

**Submission to WA Legislative Assembly
Economics and Industry Standing
Committee**

***Inquiry into Western Australia's bilateral
trade relationship with the Republic of
Indonesia***

**Prepared by the Consulate General of Indonesia in Perth in September
2022**

Chapter I

Current Overview: Indonesia's Bilateral Relationship with Australia and Western Australia

As one of Indonesia's closest neighbours, Australia has always been our long-time partner. We are pleased to observe that the past 5 (five) years have marked a progressively elevated relationship between the two countries.

This improved partnership is essentially reflected through various milestones achieved at different levels of engagement, especially in the economic and trade sectors under the implementation of the Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA), which will be the focus of this written submission.

A. National Level

1. The two countries agreed to set more profound and broader cooperation through the signing of the Joint Declaration on Comprehensive Strategic Partnership on 31 August 2018, which then led to the approved Plan of Action for the Indonesia – Australia Comprehensive Strategic Partnership (2020 – 2024) during the official visit of President Joko Widodo to Australia on 10 February 2020.
2. The first of the five pillars emphasises the bold initiatives for the early harvest from the IA-CEPA ratification and its associated Economic Cooperation Program.
3. In the latest development, during the Annual Leaders' Meeting on 6 June 2022, President Widodo and Prime Minister Anthony Albanese discussed bilateral trade and investment, cooperation on climate and energy, and regional and global interests. Both sides aspired to unlock the potential of IA-CEPA.
4. In parallel to the above, the two governments also have both, bilaterally and respectively, supported various programs to maximise the outcomes of IA-CEPA, among others, through:
 - (i) The formation of Indonesia Trading House (ITHA),
 - (ii) the convening of the annual Indo-Oz Conference and annual Trade Export Indonesia to increase mutual business participation and transactions,
 - (iii) the optimisation of IA-CEPA ECP Katalis for a more robust bilateral trade and business partnership, and
 - (iv) a synergised collaboration among Indonesian missions in Australia under the coordination of the Embassy of the Republic of Indonesia in Canberra.

B. State Level

5. At the State level, Indonesia and Western Australia have shown collaborative effort in pursuing the same mission. Since it entered into force on 5 July 2020, IA-CEPA has been one of our shared-primary focuses in promoting stronger bilateral economic cooperation with WA through improved market access, increased two-way trade and investment, and inclusive economic growth in Indonesia.

6. In the past years, the Government of the Republic of Indonesia c.q. The Consulate General of Indonesia in Perth, together with the WA Government and municipalities in WA, have actively engaged with relevant business counterparts to optimise IA-CEPA that revolve around our shared-focus areas: trade and investment relationship, international higher education and vocational education training, health, creative economy, energy, primary industries, mining, technology and advanced manufacturing, agriculture, and tourism.
7. Through various channels of cooperation, including the WA-East Java Sister State/Province Relationship, the MoU between the WA Government and the Indonesian Ministry of Energy and Mineral Resources on human resources development, and the City of Perth – Denpasar MoU on Creative Economy Ecosystem, we have endeavoured to maximise the implementation of and the IA-CEPA in both regions. In general, our engagements cover the following forms:

- a. The convening of business meetings in various settings

The Consulate General of Indonesia in Perth, in collaboration with team WA (City of Perth, AIBC WA, ICCWA) with the support of JTSI WA and DFAT WA Office, has convened a B-20 Business Forum on “Global Energy Transition; Multiple Opportunities for Indonesia and WA” at the City Council of the City of Perth on 5 August 2022.

→ This collaboration is evidence of a joint-collaborative effort to support the Indonesia Chamber of Commerce and Industry (KADIN) B20 Roadshow in Australia, a flagship business program under Indonesia’s G20 Presidency, this year.

Another notable engagement that specifically occurred at the municipality level is the convening of a Roundtable Discussion at the City of Cockburn to discuss potential business cooperation with relevant counterparts from Cockburn’s commercial and strategic industrial precincts on 15 June 2022.

→ This discussion is potentially followed by more focus meetings and one-on-one conversations on targeted issues between the City of Cockburn and business sectors from Indonesia in early December 2022.

- b. Mutual visits

The two governments’ representatives have made a series of mutual visits to deepen the already firm commitments:

→ On 30 May – 1 June 2022, H.E. Dr Siswo Pramono, Ambassador of the Republic of Indonesia to the Commonwealth of Australia, travelled to Western Australia as his first official visit.

→ Deputy Premier Roger Cook MLA travelled to WA’s Sister State/Province, East Java, Indonesia, to renew their 32nd year of partnership.

→ Vice Governor of East Java Emil Dardak visits Perth by DFAT invitation in June 2022.

