



Australian Government
Department of Foreign Affairs and Trade

Submission to the Economics and Industry Standing Committee of the Legislative Assembly of Western Australia

WESTERN AUSTRALIA'S BILATERAL TRADING RELATIONSHIP WITH THE REPUBLIC OF INDONESIA

Introduction

The Department of Foreign Affairs and Trade (DFAT) welcomes the inquiry by the Economics and Industry Standing Committee of the Western Australian Legislative Committee. DFAT thanks the Government of Western Australia for the close collaboration as we work together to advance and expand Australia's extensive cooperation with Indonesia, one of our most important bilateral relationships. Our officials in Canberra, at the Western Australia State Office, and at our four posts (Jakarta, Bali, Surabaya, Makassar) across the country, alongside Australia's Mission to ASEAN in Jakarta, value the sharing of information, close consultation and joint initiatives that have underpinned our work together.

Indonesia is one of Australia's most important and valued partners and deepening economic, commercial and trade ties is a key component of prioritising this relationship. This commitment has been bolstered by the entry into force of the *Indonesia-Australia Comprehensive Economic Partnership Agreement* (IA-CEPA) in July 2020, which is a key element of the five pillars of the 2018 Comprehensive Strategic Partnership (CSP) that endorsed promoting economic integration and sustainable economic growth.

The Government of Indonesia is using its G20 Presidency year in 2022 to demonstrate its leadership in advancing inclusive and sustainable economic recovery, through improved global health architecture, economic and digital transformation, and energy transition. Many of these themes are likely to be echoed during its tenure as ASEAN Chair in 2023.

Western Australian business exported \$3.28 billion worth of merchandise goods to Indonesia in 2021, up from \$1.89 billion in 2020. Leading merchandise exports were iron ore (\$912 million, up from \$583 million in 2020), wheat (\$646 million, up from \$206 million) and live animals (excluding seafood) (\$150 million, up from \$90 million). While COVID-19 limited growth in the services sector, particularly evident in the decrease in Indonesian students studying in Western Australia, we anticipate border reopenings to allow for the full realisation of education, skills, and training pathways under IA-CEPA.

The Australian Government is focused on boosting investment opportunities for Australian businesses in Indonesia. On his inaugural visit to Jakarta, Prime Minister Anthony Albanese brought the chief executives of some of Australia's largest companies to demonstrate the Australian Government's commitment to deepening economic ties with Indonesia. DFAT has continued this effort by encouraging Australian businesses to take a fresh look to the opportunities at our doorstep, especially those that have been unlocked by IA-CEPA and which are most likely to meet current and emerging demands in Indonesia.

The Australian Government supported a delegation of Australian superannuation industry leaders on a visit to Indonesia and Singapore from 21-25 August 2022, led by The Hon. Stephen Jones MP, Assistant Treasurer and Minister for Financial Services and The Hon Greg Combet, Chair of IFM Investors and former Minister for Industry and Innovation. The objective of the visit was to explore the prospect for investing in Indonesia; the investment climate and options into the future, including by engaging with the Indonesia Investment Authority, the country's newly established sovereign wealth fund.



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

IA-CEPA is a high-quality agreement that bolsters our CSP with Indonesia.

Covering goods and services trade as well as investment, IA-CEPA provides significantly improved preferential access for Australian exporters and increased certainty for Australian investors and services providers. The agreement improves administrative procedures for exporters and importers to facilitate goods trade through a dedicated chapter on non-tariff measures (NTMs). The IA-CEPA Economic Cooperation Program, known as Katalis, also provides trade-related technical assistance and capacity building activities to help stimulate increased two-way trade and investment for the mutual benefit of Australia and Indonesia.

Additional information, including guidance on how to take advantage of the agreement, can be found at DFAT's [IA-CEPA](#) website. [DFAT's FTA Portal](#) also provides information on goods and services trade under IA-CEPA.

A. Outcomes and anticipated developments in bilateral trade relationship

Health and aged care

IA-CEPA provides a framework to contribute to the quality of private hospital, aged care and other health services in Indonesia. Under the agreement, Australian companies can own up to 67 per cent of aged care facilities and large hospitals, and within large hospitals up to 67 per cent of pathology, paramedic and medical services and dental specialist clinic services. Indonesia still requires local offices and/or distributors. Australian business continues to adapt to these requirements and develop relationships with local operators.

