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Indonesia and Australia Sign Major Trade Partnership Agreement

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Agricultural Situation

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Report Highlights:

On March 4, 2019 Indonesia and Australia officially signed the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). The agreement provides Australia with tariff benefits and import license advantages for a range of agricultural commodities, including: live cattle, frozen beef, sheep meat, feed grains, citrus products, carrots, and potatoes.

General Summary

This report provides and update to GAIN report ID1825

On March 4, 2019 in Jakarta, Australian Trade Minister Simon Birmingham and his Indonesian counterpart Enggartiasto Lukita signed 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.

A full text of the agreement can be found here.

Agreement

Accounting for $3.8 billion in trade in 2017 (nearly half of Australia's total trade with Indonesia), agriculture features prominently in the agreement. The agreement utilizes a Tariff Rate Quota (TRQ) structure to allow reduced in-quota tariffs on beef, sheep, live cattle, fresh citrus, and fresh vegetables that expand in volumes at fixed increments over time.

Notably, Appendix 2-A.1 for Tariff Rate Quotas states:

For the TRQs in this Appendix, Indonesia shall issue import permits, or equivalent instruments used for import authorisation, automatically and on an annual basis without seasonality. Where the TRQ for a product is filled, additional product beyond the TRQ volume may enter Indonesia upon payment of the out-of-quota tariff.

This language suggests that for all commodities covered under a TRQ Indonesia will automatically issue import permits (SPI) through the Ministry of Trade. For many agricultural commodities, Indonesia's import licensing system has relied on a two-step process requiring Import Recommendations from the Ministry of Agriculture followed by Import Permits from the Ministry of Trade. This import licensing system, specifically as it relates to the importation of horticultural products, animals and animal products, is part of an ongoing WTO dispute (DS478) between the U.S. and New Zealand and Indonesia.

The IA-CEPA language on "automatically" issuing import permits is a significant departure from Indonesia's previous position on import licensing. The willingness to forego part of the established import licensing structure for specific commodities under a TRQ arrangement demonstrates Indonesia's willingness to modify the two-step licensing process as part of a larger agreement on trade, undercutting previous arguments that such a system is necessary to ensure food safety, food security and customs compliance from importers.

Additionally, the agreement contains a separate chapter to specifically address Non-Tariff Measures. The agreement establishes a Committee on Trade in Goods within 360 days of the date of entry into force. The Committee is supported by various sub-committees including a Sub-Committee on Sanitary and Phytosanitary Matters, Sub-Committee on Technical Barriers to Trade, and Sub-Committee on Trade Facilitation. The mechanism suggests the Committee will consider the commercial significance of trade as well as less trade-restrictive alternatives, but stops short of outlining specific enforcement mechanisms.

Impact on U.S. Agricultural Trade

The reduced tariffs and TRQ's provided under IA-CEPA will undoubtedly increase the already competitive positon of Australian agricultural goods in Indonesia. Given the complexity and frequent delays of Indonesia's import licensing system, the removal of one step in the licensing process, through automatic issuance of import licenses, will also likely result in additional market access advantages for Australian agriculture.

However, the overall impact on U.S. agricultural trade with Indonesia will vary by commodity. The agreement provides an immediate 2.5 percent advantage for Australian bone-in beef, eventually increasing to a 5 percent advantage on all frozen beef by 2023. This could slow what has been a growing market for U.S. beef used for processing, but would likely have less impact on retail cuts as Australian cuts are already significantly cheaper than U.S. cuts. Similarly, the TRQ and 10 percent in-quota tariff for potatoes (which covers all chipping potatoes and fresh table stock potatoes of varieties not grown in Indonesia) is likely to compete with U.S. potatoes currently exported for chipping and further processing. Seasonally, Australian mandarins and oranges do not compete with U.S. varieties. Lemons and limes, which are less seasonal, may see a preference under the duty free quota, though the U.S. only exported about $250,000 of lemons and limes to Indonesia in 2018.

On dairy, Australia already stood to benefit from progressively reduced tariffs under the AANZFTA. IA-CEPA immediately eliminates tariffs on concentrated or sweetened milk and cream as well as grated or powdered cheese. However, U.S. exports of these products to Indonesia are very limited. The TRQ for feed grains (limited to wheat, barley and sorghum) is a unique carve-out for Australia in that Indonesia currently restricts imports of all feed grains. As such, it is unlikely to displace any U.S. grain shipments.

The below table of agricultural commodities compares treatment (including TRQs) under IA-CEPA and current tariffs on U.S. commodities.

Products	**Treatment Under IA-CEPA** **EIF=Entry Into Force**	**Current U.S. Tariff**
Live Cattle	Elimination on EIF of the five per cent tariff and guaranteed access for 575,000 live male feeder cattle into Indonesia each year, rising to 700,000 in year 6 of the Agreement Elimination of the five per cent tariff on live breeder (female cattle), with unlimited tariff-free access guaranteed	*No Live Cattle Protocol in Place* 0%
Frozen Beef	Tariff on frozen beef cuts with bone in reduced to 2.5 per cent on entry into force of the Agreement and eliminated by 2023 Tariffs on all other frozen beef eliminated by 2020	5%

Sheep Meat	Tariff on frozen sheep meat reduced to 2.5 per cent on entry into force of the Agreement and eliminated by 2023 Tariff on fresh, chilled or frozen goat meat reduced to 2.5 per cent on entry into force of the Agreement and eliminated by 2023	5%
Feed Grains	Guaranteed access into the Indonesian market for 500,000 tons of feed grains (wheat, sorghum and barley) each year, increasing at five per cent per annum. Elimination of outstanding tariffs not eliminated under AANZFTA on most remaining cereals and grains. Elimination of the five per cent tariff on rolled oats. Elimination of five per cent tariffs on unroasted malt.	***All U.S. 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%	Raw sugar from cane : Rp. 790/kg Refined sugar from cane : Rp. 550/kg White sugar from cane : Rp. 550/kg
Dairy	Eliminate tariffs on dairy products not eliminated under ASEAN-Australia-New Zealand FTA (AANZFTA): Elimination on EIF of concentrated or sweetened milk and cream Elimination on EIF for grated or powdered cheese Elimination in 2033 of tariffs on liquid milk and cream (not concentrated or containing added sugar or other sweetening matter) Elimination in 2026 of tariffs on milk and cream (not concentrated nor containing added sugar or other sweetening matter), other than in liquid form	NFDM: 5% WMP: 5% Butter: 5% AMF: 5% Cheese: 5 %
	25 percent tariff on Australian mandarins cut immediately to 10 percent for 7,500 tons per year, with progressive tariff reductions down to zero percent for all Australian mandarins after 20 years	Mandarins: 20%

Fruits and Nuts	Guaranteed tariff free access for 10,000 tons of oranges, increasing by 5 percent each year Guaranteed tariff free access for 5,000 tons of lemons and limes, increasing by 2.5 percent each year	Oranges: 5% Lemons and Limes: 5%
Vegetables	25 percent tariff on potatoes (excluding granola, median, nadia and blis) cut immediately to ten per cent for 10,000 tons per year, then further reduced after five years to five per cent for 12,500 tons per year, increasing by 2.5 per cent per year. 25 percent tariff on carrots cut immediately to ten per cent for 5,000 tons per year, with progressive tariff reductions down to zero per cent for all carrots after 15 years	Potatoes: 20% Carrots:20 %