance of A\$184 million for Western Australia). Attached is Appendix 1 which provides an export market profile.

3.2 Mineral and Petroleum Resources

Western Australia's mineral and petroleum industries form the foundation that drives the State economy. At over 25 per cent, the sector is the largest single contributor to Gross State product (GSP). Western Australia's largely export-oriented economy is heavily reliant on the resources sector as a source of exports. Western Australia's resources sector exports were valued at an estimated \$A20 billion in 2001/02, making up 66% of the State's exports.

The State's minerals and energy sector set new records in 2001, with the value of sales rising by 5.6% to \$A27.2 billion. On the global stage, Western Australia commands a significant share of world production for a number of commodities. In 2001, 45% of the world's tantalum, 32% of the world's zircon, 27% of the world's rutile, 22% of the world's diamonds, 20% of the world's ilmenite, 20% of the world's alumina, 18% of the world's nickel, 17% of the world's iron ore, 7% of the world's LNG, 7% of the world's gold and 4% of the world's salt were produced in the State.

Around 18 per cent of the State's employment through direct and indirect jobs are related to the resources sector. There are currently approximately \$A30 billion worth of mining projects in WA either under construction or under serious consideration. WA is now the major oil and gas producer in Australia and has more than three quarters of Australia's identified natural gas resources.

WA exports of mineral and petroleum resources to Indonesia have increased by close to \$A54 million over the past 4 years, to be over \$A188 million in 2001. Alumina remains the highest resource commodity export earner for WA into Indonesia, providing over \$A124 million in exports for the State in 2001.

Western Australia and Indonesia share a strong resources and agriculture base to their economies. This has developed mutually beneficial relationships. Examples of

¹ The main items listed under confidential trade include: wheat, diamonds, alumina, nickel and LPG. By request of the industries involved the Australian Bureau of Statistics is not permitted to reveal the specific details relating to the trade of the above items.

significant businesses in that operate in WA and also in Indonesia include Petrosea Clough, Rio Tinto, BHP, CBH Dampier Salt and Phosphate Resources Ltd.

The latest example is the acquiring of 60% stake in gold and copper mines in South Sumatra by the Perth based mining company EXCO Resources (March 2002).

Appendix 2 outlines Western Australia's involvement in trade and investment with Indonesia, in particular highlighting the significance of the minerals and petroleum resources sectors.

It should be noted that while WA is a competitor in some commodities (eg LNG) it is beneficial to both WA and Indonesia to engage in trade in goods and services.

3.3 Agriculture

Agriculture and agriculture-related products represent a major export sector for Western Australia. Wheat sales alone represent over \$A500 million per year.

As mentioned above, the 9th Australia/Indonesia Working Group on Agriculture and Food Cooperation (WGAFC) was held in Perth from 5-7 March 2002. The aim of the Working Group is to increase and strengthen the cooperation between Australia and Indonesia to develop commercial joint ventures and facilitate trade and investment in the food and agricultural sectors.

127 delegates from Indonesia attended the Working Group meeting including three provincial Governors from Indonesia.

Indonesia has a growing demand for potatoes as a result of the boom in fast foods such as French-fries and potato crisps. The WA Department of Agriculture in conjunction with the Western Australian Government's Surabaya office has worked closely with local East Java farmers to assist them improve both the quality and yield of locally grown potatoes. Western Australia is supplying the seed-potato from the Pemberton/Manjimup region.

A "win-win" strategy is currently being developed for the seed potato industry where Indonesia could develop a sustainable potato industry using WA- based seed product and expertise, while simultaneously WA develops its own seed potato industry in a region that needs new export businesses.

The Hon Kim Chance, Minister for Agriculture; Forestry and Fishery visited Surabaya and Jakarta in July 2002 to meet senior government officials, importers of Western Australian products and services, and to receive an update on the developing seed-potato industry which presents opportunities for Western Australia.

The Indonesian government is currently considering imposing a ban either fully or partially on the importation of meat products "that contain growth hormones". This will have an effect on the Western Australian export of meat products.

Recommendation

The Federal Government to encourage the Indonesian government to reconsider its ban on growth hormones.

3.4 Education

There are currently 18,000 Indonesian students studying in Australia. Western Australia due to its location has traditionally been an important destination for students. WA currently has 17% of the total Indonesian student population in Australia. This figure is down from 20% in 1998.

International students studying in Australia provide a significant contribution to our economy: the "multiplier effect" of visiting families for example, places education alongside beef and wool in terms of its export value to Australia. This link with education and tourism provides an opportunity to promote the different tourist destinations in Western Australia to both the students and visiting families.

Though there has been a strong growth in higher education numbers (from 6,257 in 1998, to 9,283 in 2000), the number of students in the fields of vocational, schools and ELICOS (English language) education has dropped sharply. As a result, ELICOS training has fallen by 50% during this period.

The reduction in ELICOS numbers can be generally directed to the more stringent visa requirements for students wishing to study language courses over a shorter time frame in Australia.

The Minister for State Development recently launched the Education Export Strategy. This strategy introduces a number of initiatives to strengthen overseas recruitment and boost Western Australia's profile as an international centre for education.

Developing close links with Indonesia is an integral component of this strategy. The engagement of Indonesian students from different levels ranging from vocational education, tertiary education to professional development will be important to the success of this strategy.

With the regional autonomy implemented a year ago, there is a huge opportunity for training members of the public service. Government Training and Education Institution in East Java have already started sending their public service officers for short courses in WA tertiary institutions. A program for 2003 is currently under discussion. It is planned that the WA Office in Surabaya will be coordinating these courses.

Recommendations

Review the visa requirements for students wishing to undertake short language courses to facilitate the growth in this market.

The Federal Government should seek to invite the States to jointly examine ways in which Australia can maximise opportunities through a more cohesive approach to the education.

3.5 Government to Government Opportunities

Western Australia has the opportunity to provide intellectual property and infrastructure based services to Indonesia. There is also a need for expertise in road construction, town planning, land administration, waste disposal services, general management and human resources training.

WA has worked closely with Indonesia on environmental and sustainable energy projects. For example, the Perth International Centre for Application of Solar Energy (CASE) was established in 1994 by the United Nations Industrial Development Organisation (UNIDO) and the WA Government with support from the Federal Government.

Recommendation

The Federal Government partner with the States to provide the required expertise in environment-related fields, human resources training, town planning, and land management or as requested by the Indonesian government. This can also be done through aid related funding.

3.6 Export of WA health services

Significant opportunities are available to Western Australia for the development of health training programs for health professionals within Indonesia. There also exists a large market for the provision of medical and diagnostic services for individuals in Indonesia seeking world class treatment.

A major inhibiting factor in the development of inbound health programs relates to Australian government requirement that all Indonesian persons seeking medical treatment must undergo an approved x-ray for the possibility of tuberculosis.

This in itself is not a major problem, however in the event that there was to be some indication of a potential presence of TB, the x-ray would then be sent to Canberra to be assessed by a panel of doctors.

Depending on their assessment a visa is then granted or declined.

