



Australian Government

Australian Government response to the
Joint Standing Committee on Trade and Investment Growth
report:

Leveraging our advantages: The trade relationship between
Australia and Indonesia

March 2018

Introduction

The Australian Government thanks the Joint Standing Committee on Trade and Investment Growth for its inquiry report into Australia's trade and investment relationship with Indonesia. The Committee's report contains valuable insights into how Australia can benefit from an enhanced trade relationship with Indonesia, particularly in the context of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) currently under negotiation.

As the report notes, trade and investment is one element of the Australia-Indonesia bilateral relationship that has historically lagged behind the others. In 2016, Indonesia was only Australia's 13th largest trading partner - lower than New Zealand or Thailand, which have comparatively smaller economies. However, in line with Indonesia's rapidly developing economy, Australia is presented with an opportunity to strengthen the economic relationship to the significant benefit of both countries. The IA-CEPA is an important part of our efforts to make the most of this opportunity, including in areas such as healthcare, tourism, education and agricultural products.

The report's recommendations include that the Australian Government develop an information campaign to actively promote the business opportunities presented by the IA-CEPA. The Government supports this recommendation, and will engage with the private sector following finalisation of the agreement to ensure that Australian businesses are in a position to reap the benefits of its implementation.

The report further recommends that the Government prioritises the development of infrastructure in Northern Australia to facilitate maritime, education and tourism services partnerships with Indonesia. The Government is fully cognisant of the need for greater investment in infrastructure in Northern Australia to benefit from its proximity to Asian markets. The potential benefits are outlined in the *Northern Australia White Paper* and the *Northern Australia Audit: Infrastructure for a Developing North* report from January 2015.

The Australian Government continues to work with the Government of Indonesia towards the finalisation of an ambitious and high-quality IA-CEPA that will boost our bilateral trade and investment relationship and result in expanded economic opportunities for both countries.

Response to the recommendations

Recommendation 1

The Committee recommends that, subject to the finalisation of a satisfactory Indonesia Australia Comprehensive Economic Partnership Agreement (IA-CEPA), the Australian Government develop a campaign to actively promote the business opportunities presented by the agreement.

Response:

The Government accepts the recommendation.

The Government has an extensive program of outreach on its free trade agreement (FTA) agenda, including broad and regular promotion and consultation with all interested stakeholders. The Government will continue to explore new options for the dissemination of information on FTAs, including IA-CEPA.

Recommendation 2

The Committee recommends that, subject to the finalisation of a satisfactory Indonesia Australia Comprehensive Economic Partnership Agreement (IA-CEPA), the Australian Government gives priority to the development of infrastructure in Northern Australia that is beneficial to developing maritime, education and tourism services partnerships with Indonesia.

Response:

The Government accepts this recommendation in principle.

The recommendation is broadly aligned with the *Northern Australia White Paper* (the White Paper) and the *Northern Australia Audit: Infrastructure for a Developing North* report, which detail a range of initiatives and measures to unlock the full economic potential of northern Australia. The Australian Government supports the development of maritime, education and tourism services partnerships with Indonesia, as well as supporting priority industries identified in the White Paper such as food and agribusiness; resources and energy; and healthcare, medical research and aged care.

Recommendation 3

The Committee recommends that the Australian Government, through the IA-CEPA negotiations, focus on the reduction of non-tariff barriers to trade such

as the standardisation of food and pharmaceutical labelling and certification requirements.

The Committee further recommends that the Australian Government establish a national food and pharmaceutical certification process, agreed by the Indonesian Government, to simplify this process for Australian exporters.

Response:

1. *“that the Australian Government, through the IA-CEPA negotiations, focus on the reduction of non-tariff barriers to trade”*

The Government accepts this recommendation.

IA-CEPA negotiating rounds include dedicated sessions on how the agreement will identify and address non-tariff barriers to trade. Both Australia and Indonesia agree in principle to the inclusion of these issues in negotiations and the final text of the agreement.

2. *“that the Australian Government establish a national food and pharmaceutical certification process, agreed by the Indonesian Government, to simplify this process for Australian exporters”*

The Government notes this recommendation.

The Government is actively working with the Indonesian government to address differences in standards and to simplify processes for exporters. As an early outcome of ongoing IA-CEPA negotiations, Standards Australia and its Indonesian counterpart, Badan Standardisasi Nasional (BSN) are undertaking a joint standards mapping study. The study will help identify possible areas for enhanced standards harmonization, technical alignment and regulatory coherence between Australia and Indonesia to help improve trade between the two countries.

Recommendation 4

The Committee recommends that the text of the IA-CEPA should not include provisions which waive labour market testing, or which include ISDS provisions, and the final text of the agreement should be accompanied by independent analysis conducted by either the Productivity Commission or equivalent organisation.

Response:

1. *“that the text of the IA-CEPA should not include provisions which waive labour market testing”*

The Government does not accept this recommendation.

All of Australia's trade agreements with provisions on the temporary movement of professionals also include waivers of labour market testing for certain categories of professionals. Australia has existing commitments with Indonesia on the temporary movement of skilled professionals through the World Trade Organization and the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). The Government has made clear that Australia's revised visa system will be implemented in accordance with our international trade obligations.

2. *"or which include ISDS provisions"*

The Government does not accept this recommendation.

The Government takes a case-by-case approach to the inclusion of ISDS commitments in international trade agreements. Bilateral investment with Indonesia is already subject to ISDS under the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and the 1992 bilateral investment treaty.

Negotiations on investment-related commitments in IA-CEPA are ongoing and, should ISDS provisions be included in IA-CEPA, they will reflect widely accepted modern rules on the treatment of investors, including robust safeguards to preserve the Government's right to regulate in the public interest.

3. *"the final text of the agreement should be accompanied by independent analysis conducted by either the Productivity Commission or equivalent organisation"*

The Government does not accept this recommendation.

Economic analysis of trade agreements is only one tool to assess whether an agreement is in the national interest. DFAT commissions economic modelling of trade agreements on a case-by-case basis. Statistical and methodological limitations mean that current models are unable to estimate the total impact of an FTA on the economy. It is difficult to accurately model the impact of changes to non-tariff barriers, trade facilitation, increased regulatory certainty and other rules-based aspects of trade agreements. Moreover, statistics on international trade in services and investment flows are incomplete.

As with all trade agreements, once completed, IA-CEPA will be tabled in Parliament along with a National Impact Assessment (NIA). The NIA will include consideration of the foreseeable economic effects of IA-CEPA and any direct financial costs to Australia.

