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TO CONNECT THE BEST
AUSTRALIAN BEEF
TO THE WORLD

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**Submission to the Joint Standing Committee on Trade and
Investment Growth
February 2017**

Submission contact:

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CPC



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The Secretary
Joint Standing Committee on Trade and Investment
Joint PO Box 6021
Parliament House
CANBERRA
Canberra ACT 2600

Dear Secretary,

Consolidated Pastoral Company welcomes the Committee's decision to inquire into Australia's trade and investment relationship with Indonesia.

Attached is our submission in response to the committee's terms of reference.

CPC would welcome the opportunity to appear before the committee to expand on this submission.

Yours sincerely,

Troy Setter

Chief Executive Officer



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Summary

Consolidated Pastoral Company (CPC) supports the Government's efforts to expand commercial and cultural ties with Indonesia.

Indonesia is forecast to enjoy sustained economic growth, a growing population and continued urbanisation in coming decades. This growth, together with an expected change in Indonesia's demand for food, offers significant opportunities for Australian food producers.

The northern beef industry is well placed to contribute to, and benefit from, a strengthened economic and cultural relationship with Indonesia.

CPC believes this can be achieved through the coordinated use of existing structures and refining and expanding existing programs.

In relation to beef the policy objectives of both countries should be complementary given the northern beef supply chain commences on northern Australia pastoral properties and finishes in Indonesia's wet markets, supermarkets and high end restaurants.

While Australia's objective should be the establishment of a framework that facilitates open access to Indonesia for both live cattle and boxed beef exports it is important to recognise Indonesia's legitimate objective of meat protein self-sufficiency.

Two way trade with Indonesia is important. There are many opportunities for Australia to import products such as protein meals from Indonesia that will improve our beef production system that require protein supplementation whilst also improving the welfare of Indonesian farmers.

The Australian government also needs to focus on putting in place policy settings that enhance the international competitiveness of key agricultural export industries.

CPC understands Indonesia's policy objectives to be securing a sustainable supply of competitively priced beef while working towards self-sufficiency in meat protein.

Education and cultural exchange programs are also key inputs into building a broader economic relationship with Indonesia.

Understanding a country's culture means understanding its people and history. Understanding a country's people and history leads to an understanding of their needs.

In the past, the Australian and Indonesian governments have spent a considerable amount of time and effort rebuilding their relationship rather than building on their relationship.



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It is CPC's view that policy consistency is the key to both countries sustaining a close relationship in the future.

Terms of Reference

The Joint Standing Committee on Trade and Investment Growth shall inquire into Australia's trade and investment relationship with Indonesia. In conducting its inquiry, the Committee shall have particular regard to:

- Australia's existing trade and investment relationships with Indonesia.
- barriers and impediments to trade and investment with Indonesia for Australian businesses, including examination of supply chain costs.
- emerging and possible future trends.
- opportunities for deepening existing commercial and cultural links, and developing new ones, with Indonesia.
- the role of government in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in Indonesia.
- the contribution of diaspora communities to Australia's relationships with Indonesia.
- profit and payment repatriation structures for Australian businesses operating in Indonesia.

Consolidated Pastoral Company

CPC welcomes the opportunity to make a submission to this important inquiry.

This submission reflects CPC's direct experience as both a live cattle exporter from northern Australia and an importer of cattle for our two feedlots in Sumatra.

We own and operate a portfolio of 16 cattle stations comprising around 5.4 million hectares with a carrying capacity of around 367,500 cattle. CPC sells into a range of markets both domestically and internationally but our main focus is live cattle exports into Indonesia.

CPC holds an 80 per cent interest in PT. Juang Jaya Abdi Alam (PT. JJAA), the other 20 per cent is owned by our Indonesian Joint Venture partners. PT JJAA was first established in 2000 and operates two feedlots in Indonesia, located in Lampung (South Sumatera) and Medan (North Sumatera).



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The Lampung feedlot has a one-time holding capacity of 28,000 head, while the Medan feedlot has a one-time holding capacity of 7,500 head; both facilities are “best in class” operations.

JJAA employs 180 people as permanent and contract employees, plus hires up to 300 casual daily workers.

The Indonesian market

CPC notes the Australian Bureau of Agricultural and Resources and Sciences (ABARES) report titled: *What Indonesia wants - Analysis of Indonesia's food demand to 2050, November 2015* and its prediction of sustained economic growth, population increases and continued urbanisation and related changes to Indonesia's demand for food over the next decades.

This ABARES report predicts that not only will total food consumption increase but diets are expected to become more diverse. Its forecasts that the value of agrifood consumption in Indonesia is will increase four-fold between 2009 and 2050.

ABARES predicts the rise in the real value of food consumption in Indonesia will be characterised by a move to more diverse diets, with higher intake of meat.

Clearly, this trend will present significant economic opportunities and political challenges for Indonesia and opportunities for Australian agriculture generally and the northern Australian beef industry in particular.

