USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary - Public

Date: 9/12/2018
GAIN Report Number: ID1825

Indonesia

Post: Jakarta

Indonesia Concludes Negotiations on FTA with Australia

Report Categories:
Agricultural Situation

Approved By:
Garrett McDonald
Prepared By:
Garrett McDonald

Report Highlights:
After more than seven years of intermittent talks, Indonesia has concluded negotiations on a Free Trade Agreement with Australia. The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) provides preferential access for a number of Australian agricultural products. Importantly, IA-CEPA also provides a framework for addressing non-tariff measures and allows for automatic issuance of import permits for Australian live cattle, frozen beef, sheep meat, feed grains, citrus products, carrots, and potatoes.

General Information:

On August 31, the Government of Indonesia (GOI) and Government of Australia (GOA) announced the conclusion of trade negotiations under the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). IA-CEPA builds on an existing free trade agreement, the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), further reducing tariffs and providing additional cooperative mechanisms for addressing non-tariff barriers and import licensing.

Perhaps the most significant feature of the agreement is not the related to a reduction in duties or quota allotments for various products, but rather that Indonesia will "guarantee automatic issue of import permits for key products." It is unclear if this automatic issuance of import permits refers only the Ministry of Trade issued SPIs (Import Permit) or if it also extends to the Ministry of Agriculture RIPHs (Import Recommendation).

The agreement is still pending final translation, review, and approval by both countries. The table below shows initial outcomes for selected products and comparable tariffs or barriers for U.S. origin products.

Products	Treatment at Entry Into Force	Longer Term Outcome	Current U.S. Tariff
Live Male Cattle	Duty free (from 5% tariff) access for 575,000 cattle in one year	4% annual growth in volume reaching 700,000 by year 6. A review for subsequent increases	*No Live Cattle Protocol in Place* 0%
Frozen Beef	Tariff cut to 2.5% (from 5%) and access for unlimited volume	Elimination of tariff after 5 years	5%
Sheep Meat	Tariff cut to 2.5% (from 5%) and access for unlimited volume	Elimination of tariff after 5 years	5%
Feed Grains	Duty free access for 500,000 tons in year one	5% annual growth in volume thereafter	*All Feed Grains Currently Restricted* Wheat : 0%

			Rye : 5% Barley : 0% Maize : 5% Rice : Rp. 450/kg Sorghum : 0%
Sugar	Locked in 2017 "early outcome" of reduction of tariff to 5%	Ongoing	Raw sugar from cane : Rp. 790/kg Refined sugar from cane : Rp. 550/kg White sugar from cane : Rp. 550/kg
Dairy	Elimination or reduction of tariffs across a number of dairy lines	Removal of all remaining tariffs on dairy lines	NFDM : 5% WMP : 5% Butter : 5% AMF : 5% Cheese : 5%
Citrus	Mandarins - tariff cut to 10% (from 25%) for 7,500 tons per year Oranges - duty free access for 10,000 tons in year one Lemons - duty free access for 5,000 in year one	Tariff reduced to 0% over 20 years. Duty free access for unlimited volume thereafter 5% annual growth in volume thereafter 2.5% annual growth in volume thereafter	5% 5% 5%
Vegetables	Potatoes - tariff cut to 10% (from 25%) for 10,000	After five year, 5% tariff for 12,500 tons per year. 2.5% annual growth in volume thereafter.	20%

	tons per year for five years Carrots - tariff cut to 10% (from 25%) for 5,000 tons per year	Tariff progressively reduced to 0% over 15 years. Unlimited volume permitted at 0% tariff after that.	20%

Analysis

Although the final text will only be released when the agreement is signed by both parties, the following analysis is based on preliminary details released by Australia's Department of Foreign Affairs and Trade here:

Live Cattle: Although other countries including the U.S. and New Zealand have been in discussion with Indonesia for establishing a live cattle protocol, currently only Australia has an export protocol. The agreement appears to only concern live male cattle, which are often exported to Indonesian feedlots for a period of time prior to slaughter. The volume (575,000 to 700,000 head) that would enter duty free is in line with Indonesia's historic live cattle imports from Australia. However, U.S. live cattle (which are not allowed for export), have a zero percent duty. Therefore, should the U.S. sign a live cattle protocol with Indonesia the "preferential" duty would not hinder exporting U.S. live cattle for slaughter, though it is likely most cattle exported from the U.S would be dairy cattle.

Frozen Beef: The initial 2.5 percent tariff advantage (extending to 5 percent after five years) over U.S. beef would further incentivize imports from Australia, which currently retails at a significant discount to U.S. products. However, the tariff would unlikely impact the high-end market for U.S. prime cuts, which have been growing an increasing market share in Indonesia.

Sheep Meat: The U.S. is not a large exporter of sheep meat or lamb. Currently only one U.S. lamb establishment is approved for export to Indonesia. Given U.S. lamb pricing, quality, and flavor, primary consumers are high-end restaurants and hotels, which are unlikely to be impacted by the 2.5 to 5 percent tariff differential.

Feed Grains: The initial terms of the Australian agreement does not indicate which feed grains would be allowed duty free access under the 500,000 tons initial yearly quota. The announcement from the Minister of Trade, Tourism and Investment highlights feed wheat as the main beneficiary of the quota. Indonesia's current ban on the importation of feed grains has led to an increase of wheat imports since 2015 to supply local feed mills. Most of the approximately 2 million tons of wheat being imported for feed use is from Ukraine and Russia. Australia's ability to import feed wheat (as opposed to lower quality milling wheat that is diverted to feed channels) would certainly cut into Ukraine and Russian market shares. U.S. wheat exports, which are primarily high quality, would likely not be impacted. Other possible feed grain exports include sorghum and barley.

Sugar: The U.S. is not a major exporter of raw sugar cane or refined sugar to Indonesia.

Dairy: The initial report does not specify the exact reduction in dairy duties for specific products nor the timeline by which they would eventually reach zero duties. Indonesia is a major market for U.S. dairy products, especially Non-Fat Dry Milk. A five percent difference in duties could provide a significant advantage to Australian exports.

Citrus: Seasonally, Australian mandarins and oranges do not compete with U.S. varieties. Lemons, which are a less seasonal citrus, may see a preference under the duty free quota, though the U.S. only exported about $1 million of lemons to Indonesia in 2017. The current five percent duty for U.S. citrus is only a minor barrier compared to numerous import licensing and non-tariff barriers that have been imposed by Indonesia and remain a point of contention for U.S. citrus market access.

Vegetables: The initial report does not differentiate between fresh potatoes for chipping (processing) and table stock potatoes. The initial reduction from 25 to 10 percent (if applied to chipping potatoes), would likely take market share from U.S. chipping potatoes still facing 20 percent duties.