



17 February 2017

Mr Ken O'Dowd MP  
Chair  
Joint Standing Committee on Trade and Investment Growth  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Mr O'Dowd,

**Australia's trade and investment relationship with Indonesia: joint submission on behalf of the Australian dairy industry by the Australian Dairy Industry Council and Dairy Australia**

The Australian Dairy Industry Council (ADIC) is the dairy industry's peak policy body. It co-ordinates industry policy and represents all sectors of the industry on national and international issues through its two constituent bodies; Australian Dairy Farmers Ltd (ADF) and the Australian Dairy Products Federation (ADPF). The ADIC aims to foster, promote and protect the interests of the Australian dairy industry by driving a whole of industry approach to dairy policy and its development.

Dairy Australia is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's Research and Development Corporation (RDC), it is the 'investment arm' of the industry, investing in projects that can't be done efficiently by individual farmers or companies.

The dairy industry is one of Australia's major rural industries. Based on farm gate value of production, dairy is ranked third behind the beef and wheat industries. There are approximately 6,100 farms producing an estimated 9.539 billion litres of milk in 2015-16. The dairy industry is one of the leading rural industries in terms of value-adding, contributing \$13.7 billion at wholesale to the economy.

Approximately 38,000 people are directly employed on farms and in dairy manufacturing. Dairy processing and service industries are largely based in rural areas, generating significant employment and economic activity in regional Australia.

In response to the applicable terms of reference the following comments are submitted on behalf of the dairy industry.

Australian origin dairy products have been exported to Indonesia for decades. The value of exports averaged \$179 million in the seven-year period 2009 to 2015. Over this period, Indonesia was the third largest export destination if Singapore, a major trans-shipment port and blending destination (for re-export), is excluded.

In 2015/16 \$202 million worth of Australia dairy products were exported to Indonesia.



Barriers to trade are predominantly non-tariff and pervasive; hampering the potential for growing dairy exports especially by small and medium sized dairy processors.

The Asean Australia New Zealand Free Trade Agreement (AANFTA) has now eliminated most tariffs on dairy products, although those for liquid milk, skim milk powder and fresh/ grated cheese are fixed at 4% up to 2020. Comparable World Trade Organization (ETO) tariff rates on the major dairy products are predominantly 5%.

The non-tariff barriers (NTBs) have an adverse impact upon the profitability of exporting Australian origin dairy products. Examples of NTBs, split into three broad categories, are:

- Costs of production - manufacturer staff resources required and time taken for product and factory registration and Halal certification requirements;
- Administrative (red tape) costs including facilitating more rapid Customs clearance via manufacturer self-declaration and introduction of a paperless (electronic) health certification; arbitrary changes in regulations and regulatory uncertainty per se; differences in respective Custom's classification of a dairy product potentially leading to application of a (higher) tariff and a change in labelling and the difficulty of accessing regulations in English; and
- Market access including duplicative (to the plant) pre-shipment testing, lengthy Customs clearance times, import permitting delays, non-compliance of food safety regulations with international standards such as CODEX, maximum residue limits being set below acceptable risk levels and sample sizes too small to allow commercial testing of a specialised (tailor made) dairy product by the Indonesian food manufacturer.

The adverse commercial impacts hinder the ability of Australian dairy manufacturers to leverage competitive advantages conferred by a:

- History of food safety;
- Credible domestic regulatory system; and
- Reliable cold storage supply chains.

It is also worth noting that there are many Indonesia importers and food manufacturers who are frustrated by the difficulties that can be encountered by other countries companies trying to import products such as dairy.

Although direct Australian investment in the Indonesian dairy supply chain is minimal, Australian dairy processors have a long-term and complementary relationship with Indonesian food manufacturers; supplying high quality dairy products for value-added consumer foods.

There is large potential for growth in both total and per capita consumption of dairy products. Growth will be driven by a number of factors including:

- An expanding middle class with rising household disposable incomes that is seeking alternatives to traditional foods;
- Growing urbanisation facilitating access for consumers to supermarket chains and large convenience stores which stock a wider variety of foods than traditional (small, independent) stores with little or zero chilled facilities;



- Rising consumer awareness of milk's health benefits for the purpose of leading a healthier life style; and
- Gradual improvement in infrastructure (though the world's largest archipelago with over 18,000 islands provides a major challenge to distribute perishable and frozen products), through the:
  - Expansion of food and beverage processing companies and the emergence of a more sophisticated distribution sector are gradually extending the reach of large supermarket chains and concurrently the cold chain

Australia's current preferential tariff advantage compared to other major competitors such as the European Union and the United States also offers the opportunity of increasing the Industry's percentage share of dairy product imports.

The Australian dairy industry plays an active role in deepening commercial and cultural links, and developing new ones, with Indonesia. Dairy Australia holds annual workshops at hospitality-focused universities in Indonesia. The aim of the workshops is to give hospitality students better knowledge and understanding of the Australian dairy industry plus a demonstration of the use of dairy products in various culinary applications by Australian chefs.

Since March 2015, in collaboration with the Victorian State Government, Dairy Australia has hosted an annual scholarship program bringing dairy industry specialists from South East Asia, including Indonesia to Australia for an intensive program examining food safety programs as they apply to dairy production and manufacturing techniques. The scholars learn about things from manufacturing processes and safety regulations to trying their hand at milking. The participants gain a greater understanding and appreciation of the Australian dairy industry.

Dairy Australia also conducts regular missions and seminars in South-East Asia including Indonesia to ensure Australia's dairy industry expands business opportunities. In-market links and knowledge are crucial in the persuading buyers to source from Australia. A number of Dairy Australia publications are specifically targeted to dairy industry personnel in major export markets.

The role of the Federal government is crucial in assisting the growth of bilateral trade. The Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA) negotiations offer the opportunity to introduce a systemic approach to resolving NTBs; with the application of sound science and international standards and cooperation between respective regulatory agencies as guiding principles.

A mechanism similar to that established under the China Australia Free Trade Agreement (ChAFTA) Trade in Goods chapter could be examined to address non-tariff measures on a case-by-case basis.

Trade and investment go hand-in-hand potentially creating a double gain for the Australian dairy industry. Consequently, investment clauses are sought in IA-CEPA to encourage a mutually beneficial two-way flow subject to appropriate protections for investors.

The Federal government plays an important role in facilitating contacts within the Indonesian bureaucracy to discuss and address dairy trade matters and to exchange information on respective industry developments.



State governments also play an important role in promoting utilisation of Australian origin dairy products and providing on the ground market intelligence.

If you wish to discuss any aspect of this submission or require further information please do not hesitate to contact either David Losberg, ADF Senior Policy Manager, or Rob Pettit, DA Manager Trade Policy, on the numbers supplied below.

Yours sincerely

**John McQueen**  
Interim Chief Executive Officer

Contacts:

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