



INDONESIA-AUSTRALIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (IA-CEPA)

TRADE LIBERALISATION: WHAT DOES IT MEAN FOR DAIRY?

The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) has officially entered into force.

This is great news for Australia's dairy industry.

Building on the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), IA-CEPA highlights the importance of trade liberalisation for Australian dairy.

IA-CEPA and AANZFTA in combination, will provide an estimated saving of over A\$10.5 million in tariffs that would otherwise be levied on Australian dairy exports to Indonesia if neither agreement was in force.¹

IA-CEPA entered into force on 5 July 2020.

- Indonesia is Australia's third largest export market, ranking behind only China and Japan in value terms.
- Australia exported 37,600 tonnes of dairy products to Indonesia, worth US \$101.9 million (March 2019 to February 2020).
- The biggest volume growth for Australian dairy exports to Indonesia (product categories exceeding US\$1 million) has been in Condensed Milk (173%), Cheese (70%), Whey Powder (52%) and Butter (20%).
- As shown in Figure 1, Indonesia imports significant volumes of dairy. IA-CEPA provides an exciting opportunity for Australia's dairy industry to grow export volumes and market share.

¹ This estimate is based on the average value of Australian dairy exports to Indonesia over recent years.

IA-CEPA – what's in it for dairy?

Australian processors have an established track record of partnering with ingredient blenders and food manufacturers in Indonesia to supply high quality, innovative dairy products. Food manufacturers in turn value add; creating jobs and wealth in respective supply chains. IA-CEPA will add to the already strong relationship between Australian dairy and importers of Australian dairy in Indonesia.

A complete list of the tariff advantages provided to Australian dairy products as a result of IA-CEPA can be found in Table 2, which lists Indonesia's main tariffs and Australia's tariffs under IA-CEPA.

Elimination of tariffs on Australian dairy exports

Under IA-CEPA Indonesia will eliminate tariffs on dairy products not already eliminated under ASEAN-Australia-New Zealand FTA (AANZFTA).

Existing import tariffs will be removed on entry into force for skim milk powder (SMP), whole milk powder (WMP) and grated and powdered cheese. Remaining tariffs on liquid milk will be eliminated by 2033.

Figure 1 Value of Indonesia's total dairy imports

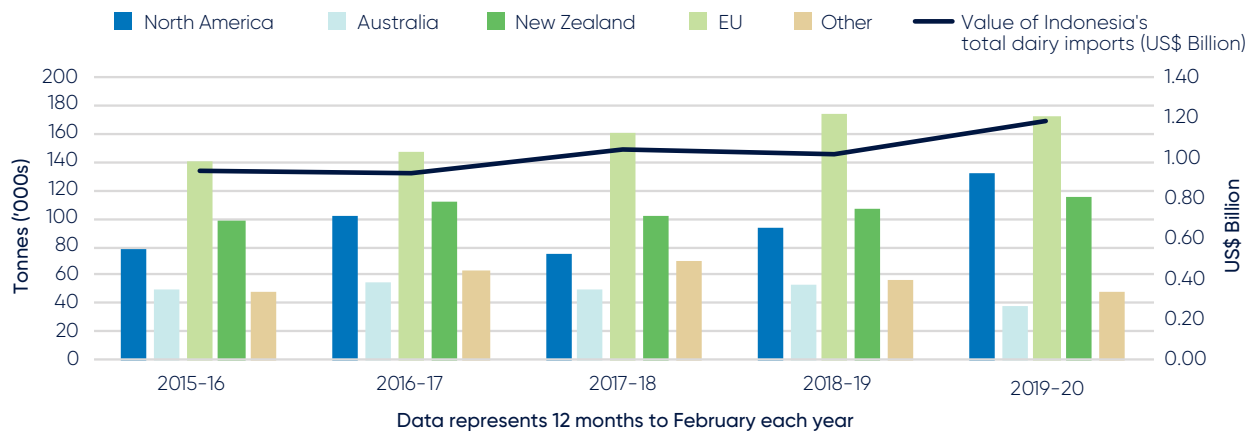


Figure 2 Indonesia's top dairy imports by volume

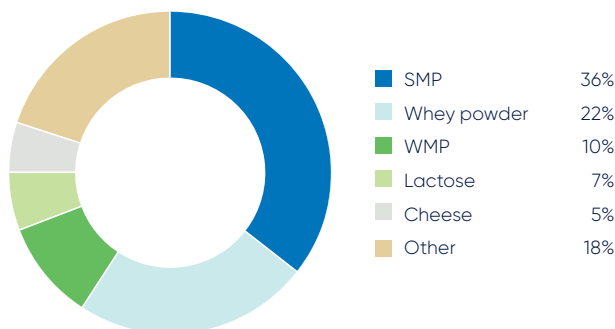
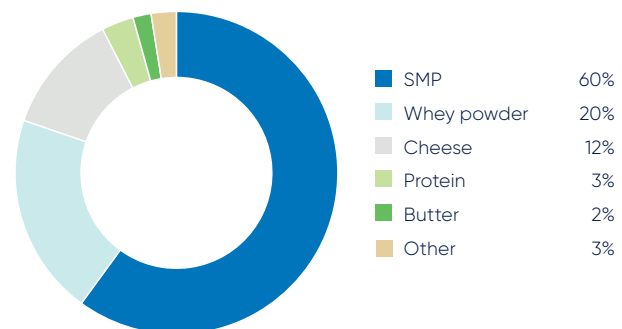