E-Commerce

IA-CEPA contains commitments covering digital trade, supporting companies and consumers to participate in the cross-border online marketplace. It includes provisions covering:

- **Flows of data:** Rules requiring the free flow of data across borders for business purposes, while providing protections for consumer public policy objectives, including privacy. IA-CEPA also prohibits measures requiring the use of local data storage facilities.
- **Source code protection:** Rules that prevent software suppliers from being required to hand over source code as a condition for the import, sale, distribution or use of software.
- **Cooperation:** Cooperation provisions, including to: assist small and medium enterprises (SMEs) overcome barriers to participation; share information on e-commerce regulations and cybersecurity.
- **Electronic trade facilitation:** Commitments which facilitate cross-border trade, including through the use of electronic signatures and electronic trade administration documents.
- **Privacy and consumer right protections:** Protections for privacy and consumer rights and actions to address spam messages.
- **Transparency:** Provisions requiring, amongst other things, the publication of information regarding the rights of e-commerce users.



Education, Skills and Training

Education

IA-CEPA gives Australian businesses major advantages in the Indonesian education market, including a reciprocal skills exchange for tertiary qualified individuals. It also benefits Australian providers by ensuring predictable operating conditions in Indonesia, including by:

- guaranteeing Australian suppliers can own 67 per cent of investments in the vocational education and training sector (known in Indonesia as work training)
- providing certainty Australian providers can establish a work training business anywhere in Indonesia and that requirements for Australian trainers are accepted in Indonesia
- guaranteeing Australian training providers can offer all Australian Qualifications Framework qualifications, as well as a range of qualifications within the Indonesian Qualifications, in subject matters including technical engineering, business administration, languages, tourism, management, information technology, art and agriculture.

Reciprocal skills exchange program

The Indonesia-Australia Skills Development Exchange Pilot Project gives businesses from each country the opportunity to send employees to work for up to six months in the other country. The Pilot is available for those in the financial and insurance services, mining, engineering and related technical services, and information media and telecommunications services sectors.

Under the Pilot, host organisations are responsible for ensuring all workplace law requirements in Australia are met during the exchange. Additionally, for workplace placements in positions that are regulated occupations, the employee must satisfy licensing or related requirements specified by the regulator for the occupation in the relevant jurisdiction. Due to COVID-19, implementation of the Pilot was delayed. Currently 200 places are available in each direction, rising to 500 exchanges over the next three years.

Workplace Skills Training Program

Reflecting interest in workplace training opportunities in Australia, Australia and Indonesia agreed on a Workplace-Based Training Visa Arrangement pilot alongside IA-CEPA. The obligations in the MoU are fully met under Australia’s existing 407 visa program.

Goods outcomes

Agriculture and food

IA-CEPA builds on the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) to provide increased access to the Indonesian market for Australian exporters. Under IA-CEPA, over 99 per cent of exports to Indonesia enter duty free or under improved arrangements. Under the agreement, Indonesia commits to issue import permits automatically and without seasonality for those products subject to quotas (live cattle feed grains, rolled steel coil, citrus, carrots and potatoes) and frozen beef and sheep meat.

Product	Treatment at entry into force	Longer term outcome
Live male cattle	Duty free (from 5 per cent tariff) access for 575,000 cattle in year one	4 per cent annual growth in volume reaching 700,000 by year 6. A review for subsequent increases
Frozen beef	Tariff cut to 2.5 per cent (from 5 per cent) and access for unlimited volume	Elimination of tariff after 5 years
Sheep meat	Tariff cut to 2.5 per cent (from 5 per cent) and access for unlimited volume	Elimination of tariff after 5 years