Key objectives

CPC believes the development and implementation of a plan to strengthen the commercial and social ties between Australia and Indonesia should be based on the following policy objectives.

Australia

- The establishment of a trade policy framework that enables open access to Indonesia for Australia agricultural exports and imports, and
- Facilitating productivity growth and real cuts in beef production costs to improve the international competitiveness of the agricultural exports to ensure they capture their share of a growing Indonesian market.

Indonesia

- Meeting the growing domestic demand for red meat in the short term,



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- Ensuring beef price stability through an orderly regulatory regime for imports in the medium term, and
- Building self-sufficiency in meat protein in the longer term.

Barriers to trade and investment for Australian businesses

The restrictions imposed by the Indonesian Government on cattle imports include:

- Weight restrictions that reduce the volume of cattle available to Indonesia,
- Regulating 5:1 feeder to breeder cattle imports with conditions that are not economically viable,
- A trimester system for issuing import permits,
- Import permits realisation rules with significant penalties,
- Ad hoc policies to advance self-sufficiency in meat protein.
- Age restrictions on live cattle but no age restrictions on boxed beef imports, and
- Double testing and treatment for diseases that are already present in both countries.

These restrictions are in conflict with the proposed objectives of both Australia and Indonesia because they impact adversely on the effective movement of cattle through the supply chain.

Indonesian self sufficiency

The pursuit of self-sufficiency in Indonesia had created high levels of volatility in both the supply and price of beef. Further, the policy objective of self-sufficiency unless managed properly may not be compatible with food security.

The introduction of Indonesia's breeder protocol, which requires one animal imported for breeding purposes for every five animals for feed lotting, is a challenging prospect for CPC and its feedlot operations in Sumatra.

The requirement for a 5 to 1 ratio of feeder to breeder cattle importation is not economically viable as it is cost prohibitive to feed breeding cows in feedlots that are designed for 120 day finishing of Australian feeder cattle, not for feeding cows for many years.

The 5 to 1 rule started in late 2016 and will be audited at the end of 2018 with feedlots who do not comply losing the ability to import cattle in 2019. For feedlots to comply with 5 to 1 they would have 140% of their feedlot full of breeding cattle by the end of 2018. They would also not be producing beef for consumption and this will put significant pressure on Indonesian beef prices.



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Local farmers who rely heavily on the cattle finishing industry to purchase their crop products will also suffer with significantly reduced demand for their products. The local economy will suffer as cattle and feed truck owners and drivers and meat supply chain workers will have significantly less product to transport and sell.

Since this policy has been introduced we have seen importers dramatically reduce their volumes, this has coincided with the northern wet season. If the decline in imports continues into the dry season we will see a fall in options and price for northern cattle producers.

Recommendation

The Australian government and the Australian beef Industry continue to work with their Indonesian counterparts to assist in the development and implementation of strategies to build Indonesian beef production that align to consumption and population growth.

The northern beef industry supply chain

The northern beef industry comprises the northern pastoral region of Western Australia, the Northern Territory and North Queensland.

Predominantly, the industry produces cattle for live exports and Indonesia is the main market. The northern Australian industry breeds the cattle that are exported to Indonesian feedlots where they are finished before being sent for slaughter.

The northern supply chain begins on these pastoral leases, includes the Indonesian processing sector and ends in the wet markets and the high-end wholesale trade.

The efficiency of the northern supply chain depends on the efficiency of its parts.

Success in achieving Australia's trade objective of more open access to Indonesia for our agricultural products would trigger a push from other major agricultural exporters into that market.

Therefore, to realise these opportunities our exports must improve their productivity and their international competitiveness to at least hold our share of the Indonesian market.

Improving productivity

Transport

CPC believes adequate transport infrastructure is the key to realising the economic potential of northern Australia generally and the northern beef industry in particular. Adequate transport is also lowers the cost of production and improves international competitiveness.



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CPC notes the Government has made a significant start through the Northern Roads Programme and the Beef Roads Programme.

However, the process of identifying projects to be funded through these programs highlighted both the inadequate level of investment by past governments and the size of the funding commitment required to build an efficient transport network.

The process also identified the economic return to both the northern and national economies from ongoing investment in the transport system.

Further investment in transport infrastructure in northern Australia should focus on extending the period for cattle exports beyond the dry season.

This investment will not only enhance the live trade to Indonesia by extending the mustering season, it will improve to overall efficiency of the northern cattle industry and its competitiveness on southern markets as well as the live export sector.

This investment challenge could be met in part through a five-year Northern Transport Development Programme. The programme could include a general funding component and a sector specific component similar to the beef roads package.

Recommendation

The Australian Government include in the 2017 Budget a five-year Northern Transport Development Programme to reduce production costs and improve the international competitiveness of northern beef producers.

Regulations

CPC welcomed the Australian Government's decision to request the Productivity Commission to inquiry into the impact of regulations on Australian agriculture.