This process can take up to three weeks, and as patients seeking urgent medical treatment cannot wait this long, the normal result for the person to seek treatment in Singapore or other more accessible locations.

- **The Lions Eye Institute**

The offer of a fellowship at the Lions Eye Institute (LEI) in 1979 to Dr Isiantoro forged a strong partnership with Dr Ian Constable and LEI. This has led to an initiative to enable the latest eye care methods become available to Indonesia's ophthalmology students.

In 1996, an MOU was signed between Airlangga University, Surabaya and the Lions Eye Institute, which was representing the Centre for Ophthalmology and

Visual Science at University of Western Australia. Part of this program is a series of lecture sessions, which will enable professionals from both cultures to share the opportunity to learn and practice the most recent technology.

Through the training of ophthalmology students, this program will assist in increasing the accessibility of the latest eye care methods to people in Indonesia.

- Charity organisations such as the Rotary Club of Cambridge have assisted in establishing the Hearing Centre in Surabaya which was opened in 2001.

Recommendation

Introduce a "telemedicine" system, whereby x-ray images can be transferred direct to Canberra electronically and streamline the assessment process to provide a "same day" response. The facilities for this service are in existence in Jakarta and a move towards improving processing of visas will allow WA to compete with Singapore whose aggressive marketing of inbound health has seen a large number of Indonesians seek treatment in that country in preference to Australia.

3.7 Tourism

The Western Australian Tourism Commission (WATC) has invested in the Indonesian market in varying capacities over the past 10 years.

At the height of its involvement in 1997, the WATC conducted a Brand WA television campaign and was close to establishing a dedicated office in-market. The WATC also had a GSA - General Sales Agent (or representative office) until 1997.

In 1998, following the impact of the Asian crisis, the WATC scaled back its investment in Indonesia, including the severing of ties with the representative office, mirroring the country's rapidly declining outbound travel forecasts. Indonesia was scaled down from a dedicated core market for WA and subsequently has remained a fringe market for the State while the economic and political instability of the region has remained.

Indonesian visitor arrivals to Western Australia peaked in 1996/97 with 46,657 people. A comparison, over six financial years, shows the fluctuation in numbers and economic expenditure.

| Financial Year | Visitor Arrivals | Economic Impact |
|-----------------------|-------------------------|------------------------|
| 1994/95 | 25,481 | \$48M |
| 1995/96 | 43,375 | \$82M |
| 1996/97 | 46,657 | \$90M |
| 1997/98 | 34,275 | \$113M |
| 1998/99 | 28,309 | \$73M |
| 1999/2000 | 23,793 | \$92M |

Visitor numbers have continued a downward spiral with only the wealthy Indonesians able to travel which may have some bearing on the disparate visitor spend which showed a sharp increase in 1999/2000 to \$92M.

Qantas and Garuda Indonesia currently operate a total of 16 flights per week between Indonesia and Perth. Qantas has two services per week Jakarta-Perth and 7 services per week Denpasar-Perth and recently announced three flights per week Jakarta-Perth, which is traditionally a strong indication that outbound market demand for travel is on the increase. Visas, however, remain a major barrier to travel. It currently takes 3 working days to process visa applications submitted by intending travellers in person and 5 working days for those submitted by post. The cost of a visa is 340,000 rupiah.

The tragic results of the terrorist attacks of Saturday 12 October 2002 in Bali will also have a significant impact on international travel patterns although it is too early to speculate to what extent this will impact on Western Australia or Garuda's plans for the extra flights.

Despite the fact that Indonesia has not had a specific funding allocation within the WATC budget for some years, there has been a small amount of activity undertaken in this market each year in order to maintain basic relationships. Activities include participation in the Australian Tourist Commission's annual retail training programs (for travel agents and wholesalers) and the hosting of selected media and trade (travel agents, wholesalers and airline staff) visits. For example, in October this year, the WATC will be supporting an Indonesian film shoot in WA for a mini-series titled "First Love Never Dies".

Recommendation

The Federal Government to examine a reduction in visa application fees for Indonesian citizens and speed up approval times. WA is aware that recent measures by DIMIA may have partly addressed this issue.

4 CULTURAL

4.1 Culture and Community

The following organisations have undertaken community and cultural work within East Java (Western Australia's Sister Province). These projects have been strengthened through the Sister State Agreement and relationships built through this agreement.

- **Black Swan Theatre Trust**

From 1994, Black Swan Theatre began establishing regular contact with artists and performing arts organisations in East Java. Current and planned activities for 2001/2002 include:

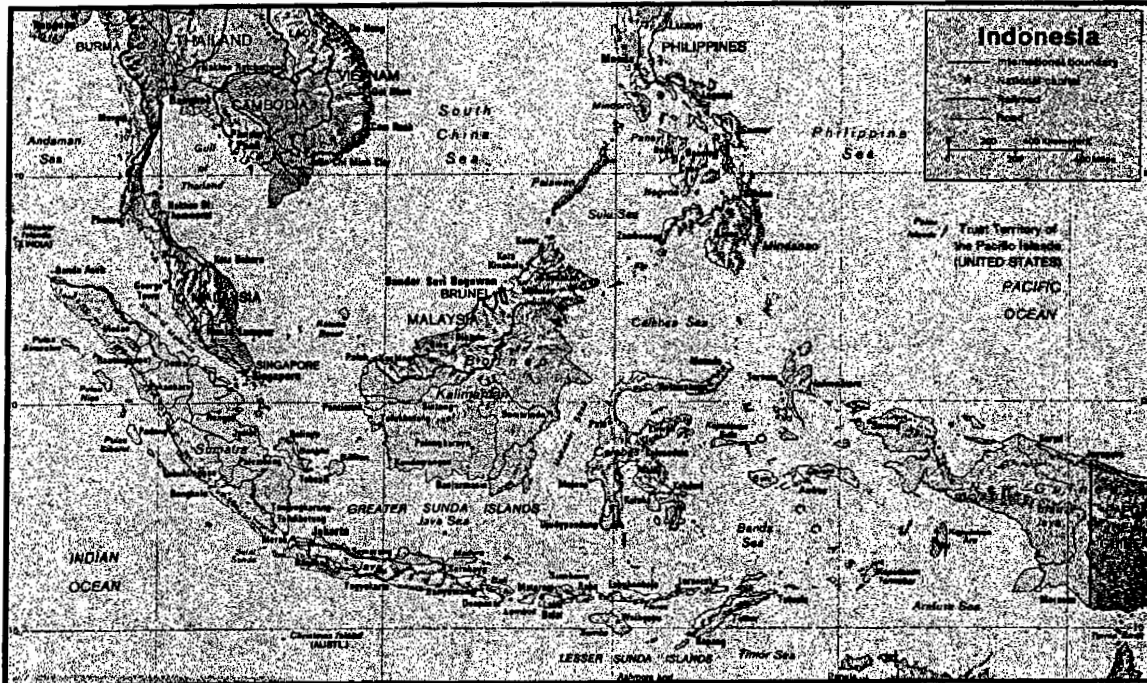
- An active consultative role in the development of the Festival Cak Duraism which was held both in the years 2000 and 2001;
- Assistance in planning and executing an upgrade of technical facilities at the Taman Buaya, Surabaya which includes the training of Indonesian technical staff in WA;

- Developing an ongoing exchange with Yayasan Ibu (a village based youth arts centre) and SMKI (Surabaya's specialist performing arts government secondary school);
- Development of a co-production between the Taman Budaya Surabaya, Black Swan and Spare Parts Puppet theatre of a Wayang Kulit performance produced in two versions for children in Indonesia and Australia; and
- Continued collaboration between Black Swan Theatre and East Javanese artists, which is aimed towards future co-productions.