Australian Government
Department of Foreign Affairs and Trade

Product	Treatment at entry into force	Longer term outcome
Feed grains	Duty free access for 500,000 tonnes in year one	5 per cent annual growth in volume thereafter
Sugar	Locked in the 2017 "early outcome" of reduction of tariff to 5 per cent	Permanent reduction of tariff at 5 per cent
Dairy	Elimination or reduction of tariffs across a number of dairy lines	Removal of all remaining tariffs on dairy lines
Citrus	<i>Mandarins</i> – tariff cut to 10 per cent (from 25 per cent) for 7,500 tonnes per year	Tariff reduced to 0 per cent over 20 years. Duty free access for unlimited volume thereafter.
	<i>Oranges</i> – duty free access for 10,000 tonnes in year one.	5 per cent annual growth in volume thereafter
	<i>Lemons</i> – duty free access for 5,000 tonnes in year one	2.5 per cent annual growth in volume thereafter
Vegetables	<i>Potatoes</i> – tariff cut to 10 per cent (from 25 per cent) for 10,000 tonnes per year for five years	After five years, 5 per cent tariff for 12,500 tonnes per year 2.5 per cent annual growth in volume thereafter
	<i>Carrots</i> – tariff cut to 10 per cent (from 25 per cent) for 5,000 tonnes per year	Tariff progressively reduced to zero over 15 years. Unlimited volume permitted duty free after that
Hot and cold rolled steel coil	Duty free access (from between 2.5 per cent to 11.25 per cent) for 250,000 tonnes in year one	5 per cent annual growth in volume thereafter
Copper cathodes	Tariff eliminated	

Australia has encountered some challenges in the implementation of these commitments, including IT requirements hindering the export of some Australian products. Australian and Indonesian officials have sought to address challenges as they arise and will continue to work together to ensure the agreement's benefits are accessible.

Manufactured goods

Australia is an important supplier of manufactured goods into Indonesia, including inputs into their construction and production processes. IA-CEPA will help increase supply-chain integration, as Indonesian producers access Australian manufactured and other goods at a lower cost and with more certain access.

Under IA-CEPA, Indonesia eliminates tariffs on 98.2 per cent of tariff lines for manufactured and industrial goods. By eliminating all tariffs on Indonesian products into Australia, Australia businesses gain access to cheaper inputs for their own supply chains.

Sector	Summary Outcomes – Indonesian tariffs
Steel	<ul style="list-style-type: none"> • Immediate elimination of tariffs on 124 steel products in addition to 463 tariff lines already eliminated lines under AANZFTA • Six lines eliminated by 2025



Sector	Summary Outcomes – Indonesian tariffs
	<ul style="list-style-type: none"> For a further three tariff lines of certain hot and cold rolled steel lines duty-free market access for 250,000 tonnes per annum, growing at five per cent per year Tariffs on remaining iron and steel lines reduced from as high as 20 per cent to five per cent or less by 2025
Copper Cathodes	Immediate elimination of the 5 per cent tariff on copper cathodes
Plastic	<ul style="list-style-type: none"> Immediate elimination of tariffs on 38 products not eliminated under AANZFTA and a further tariff line eliminated by 2023 30 lines where the tariff is reduced to between 4.5-9.0 per cent Ten lines where the tariff is reduced to between 10.0-13.5 per cent
Machinery	Immediate elimination of 99 per cent of tariff lines
Electronics	Immediate elimination of all tariffs on EIF
Textiles	Immediate elimination of all tariffs on EIF

Resources and Energy Services

Australia’s resources and energy services sectors have a leading reputation in Indonesia for following world’s best practice. IA-CEPA offers Australian investors greater legal certainty and a more favourable regulatory environment in which to do business, including:

- robust Investor-State Dispute Settlement (ISDS) procedures which strike an effective balance between the protection of investors and maintaining the Government’s right to regulate in the public interest
- a commitment to allow mining equipment, technology and services (METS) investors to secure a controlling stake in their investments, rather than being limited to a minority stake
- permitting ownership of up to 67 per cent of contract mining and mine site preparation
- guaranteeing a range of ownership limits in the energy sector, including:
 - 95 per cent of power plants (greater than 10 megawatts)
 - 75 per cent of oil and gas platform construction
 - 67 per cent of electrical power construction, installation, operation and maintenance
 - 55 per cent of electrical power installation constructions
 - 51 per cent of geothermal power plants (less than 10 megawatts), geothermal surveying, drilling and operations, and offshore oil and gas drilling
- providing market access to priority sectors, including the electric vehicle and battery sectors.

Non-tariff measures

Under IA-CEPA Australia and Indonesia committed to improve administrative procedures for exporters and importers to facilitate goods trade. The agreement includes a dedicated chapter on non-tariff measures (NTMs) and establishes a bilateral co-operative mechanism enabling regular discussion of NTMs. This mechanism is a first for an Australian FTA and provides a useful forum for addressing behind-the-border barriers to trade.