Figure 3 Australia's top dairy exports to Indonesia by volume





IA-CEPA creates a competitive advantage for Australian dairy

- Importantly, IA-CEPA provides Australian dairy with tariff advantages over key competitors:
 - The EU and Indonesia commenced negotiations towards a free trade agreement in 2016, but negotiations have not been finalised.
 - The US does not have a free trade agreement with Indonesia.
 - o This means, for example, that both the US and EU face a 10% tariff on yoghurt, whereas under IA-CEPA, Australia will face a 0% tariff.
 - New Zealand benefits from AANZFTA, but does not have its own standalone free trade agreement with Indonesia.
 - o This means, for example, that New Zealand faces a 4% tariff on grated and powdered cheese, whereas under IA-CEPA, Australia will face a 0% tariff.
- The tariff advantages provided under IA-CEPA, compared to those faced by key competitors, can be found at Table 1.

Market developments

Indonesia is a large and developing market for dairy exports and has increased in importance for global exporters. The Indonesian economy has grown significantly which has led to rising household incomes and a larger middle class within the country. This, combined with an increase in urbanisation, has resulted in an increase in household food expenditure and consumption of dairy products.

The growing middle class is leading the increase in demand for dairy as these products are considered an easy and convenient way to stay healthy.

Sweetened and flavoured single-serve yoghurts have grown substantially in popularity with both local producers and exporters, increasing production capabilities, exports and sales. Even 'natural style' yoghurts are sweetened to appeal to the taste preference of local consumers. Dairy products are primarily sold in small, single-use pack sizes as cold chains and storage opportunities still are largely under-developed.

As more people enter the middle class in Indonesia demand for animal derived products such as dairy is expected to continue to grow. However, exporters wishing to capture this demand continue to face a number of challenges in doing business in the market. The distribution of the population in Indonesia across numerous islands and the developing infrastructure make distribution difficult. Most companies are limited to distribution in Java (which contains both Jakarta and Surabaya) and Bali (more focused on tourism and hotel channels).

Table 1 Comparison of key dairy tariffs into Indonesia

Product	IA-CEPA (Australia's tariff into Indonesia)	AANZFTA (Australia and New Zealand)	No trade agreement in place (US and EU tariffs into Indonesia)
SMP and WMP	0%	0%	5%
Liquid milk (1-6% fat content)	3.25%	4%	5%
Whey powder	0%	0%	5%
Grated and powdered cheese	0%	4%	5%
Butter	0%	0%	5%
Buttermilk powder	0%	0%	5%

Tariff codes used for comparisons: SMP: 040210; WMP: 040220; Liquid milk: 04012010; Whey powder: 04041000; Grated or powdered cheese: 040620; Butter: 04051000; Buttermilk powder: 04039010-20. Tariffs are current as at 5 July 2020. Indonesia can change its main tariff rate and also negotiate trade agreements with other countries, thereby reducing their tariff rates.



IA-CEPA – background

Negotiations towards IA-CEPA commenced in 2010. Australia and Indonesia announced the substantive conclusion of negotiations in August 2018, before the Agreement was signed by Trade Ministers in March 2019.

In 2019, Australia's Joint Standing Committee for Treaties (JSCOT) undertook an Inquiry into IA-CEPA, with the Committee recommending binding treaty action. Dairy Australia, with Australian Dairy Farmers and the Australian Dairy Products Federation participated in Committee hearings and advocated for the ratification of IA-CEPA, and has also provided submissions and input to the Government throughout the negotiations.

Trade facilitation and technical barriers to trade

IA-CEPA will also address non-tariff measures (NTMs) with a cooperative mechanism to enable regular discussions of NTMs, allowing for the identification, communication and potential resolution. NTMs includes measures such as licencing arrangements and product testing regulations that can present significant hurdles for Australian dairy exporters and add costs to doing business. This is the first time such a mechanism has been written into a Free Trade Agreement to which Australia is a party.

Additional value chain savings (over and above the tariff savings identified in the previous section) are possible if non-tariff barriers can be identified and resolved. The agreement also includes text specific to improvements in administrative procedures for exporters and importers to facilitate goods trade.

Key international marketing programs and activities

Dairy Australia runs both inbound and in-market programs to strengthen relationships with key trading economies including Indonesia. Since 2015, dairy leaders from Indonesia have participated in the annual Dairy Australia South East Asia Scholarship Program which educates participants on dairy food safety systems and associated regulatory frameworks. This strengthens personal links and helps spread knowledge and understanding of Australia's incredible value proposition. The alumni from this program provide invaluable contacts within the Indonesian market.

Dairy Australia visits Indonesia at least once every year and delivers industry focussed workshops to the local market. The workshops provide information about the current situation and outlook of the Australian dairy market and include a technical education element such as dairy food safety or broad product application information which enhances the capacity of the Indonesian market.

The implementation of IA-CEPA will assist to strengthen and support existing and new relationships and networks between the Australian dairy industry and customers in the market.

Further information on the agreement, including a guide to help businesses take advantage of IA-CEPA tariff reductions, can be found at dfat.gov.au/fta/iacepa. DFAT's FTA Portal has been updated to reflect commitments in IA-CEPA ftaportal.dfat.gov.au.

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