APPENDIX 1 – Indonesia – An export Market Profile 2001/2002

DEPARTMENT OF INDUSTRY AND TECHNOLOGY

Street Address: 2 Havelock Street, West Perth, 6005



INDONESIA

An Export Market Profile 2001/02

Examining exports from Western Australia to Indonesia comparing:

- Annual export figures
- State share of national exports to Indonesia
- Indonesia and the world – market comparisons

Prepared by the Department of Industry and Technology

Section A

Analysis Of Western Australia's Trade With Indonesia

Section A of this report will briefly describe the position of WA exports and imports with Indonesia. In section B, the major export items will be examined to provide a succinct summary and market perspective of WA's largest exports to Indonesia in 2001/02.

OVERVIEW

Western Australia's total exports to Indonesia have shown some variation over the past ten years. The total export values have exceeded \$400 million since 1993/94. Over the past ten years, Western Australia's total exports to Indonesia recorded an annual growth trend of 4%.

MARKET POSITION

**Western Australia to Indonesia
(merchandise exports only)
Period 2001/02**

Total exports to Indonesia -
A\$801,275,066.

Total exports from WA to the world -
A\$30.2 billion.

Share of WA exports to Indonesia
from total exports to the world: 2.7%

Position of Indonesia out of total
world exports - 8th place (includes
gold).

Previous market shares:
The lowest proportion of Western
Australian exports to Indonesia was
2.2% in 1998/99. The highest was
4.1% for the years 1995/96-96/97.

**Western Australia to Indonesia
(merchandise imports only)**

Western Australia's total imports from Indonesia have grown at an annual trend growth rate of 26% over the past 10 years. The total import value for 2001/02 was \$985.6 million.

Imports generally grew with a steady upward trend with the only significant decline occurring in 1999/00 where imports decreased from \$678.3m in 1998/99 to \$496m in 1999/00, or by 27%.

The largest import item was petroleum oils at \$460.8m, or 46.7% of total imports.

The second largest import was of gold at \$405.8m, or 41% of total imports.

The third largest import was of confidential trade at \$15.5m, or 1.6% of total imports.

The three largest imports from Indonesia to Western Australia in 2001/02 comprised 89% of the total value of imports.

Export Trend

Chart 1

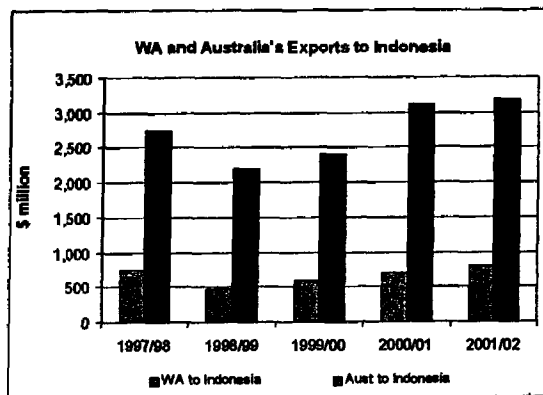


Chart 1: The value of merchandise exports from Australia to Indonesia in 2001/02 totalled \$3.2 billion. Western Australia held 25% of the total for that year.

WA's share of national exports to Indonesia has been steady over the past 5 years. The chart does show that a dip in total exports occurred between 1998 and 2000 and this mirrored the national export trend.

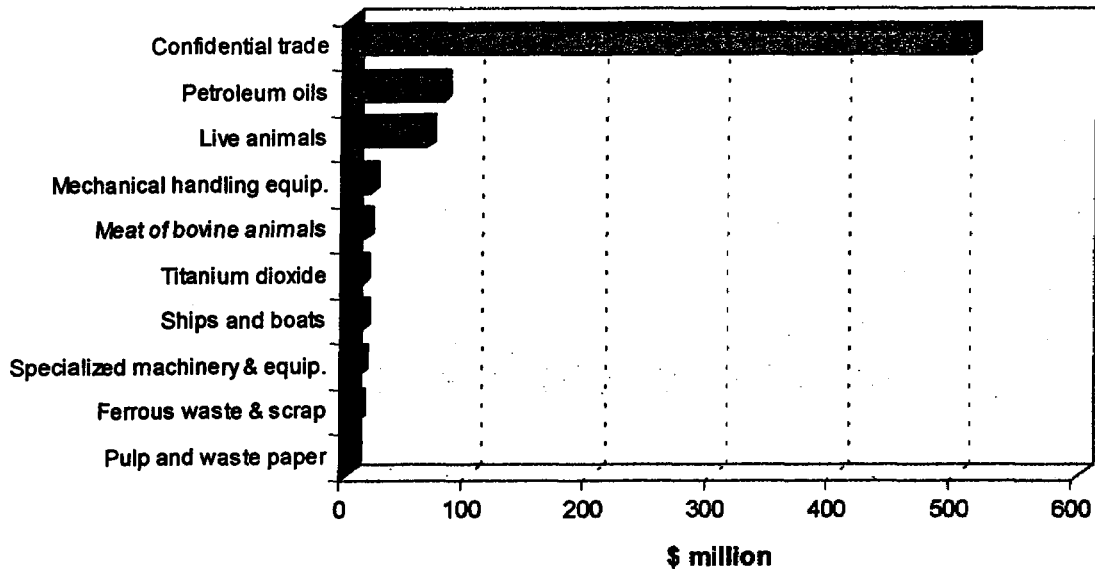
In 2001/02, Australia's top ten exports to Indonesia were:

- 1) Confidential trade at \$779m.
- 2) Cotton at \$456.6m.
- 3) Live animals at \$209m.
- 4) Aluminium at \$177m.
- 5) Milk and cream at \$112.7m.
- 6) Petroleum oils at \$78m.
- 7) Civil engineering equip at \$77.3m.
- 8) Motor vehicles for people transport at \$73.7m.
- 9) Base metal manufactures at \$70.3m.
- 10) Meat of bovine animals at \$57m.

WESTERN AUSTRALIA'S EXPORTS TO INDONESIA – TOP TEN ITEMS

Chart 2

Top 10 Exports from WA to Indonesia 2001/02



Commentary

Petroleum oils constituted 10% of total merchandise exports from Western Australia to Indonesia in 2001/02, with a value of \$78 million. Live animals was a significant item of Western Australia's exports to Indonesia recording a value of \$65 million.

Confidential trade has been the largest value export over the past ten years. The total value of confidential trade exceeded 50 percent of WA's total exports to Indonesia, in the last ten years.