CPC notes that the Commission has provided Government with its final report on 15 November 2016 but that report is yet to be released.

The recommendations in the Productivity Commission report should be of interest to the Committee and this inquiry.

Reducing regulations imposed on the red meat export sector would reduce costs and increase its international competitiveness.

A more efficient and harmonised regulatory regime across the northern jurisdictions would also reduce industry costs.



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Recommendation.

The Committee ask the Government to release the final Productivity Commission report on the Regulation of Agriculture to enable the Committee to consider its findings and recommendations as part of this inquiry.

Research, Development and Extension

CPC strongly supports a properly resourced and targeted research and development program that aims to develop ongoing efficiencies in northern beef production and improved herd performance through better calving rates and increased rates of turnoff.

Across Northern Australia there has been limited and variable adoption of research that has been conducted by numerous governments. All Government supported research and development must have adequate money allocated for extension. Poor quality telecommunications infrastructure is also not allowing northern beef producers to adopt much of the technology available to Southern Australian producers.

Emerging trends

CPC expects Australia to face increasing competition in the Indonesian beef market.

Frozen Indian buffalo meat (IBM) imports, while part of the mix for some time are now being legally imported. Anecdotally, increasing sales of cheap, low-quality Indian buffalo meat are undercutting Australian beef.

The 80,000 tonnes of carabeef the country sort to import in 2016 is more than double the amount of Australian boxed beef imported in 2015.

CPC also notes recent reports quoting BMI Research as reporting that the export price for Indian carabeef (buffalo meat) is just US\$3.10 per kilogram, compared to an Australian boxed beef export price of US\$4.40 per kilogram.

The importance of an even playing field as a policy objective is highlighted by the presence of IBM in the Indonesian market. Australian cattle play an important role in meeting Indonesia's meat protein needs but have both weight (350 Kilo) and age restrictions. In contrast, there are no restrictions on IBM animals into box.

CPC also notes the importation of IBM increases the Foot and Mouth Disease (FMD) risk to both Indonesia and Australia.



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Risk of Brazilian live imports.

Strategies to keep downward pressure on costs and enhance quality will be required to retain or expand our share of an increasingly competitive market.

It should be noted, however, that an uneven playing field would negate the benefits of improved efficiency and lower production costs in this country.

Live cattle imports from Brazil to Indonesia could also enhance to risk of FMD into both Indonesia and Australia.

Opportunities to deepen existing commercial and cultural links and develop new ones

It is CPC's view that the best way to deepen existing commercial and cultural links with Indonesia is to build on existing programs and Govt/industry structures.

There continues to be a strong relationship between the Australian and Indonesian beef sectors. The challenge is to build a government to government relationship that matches industry.

Trade missions

CPC believes better coordination is required around Australian, state, territory and industry trade delegations to ensure we are delivering the same/right message in Indonesia.

In particular, State and Territory Ministers should go to the regions to engage with their political counterparts – not simply go to Jakarta.

Trade policies and programs

Better coordination between the trade policies and programs being advanced by the Australian, state and territory governments to achieve the objectives outlined above is required.

CPC proposes that this could be achieved through an overarching govt/industry structure established under the Council of Australian Governments (COAG).

Recommendation

The Australian Government, through COAG, establish a Trade Council to coordinate trade policies and programmes being advanced by the Australian, state and territory governments and Indonesia be made a priority market for the Council.



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The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

CPC supports the endeavours of the Australian Trade Minister, Stephen Ciobo and Indonesia's Trade Minister, Enggartiasto Lukita, to conclude a free trade agreement.

We agree that IA-CEPA will facilitate closer economic engagement leading to new markets and opportunities for Australian primary producers.

IA-CEPA will also create opportunities for Australian and Indonesian businesses to work together to tap into the burgeoning opportunities in our region.

The Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector

CPC supports the continuation and expansion of the Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector (the Partnership).

The purpose of the Partnership is "to synergise Australian and Indonesian strengths and potentials in order to develop the Indonesian cattle sector and improve prospects for long term investment and trade in red meat and cattle in Indonesia as part of a globally competitive supply chain."

The intent of the Partnership is to;

- underpin Indonesia's food security by improving the long-term sustainability, productivity and competitiveness of Indonesia's cattle sector;
- strengthen Indonesia - Australia bilateral business, investment and trade ties, and supporting closer engagement with the red meat and cattle sector;
- support the bilateral exchange of expertise, capacity building and technical assistance related to the red meat and cattle sector;
- build and improve understanding and the effectiveness and efficiency of cooperation between parties by establishing regular meetings between governments and the red meat and cattle sector from both Indonesia and Australia.

Industry structures

CPC supports the role of Australian Livestock Exporter's Council (ALEC) and the Australian Livestock Export Corporation (Livecorp) as key bodies to represent the interests of northern beef cattle exporters in the development and implementation of strategies to build our trade relationship with Indonesia.