B. Committees and institutional provisions

IA-CEPA establishes several working committees to consider implementation and operation of the agreement. The Joint Committee is the agreement’s primary committee, with subsidiary Committees on Trade in Goods, Services, Investment and Economic Cooperation also established.



Australian Government
Department of Foreign Affairs and Trade

Now in IA-CEPA's third year since entry into force, the committees maintain a regular schedule of meetings, consistent with the IA-CEPA institutional provisions. They undertake an active program of work to ensure the Agreement is fully implemented. The committees provide a valuable forum for engaging Indonesia on enhancing utilisation of the Agreement by business, addressing any trade concerns by either Party, and taking forward work to ensure the Agreement delivers agreed outcomes for business. For example, a Tariff Rate Quota Taskforce (established under the Committee on Trade in Goods) developed and implemented an electronic certification system (eCERTS) to enable smooth operation of IA-CEPA's tariff rate quotas.

Regional trade agreements

Australia and Indonesia are also deepening their economic engagement through the Agreement to Establish the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), which entered into force in 2010 and is now being upgraded, and the Regional Comprehensive Economic Partnership Agreement (RCEP), which entered into force in 2022. More than a decade on from its entry into force, ACCI's 2021 National Trade Survey indicated that goods traders rated AANZFTA as the third most utilised free trade agreement. RCEP will be the world's largest free trade agreement by members' GDP once fully implemented by Indonesia and other signatories, bringing together ASEAN, Australia and New Zealand with the major economies of North Asia (China, Japan and the Republic of Korea). According to 2021 figures (latest available), trade with RCEP members represented 83 per cent of WA's goods trade, 87 per cent of its exports and 57 per cent of its imports.

Team Australia and opportunities for further cooperation

Team Australia

DFAT commends the Government of Western Australia for its commitment to strengthening the bilateral trade relationship with Indonesia, and we welcome the opportunity to collaborate as part of our Team Australia approach.

We encourage stakeholders in Western Australia to consider the practical and strategic guidance to Australian business outlined in the *Blueprint for Trade and Investment with Indonesia* (attached) to take advantage of market opportunities. DFAT was pleased to partner with the Australian-Indonesia Business Council on an outreach series – *Indonesia: It's Time to Take a Fresh Look* – from May to July 2022. The success of the event held in Perth on 31 May 2022, which covered the mining and resources sector, was a good example of Commonwealth, state and private sectors working together to boost business engagement with Indonesia.

Opportunities and Strategies

DFAT remains committed to supporting the efforts of the Government of Western Australia to deepen trade and investment ties with Indonesia. Western Australia's commitment to its Sister State relationship with East Java is a good example of how engagement between State Governments, businesses, and people can enrich the economic relationship with our closest neighbour. The Government of Western Australia hosting an *Indonesia Connect* business forum in October 2022 demonstrates its continued interest in and commitment to fostering its partnership with Indonesia and further strengthening its business engagements with the country. The May 2022 visit by the Deputy



Australian Government

Department of Foreign Affairs and Trade

Premier to Indonesia as one of his first post-pandemic overseas trips was further evidence of the value Western Australia places on this relationship.

DFAT would like to take the opportunity to suggest possible areas of future cooperation and engagement to advance and expand Australia's and Western Australia's relationship with Indonesia. This could include increased collaboration on infrastructure; increased aviation and maritime connectivity; greater support for Indonesian language programs in schools and universities; exploration of cultural exchange and sports diplomacy opportunities; and the adoption of a Business Champion model to identify and showcase Western Australian businesses succeeding in Indonesia.

The electric vehicle (EV) and battery sector also present opportunities for collaboration. IA-CEPA allows for the export of critical minerals for battery manufacturing, highly valuable to Indonesia following its introduction of a carbon price to fund the significant expansion of its EV market. Conversely, under IA-CEPA, Indonesia could export its EVs to Australia. As the producer of half the world's lithium supply, Western Australia is well positioned to become a leading provider of the critical minerals required for this expansion. These complementary economic interests are a key area for mutually beneficial collaboration.

A West Australian trade and investment commissioner based in Jakarta would also further improve the Government of Western Australia's access and insights in this burgeoning market, build valuable networks, broker introductions and facilitate a Team Australia approach to senior ministerial and officials' visits.