Exports of petroleum oils has fluctuated over the past ten years, with a high of \$149 million in 1994-96 and as low as \$18 million in 1999/00.

Western Australia's Exports to Indonesia by Sector

Chart 3

WA Exports to Indonesia by Sector 2001/02

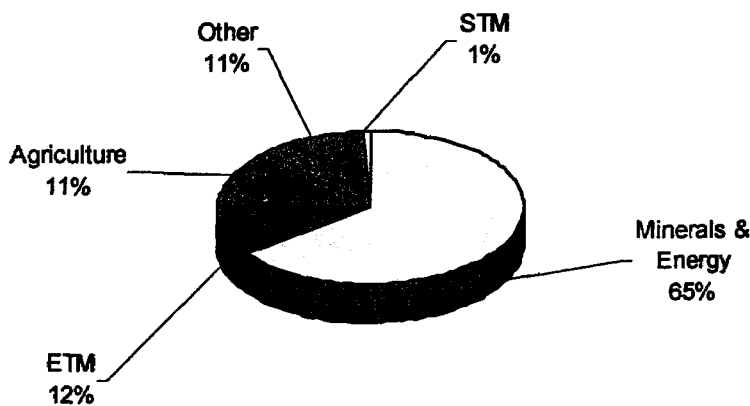


Chart 3 illustrates the proportion of Western Australia's exports to Indonesia by sector.

Minerals and energy comprised the largest sector and most of this was gold and petroleum oils. Manufactures (ETMs) were the next largest sector and grew by 8.6 % over the last ten years. In 2001/02 mechanical handling equipment was the largest manufactured export to Indonesia followed by titanium dioxide.

The other sectors comprised only 23% of all exports from WA to Indonesia in terms of value.

Section B

Commodity – Petroleum oils

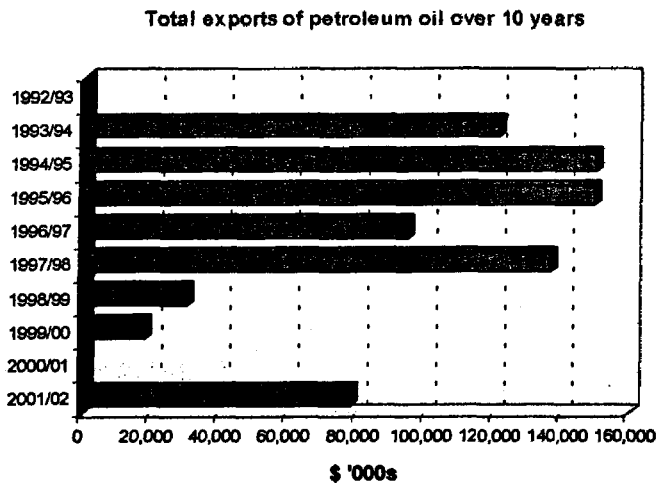


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 1994/95.
Total oil exports for 2001/02 - \$78 million.

Commentary – Western Australia’s exports of petroleum oils to Indonesia was in gradual decline from 1993 to 2000. Exports then increased sharply to significantly higher levels in the last year.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of petroleum oil between Indonesia and the rest of the world.

Period: 2001/02 financial year.
Total worldwide exports - \$4.3bn.
WA exported to 12 countries.

Total exports of oil to Indonesia: \$78 million, or 1.8% of the total.

Top three markets

- South Korea at \$1,251 million, or 29% of the total.
- Japan at \$647 million or 15% of the total.
- USA at \$556 million or 13% of the total.

Top three markets combined equalled 57% of all the oil exports.

Commodity – Live animals

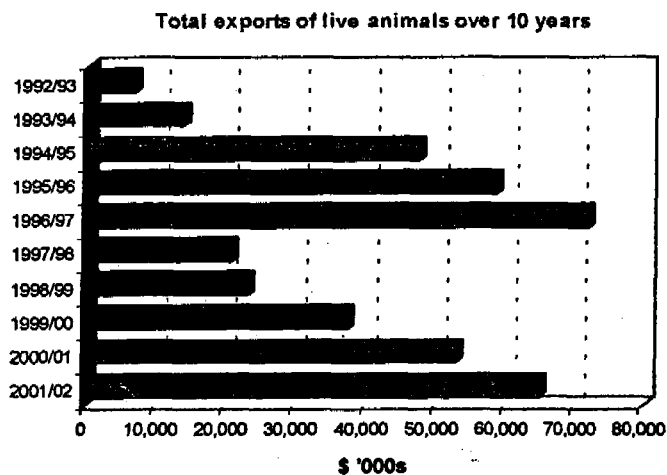


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 1996/97.
Total gold exports for 2001/02 - \$65 million.

Commentary – The value of live animal exports to Indonesia increased to over \$70m in 1996/97. Exports then dropped sharply and began to increase steadily to a new high of \$65m in 2001/02.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of live animals between Indonesia and the rest of the world.

Period: 2001/02 financial year.
Total worldwide exports - \$442.5 m
WA exported to 31 countries.

Total exports of live animals to Indonesia: \$65 million, or 15% of the total.

Top three markets

- Saudi Arabia at \$85 million, or 19% of the total.
- Egypt at \$78 million or 18% of the total.
- Indonesia at \$65 million or 15% of the total.

Top three markets combined equalled 52% of all the gold exports.

Section B

Commodity – Mechanical handling equipment

Total exports of mechanical handling equip. over 10 years

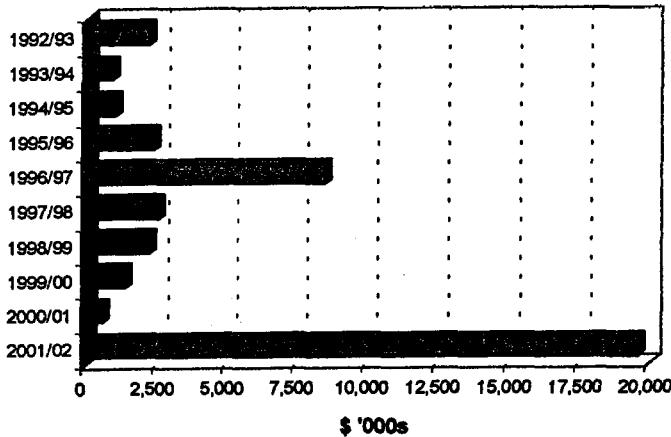


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 2001/02.
Total meat exports for 2001/02 - \$19.5 million.

Commentary – The export value of mechanical handling equipment showed values below \$2.5 million for most of the past ten years. The value for 2001/02 was the highest for that period.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of mechanical equip between Indonesia and the rest of the world.

Period: 2001/02 financial year.
 Total worldwide exports - \$36m.
 WA exported to 45 countries.

Total exports of MHE to Indonesia: \$19.5 million, or 54% of the total.

Top three markets

- Indonesia at \$19.5 million, or 54% of the total.
- Singapore at \$4 million or 11% of the total.
- South Korea at \$2.3 million or 6.3% of the total.

Top three markets combined equalled 72% of all the meat exports.

Commodity – Bovine meat

Total exports of bovine meat over 10 years

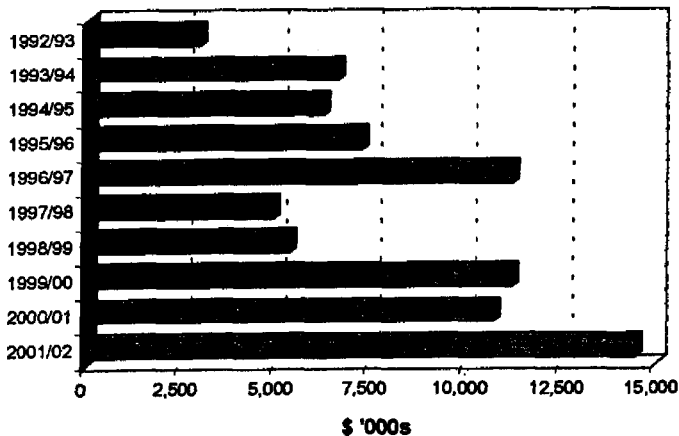


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 2001/02.
Total ship exports for 2001/02 - \$14.4 million.

Commentary – The value of WA's bovine meat exports to Indonesia has been increasing steadily over the past ten years. Bovine meat exports reached their highest value in 2001/02.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of bovine meat between Indonesia and the rest of the world.

Period: 2001/02 financial year.
 Total worldwide exports - \$94.2m.
 WA exported to 40 countries.

Total exports of meat to Indonesia: \$14.4 million, or 15.4% of the total.

Top three markets

- The USA at \$27.4 million, or 29% of the total.
- Indonesia at \$14.4 million or 15.4% of the total.
- South Korea at \$9 million or 9.7% of the total.

Top three markets combined equalled 54% of all the ship exports.

Commodity – Ships and boats

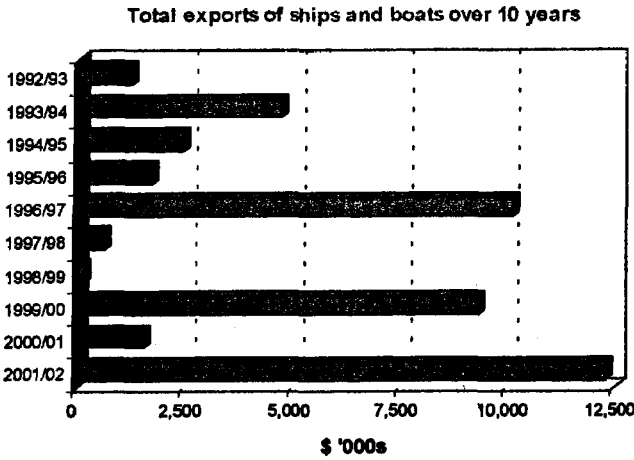


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 2001/02.
Total machinery exports for 2001/02 - \$12.2 million.

Commentary – The chart above shows that WA regularly exports vessels to Indonesia. Their values tend to reflect the kinds of vessels – they are smaller than the largest ferries produced in Western Australia.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of ships and boats between Indonesia and the rest of the world.

Period: 2001/02 financial year.
 Total worldwide exports - \$204.7m.
 WA exported to 40 countries.

Total exports of ships to Indonesia: \$12 million, or 6% of the total.

Top three markets

- Venezuela at \$80 million, or 39% of the total.
- Greece at \$30 million or 15% of the total.
- Singapore at \$23 million or 11% of the total.

Top three markets combined equalled 65% of all the machinery exports.

Commodity – Specialised machinery

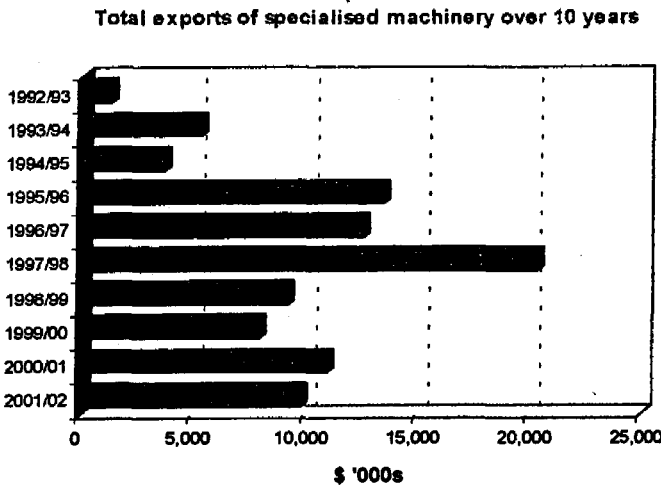


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 1997/98.
Total vegetable exports for 2001/02 - \$9.8 million.

Commentary – Exports of specialised machinery from WA to Indonesia has mostly reflected values between \$9m and \$12m. The chart shows that the export of these items is regular, so Indonesia is an ongoing sales market.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of specialised machines between Indonesia and the rest of the world.

Period: 2001/02 financial year.
 Total worldwide exports - \$93.3m.
 WA exported to 75 countries.

Total exports of SME to Indonesia: \$9.8 million, or 10.5% of the total.

Top three markets

- Singapore at \$22.4 million, or 24% of the total.
- Canada at \$11.2 million or 12% of the total.
- Indonesia at \$9.8 million or 10.5% of the total.

Top three markets combined equalled 47% of all the vegetable exports.

Commodity – Ferrous waste

Total exports of ferrous waste over 10 years

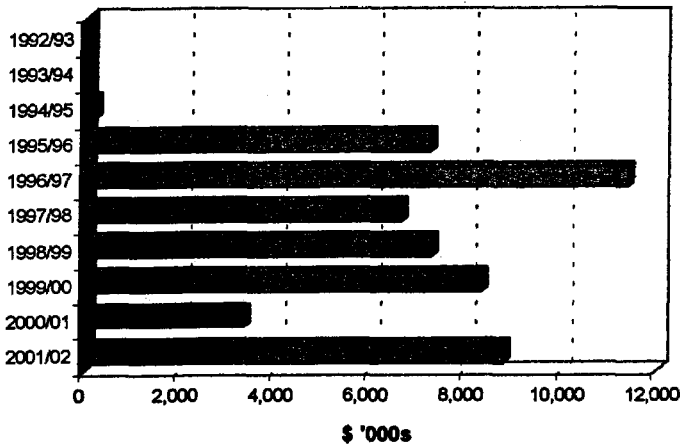


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 1996/97.
Total crustacean exports for 2001/02 - \$8.7 million.

Commentary – Exports of ferrous waste began in earnest in 1995/96. The value of these exports of over \$6 million for most of the last ten years indicates an ongoing export market in Indonesia.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of ferrous waste between Indonesia and the rest of the world.

Period: 2001/02 financial year.
 Total worldwide exports - \$39m.
 WA exported to 12 countries.

Total exports of ferrous waste to **Indonesia:** \$8.8 million, or 22.5% of the total.

Top three markets

- China at \$11 million, or 28% of the total.
- Indonesia at \$8.8 million or 22.5% of the total.
- Malaysia at \$6.8 million or 17.5% of the total.

Top three markets combined equalled 68% of all the crustacean exports.

Commodity – Pulp and paper

Total exports of pulp and paper over 10 years

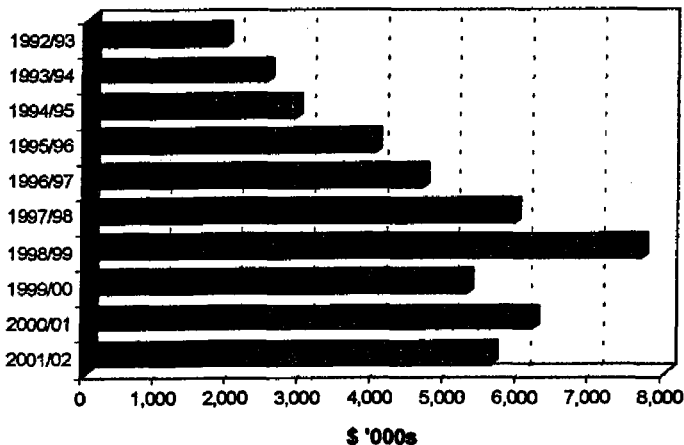


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 1998/99.
Total crustacean exports for 2001/02 - \$5.6 million.

Commentary – Exports of pulp and paper increased steadily since 1992/93. Total values levelled off in the last three years.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of pulp & paper between Indonesia and the rest of the world.

Period: 2001/02 financial year.
 Total worldwide exports - \$7.7m.
 WA exported to 9 countries.

Total exports of pulp & paper to **Indonesia:** \$5.6 million, or 73% of the total.

Top three markets

- Indonesia at \$5.6 million, or 73% of the total.
- Philippines at \$1.2 million or 15% of the total.
- China at \$0.6 million or 8.6% of the total.

Top three markets combined equalled 96.5% of all the pulp & paper exports.

Commodity – Titanium dioxide

Total exports of titanium dioxide over 10 years

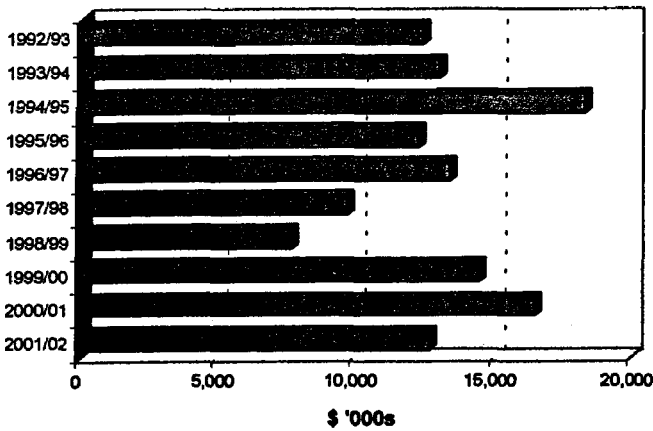


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 1994/95.
Total oil exports for 2001/02 - \$12.6 million.

Commentary – The chart above shows that Indonesia is an ongoing export market for the sales of titanium dioxide.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of titanium dioxide between Indonesia and the rest of the world.

Period: 2001/02 financial year.
Total worldwide exports - \$453m.
WA exported to 57 countries.

Total exports of titanium dioxide to Indonesia: \$12.6 million, or 3% of the total.

Top three markets

- China at \$106.5 million, or 23.5% of the total.
- South Africa at \$106.4 million or 23.5% of the total.
- Thailand at \$39 million or 8.6% of the total.

Top three markets combined equalled 55.6% of all the titanium dioxide exports.

Commodity – Civil engineering equip

Total exports of civil engineering equip over 10 years

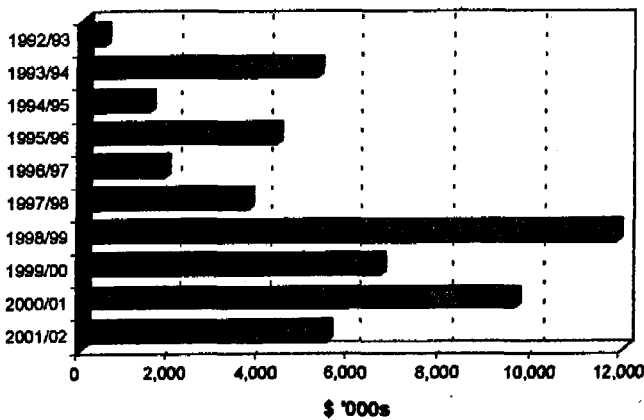


Chart 1 – summary (exports to Indonesia)

Period - Annual figures for the last 10 years.
Year of highest export value – 1998/99.
Total gold exports for 2001/02 - \$5.4 million.

Commentary – The value of engineering equipment exports tend to reflect differences in the kinds of equipment being exported. However, Indonesia is an ongoing market for WA.

MARKET PERSPECTIVE

Comparison - Western Australia's exports of civil eng. equip. between Indonesia and the rest of the world.

Period: 2001/02 financial year.
Total worldwide exports - \$58.8m.
WA exported to 85 countries.

Total exports of civil eng. equip. to Indonesia: \$5.5 million, or 9.3% of the total.

Top three markets

- Singapore at \$11 million, or 19% of the total.
- South Africa at \$5.8 million or 10% of the total.
- Indonesia at \$5.5 million or 9.3% of the total.

Top three markets combined equalled 38% of all the civil eng. equip. exports.



APPENDIX 2 - MINERAL AND PETROLEUM RESOURCES

Indonesia's Mineral and Petroleum Resources Sector

- With a diverse population of 216 million, Indonesia ranks as the world's fourth most populous country, and the world's third largest democracy. Indonesia relies heavily on the mineral and petroleum resources sector to generate income for the country, to service this immense population.
- Indonesia's natural resources include petroleum, natural gas, tin, nickel, bauxite, copper, coal, gold, silver and timber. Indonesia is the world's largest liquefied natural gas (LNG) exporter and a competitor to WA in world energy markets, particularly Asia. Indonesian projects also compete in markets serviced by the Australian mining industry. Indonesia is not an annex B country under the Kyoto Protocol and as such, has no greenhouse gas obligations. It can develop projects with potentially easier environmental requirements than similar projects in Australia.

Indonesian LNG

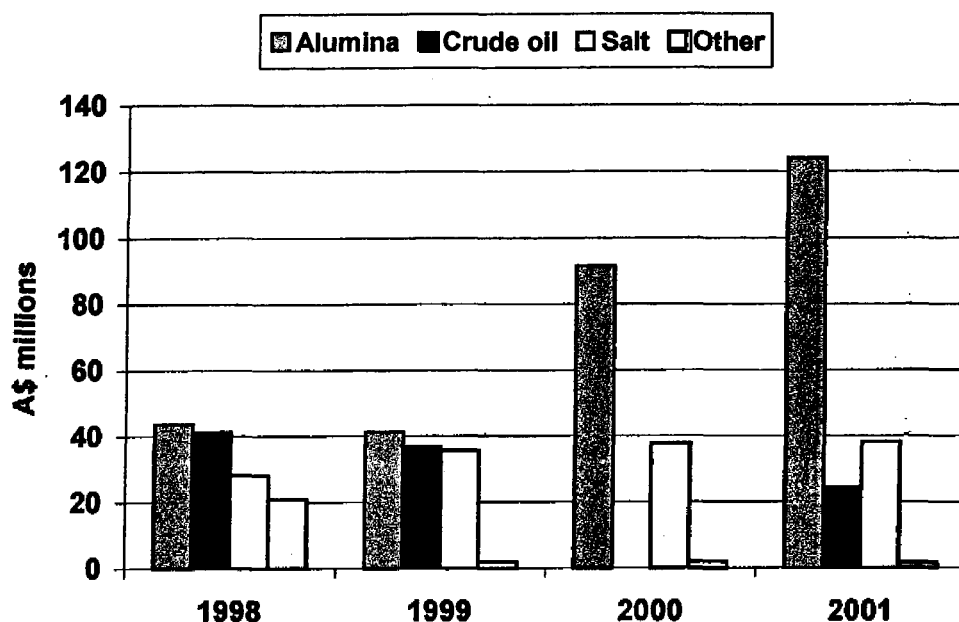
- Indonesia has proven natural gas reserves of 92.5 trillion cubic feet (Tcf). Despite its significant natural gas reserves and its position as the world's largest exporter of liquefied natural gas (LNG), Indonesia still relies on oil to supply about half of its energy needs. As Indonesia's oil production has levelled off in recent years, the country has tried to shift towards using its natural gas resources for power generation. However, the domestic natural gas distribution infrastructure is poorly developed.
- ExxonMobil's Arun LNG export terminal was the focus of much attention in 2001, as it was forced to cease operations due to security problems from the ongoing conflict in Aceh. The facility reopened in August 2001, and has resumed supplies to its customers in Japan and South Korea. The Arun fields are in decline and are expected to cease production within 5 years.
- Earlier this year, China informed LNG supplier projects in WA, Indonesia and Qatar that they were shortlisted to bid for the supply of LNG to the Guangdong project. Western Australia was eventually successful in obtaining this contract.
- Indonesia is lobbying China to buy LNG from its proposed Tangguh LNG project located in the Berau-Bintuni Bay region of Papua, approximately 3,200 km from Indonesia's capital, Jakarta. The processing facility is expected to initially consist of two offshore production platforms, two LNG processing trains, storage tanks and an LNG tanker loading terminal, as well as an aircraft landing strip, maintenance facilities, offices and a personnel accommodation complex. A development decision is expected to be made in 2002, allowing the 42 month construction programme to commence in 2003 and LNG exports to begin in 2006. The LNG will be purely for export to markets in East Asia.

WA Exports and Investment In Mineral And Petroleum Resources With Indonesia

WA Exports of Mineral and Petroleum Resources

- WA exports of mineral and petroleum resources to Indonesia have increased by close to \$A54 million over the past 4 years, to be over \$A188 million in 2001 (refer to Chart 1). Alumina remains the highest resource commodity export earner for WA into Indonesia, increasing from \$A44 million in 1997 to over \$A124 million in 2001/2002

Chart 1 : WA Mineral and Petroleum Resource Exports to Indonesia



Source: Dept of Mineral and Petroleum Resources

- Western Australia produces about 30% of the world's traded salt (about 4% of the world's total salt production). There are three major WA salt producers, Dampier Salt Limited, Onslow Salt Pty Ltd and the Shark Bay JV, which export salt to Indonesia. Onslow Salt Pty Ltd exported its first shipment of salt to Indonesia in April 2001. The company is owned 92% by Salt Asia Holdings and 8% by Gulf Holdings. An Indonesian company, Sempurna Caturguna, owns 3% of Asia Salt Holdings. The majority of Asia Salt Holdings is held by the large chemical company, Akzo Nobel.

Indonesian Manufacturing on the North West Shelf

- Indonesia will benefit from the construction phase of the North West Shelf Venture's new 42 inch trunkline. Following an international competitive tender process, the offshore installation contract for the trunkline was awarded to Saipem (an Italian company). Under the contract the pipe is being manufactured in Japan and weight-coated with concrete in Indonesia's Batam Island facility.

WA Investment in Indonesian Resources Projects

- WA and Indonesia share a strong resources and agricultural base to their economies. This has developed mutually beneficial relationships. Examples of significant businesses that operate in WA and also in Indonesia include Petrosea Clough, Caterlink Pty. Ltd, Rio Tinto, BHP, Newcrest Mining, Straits Resources, CBH Dampier Salt and Phosphate Resources Ltd. The latest example is the acquiring of a 60% in a gold and copper mine in South Sumatra by the Perth based mining company EXCO Resources (March 2002).
- Rio Tinto owns 90% of Pt Kelian Equatorial Mining (gold/silver) open pit mine in East Kalimantan, which employs 1000 people. Production commenced in 1992, with 400,000 ounces of gold produced annually.
- Newcrest Mining has an 82.5% share in the Gosowong open cut (gold) mine in the Maluku province of Halmahera Island. It produces 226,000 ounces of gold annually.
- Rio Tinto owns 50% of Kaltim Prima (coal) open pit mine in East Kalimantan, part of Borneo. It produces a low sulphur steam coal mined under a coal agreement with the Indonesian Government, which entitles the Government to 13.5% of annual output. Production commenced in 1991, at a rate of 15 Mt/a.
- Straits Resources owns the Sebuku (coal) mine, in the South East Kalimantan. It is an open cut operation employing 470 people. Mining commenced in 1997. It produces 5 Mt/a of coal.

BUILDING AUSTRALIA'S RELATIONSHIP WITH INDONESIA:

SUBMISSION FROM THE DEPARTMENT OF FISHERIES, WESTERN AUSTRALIA, TO THE FOREIGN AFFAIRS SUB-COMMITTEE INQUIRY



29 OCTOBER 2002

INTRODUCTION

Western Australia and the Department of Fisheries recognise that fisheries sustainability is a global issue and the need for an international and cooperative approach is required. In that context, the Department has increasingly developed its service capability to assist other countries to develop and build their fisheries management capacity.

Western Australia has had a Sister State/Province relationship with East Java since 1990. The Sister-State relationship is managed through the Department of Industry and Technology. The Department of Fisheries has been actively engaged in fisheries-related initiatives under this relationship and has also engaged in other development projects in other parts of Indonesia.

The Department of Fisheries strongly supports any initiatives designed to build a positive and mutually beneficial relationship with Indonesia. Fisheries management failure in Indonesia can lead to negative impacts on Australian fish stocks.

Trade in seafood products between Indonesia and Western Australia is minimal at present and this situation is reflected nationally with seafood product imports into Australia from Indonesia during 2000-2001 accounting for only 3% of the total value (ABARE, 2002). However, Indonesia may increase as a source of frozen fish products and prawns in future years as it further develops its fish and seafood culture capabilities.

OPPORTUNITIES AND INITIATIVES

There are a number of opportunities for Western Australia to further develop fisheries / seafood trade with Indonesia. It is a developing market and is ideally placed due to its near proximity as a future important trade destination for the State.

In addition, mutually beneficial relationships can be built through the transfer of research and training and through the building of capacity. Wherever possible, the Department of Fisheries works with Indonesian authorities to capitalise on these opportunities through a number of initiatives, such as:

Fish Health Initiative: Sustainable development of smallholder shrimp farming

The culture of freshwater, brackish water and marine seafood products represents a significant component of overall fisheries production in Indonesia. The sector is a

major income source or direct employer for hundreds of thousands of people; it also generates substantial employment and income in local supply industries as well as in shrimp processing, distribution and retailing.

However much of this activity is carried out intensively and under conditions where water quality is poor. Recurrent outbreaks of infectious diseases, particularly those caused by viruses, have caused major losses of farmed shrimp across the region. As a result, many smallholders, who comprise the vast majority of shrimp farmers in Indonesia, have accumulated heavy debts.

Key issues in sustainable development of shrimp farming are economic efficiency, ecological security and social equity. The adoption of effective disease control programs can restore confidence and contribute significantly to farm profitability. Integrating those programs with best practice farm-level management systems can minimise such adverse environmental impacts as self-pollution and pathogen spread. Focussing on smallholders can enhance social equity.

Consequently, there is significant opportunity to develop the Indonesian smallholder shrimp farming capacity through the adoption of sustainable development processes that incorporate effective disease control programs.

The concept of a fish health diagnostic service is now well established in Indonesia and five regional fish health laboratories have been constructed using loan funds from Japan. Over the past year, officers from the Department of Fisheries have worked in conjunction with the Australian Centre for International Agricultural Research and the Indonesian Ministry of Marine Affairs and Fisheries to conduct two intensive training courses in fish health diagnostic techniques for staff to run the laboratories. The courses have initially been delivered in Jepara, Central Java with later courses planned for Bangil (East Java), Gondol (Bali) and other locations over the next 3 to 4 years.

The aim of the project has been to build capacity in histology, fish pathology, integrated pest and disease management, post-harvest marketing and industry development.

Advanced "train the trainer" type training to Indonesian fish disease specialists will occur in Western Australia during December 2002. This training will equip those attending with the skills to train technical staff on their return to Indonesia.

The project will have important benefits for scientific capacity in Australia and Indonesia. In developing and validating the disease control programs, researchers and diagnosticians must work closely with farmers and hatchery operators. Subsequently, these groups must collaborate with extension workers (from both government and private sectors) to develop cost-effective training and extension methods to ensure the programs are widely adopted. The training required, the methods used and the links established through these activities will significantly improve collective capacity to deliver other important research results effectively to farmers in the future.

Fisheries Management Initiative: Building Indonesian fisheries management capacity

In the early part of 1998, officers from the Department of Fisheries undertook a small but significant project involving capacity building and community development work in an area to the south east of Sulawesi in Indonesia. The area has a population of 75,000 people and included the Wakatobi National Marine Park. The project, which was funded by AusAID resulted in the training of 83 Marine Park Rangers in marine operations, fisheries management, fisheries compliance and community education skills; the development of alternative income producing opportunities for local fishing communities and facilitated cooperation between government officers and fishermen to protect and conserve marine resources.

Aside from improving the situation in Indonesia, a concurrent outcome was to reduce the desirability of fishermen from the Bajo ethnic group from venturing illegally to Australian waters by creating fisheries sustainability at home. The project was not continued due to internal stability issues in Indonesia. However it serves as an example where low cost targeted development work can be successful. Anecdotal evidence suggests that incursions by these fishermen did reduce as a result of the project, thereby saving considerable surveillance and enforcement costs. In more recent times, aspects of the project have been taken up by the Wallacea Foundation of the United Kingdom which was already active in the area and incorporated into their structured study program for volunteer expeditionary courses by UK University academics.

The project was only possible because of in-kind contributions by a number of government agencies and access to the Government Sector Linkages Program (GSLP) source of funding. An observation made by the Department of Fisheries in relation to Australian sponsored international development projects is that there appears to be a funding gap between small projects that can be funded by schemes such as the GSLP and those that go out to tender for delivery by a professional project manager. The gap involves small to medium projects that only involve government agencies and can result in significant improvements in capacity building, governance and community development.

Sustainability Initiative: Monitoring Control and Surveillance of the MOU Box

The MOU signed between Australia and Indonesia in 1974 allows traditional Indonesian fishers to take fish and certain sedentary species within an area offshore of and adjacent to north-western Western Australia. The area is commonly referred to as the MOU Box. In recent years, large numbers of Indonesian fishing vessels have been detected and apprehended outside of the MOU Box, drawn there by improved catches.

However, the number of detected incursions by Indonesian fishing vessels outside of the MOU Box last year was significantly lower than in previous years and the number of apprehensions also dropped. Western Australia is concerned that fisheries sensitive areas need to continue to receive an adequate degree of surveillance effort and not be displaced through other competing border security tasks.

The types of vessels and fishing activities encountered do not appear to have changed markedly in recent years. Apprehended boats are Type II motorized vessels that have fished to the east and outside of the MOU Box, targeting shark which is sold for around a maximum of 900,000 Indonesian Rupiah per kilogram of dried fin (approximately AUD\$180). Of concern however, is that the traditional use of handheld fishing lines and shark rattles has all but disappeared and been replaced by longlines. This contributes significantly to the depletion of shark stocks in the area due to increased efficiency. In addition, the practice of only taking shark fins and not the whole of the lower-priced fleshy body needs to be discouraged.

The main operations inside the MOU Box continue to be carried out by vessels from Roti which have targeted areas around Browse Island and Scott Reef due to significant stock depletion in other areas. Target species are shark, reef fish and small trochus.

Western Australia continues to have concerns regarding the state of health of sedentary and other fish stocks within the MOU Box area. It also has significant concerns about the associated and illegal take of turtles by Indonesian fishermen. Improved management of the MOU Box area is required to achieve a decrease in illegal activity and to improve the viability and diversity of fish stocks.

While these objectives are of primary concern to Australia they can only be achieved with the support and involvement of Indonesia. It is therefore extremely important that channels of dialogue between Indonesia and Australia remain open in relation to the management of the MOU Box area. In this context, the recent formation of the Australia-Indonesia Ministerial Forum Working Group on Marine Affairs and Fisheries, and its associated discussions on bilateral fisheries arrangements, is vital.

Western Australia is committed to continuing involvement through that forum and seeks recognition from the Commonwealth that it will continue to be invited to participate in the dialogue and negotiation process.

CONCLUSION

Western Australia and Indonesia lie in close geographic proximity. Shared fish stocks that are sustainable is in the best interests of both Indonesia and Australia. Building on opportunities to co-manage fish stocks can assist in the development of a strong relationship between the two countries. Trade in fish and seafood products can increase also through those opportunities.

The State of Western Australia strongly supports any initiatives designed to build a positive and mutually beneficial relationship with Indonesia.