The next anticipated visit of a high-ranking official from East Java is expected leading up to the preparation of Indonesia Connect, which will be held on 21 October 2022, followed by the WA high-ranking official visit to Indonesia as part of the event’s follow-up.

c. Business facilitation meetings

The Consulate General of Indonesia in Perth has conducted a series of business facilitation meetings involving the representatives of Indonesian businesses from energy, logistics, food, and beverage with potential partners from WA, ranging from the representatives of Industrial Areas and Business Park and many others.

d. Workforce

Indonesia and Western Australia also share standard views on the need for both sides to capitalise on IA CEPA capacity-building dimensions, primarily on the skilled and seasonal workforce.

At the implementation level, however, there is ample room for improvements which remain untapped, including in Workplace Based Training Visa.

To address this dimension of the issue, the Consulate General of the Republic of Indonesia in Perth, in collaboration with the Department of Jobs, Tourism, Science and Innovation (JTSI) WA, has held a series of discussions, including on 12 August 2022, also attended by representatives of GoWA Trade Office in Jakarta through virtual participation.

During the discussion, Indonesia noted that at the state government level, Western Australia is keen to enhance the access for the qualified overseas workforce, including from Indonesia, to enter and partake in the WA economy.

Indonesia also notes that the challenges for having such enhancement lie in the immigration policy at the national level, beyond the scope of the WA state government's sphere of jurisdiction. Indonesia notes further with the emphatic understanding that such a situation may also link with domestic and national security considerations.

→ To mitigate and find a workable solution which caters to all considerations mentioned above, Indonesia proposes the following:

- i. Establish robust criteria, be it in terms of the qualification of the workers, as well as the identification of the areas of destination, including under the Designated Area Migration Agreements (DAMA) mechanism, to ensure risk prevention, management, and mitigation by localising the spots of focus.

These criteria of qualification and designated destination area will serve as points of consideration in the visa application verification process.

- ii. Strengthening the Training for Trainer (ToT) scheme has been running under the umbrella of the MoU between the WA Government and the Government of the Republic of Indonesia c.q. Human Resources Development Agency of the Ministry of Energy and Mineral Resources.

Note: The mechanism as intended is not only to produce HR cadres certified with professional skills/competence with Australian standards but can also be integrated with the needs of a focused selection from the perspective of Australian immigration, with the involvement of relevant Government officials.

- iii. Using the Sister Province/State WA and East Java cooperation framework and the City of Perth and the City of Denpasar for skilled labour certification cooperation or through a consortium of universities/educational institutions can also be an additional option for Indonesia-WA.

8. Beyond the G-to-G-led engagements, the business-led initiatives have contributed to the progressive bilateral economic partnership between Indonesia and WA. Highlights to be recorded amongst the relationship are¹:

- a. The active engagement amongst the business councils and stakeholder bodies, such as the relationship between the Indonesia Chamber of Commerce and Industry with the stakeholder bodies in WA such as AIBC WA. And CCIWA
- b. Indonesia's significant diaspora population in WA provides sound evidence that WA is an attraction for Indonesians and signifies the great opportunity between WA and Indonesia's economic ties in the future.
- c. The upcoming establishment of the Curtin University campus in Indonesia is evidence of an intense relationship in the Education sector under IA-CEPA.
- d. The recent Indonesia Chamber of Commerce and Industry (KADIN) B20 roadshow last August to Perth proves that WA is a priority for Indonesia.

→ An outcome of the roadshow is the Yogyakarta Regional Chamber of Commerce and Industry (KADIN DIY) proposal to open a flight route between the New Yogyakarta International Airport and Perth.

The New Yogyakarta International Airport serves over 40 million population in Yogyakarta and Central Java. This proposal could open access to the centre of Java and WA, leading to increased business and economic engagement between Indonesia and Australia.

¹ Indonesian Chamber of Commerce and Industry, Input for WA Parliament Inquiry, 2022

Chapter II

Identified Challenges from the Current IA-CEPA Implementation

IA-CEPA implementation in trade relations between Indonesia and Australia, especially Western Australia, has yet to be optimised to benefit the two countries mutually.

We have identified several challenges that potentially contribute to the impediments of IA-CEPA implementation:

a. COVID-19 Pandemic

Like many countries, Indonesia and Australia have endured the most challenging time. It so happened that IA CEPA entered into force in July 2020 at the height of the global Pandemic.

As countries with open markets, Indonesia and Australia have inevitably been affected by the COVID-19 pandemic and its broad impact on the worldwide supply chain and trade value.

b. Indonesia's trade deficit

On the national level, bilateral trade between Indonesia and Australia has grown positively since the implementation of IA-CEPA. In 2021 the value reached a record high of USD 12.6 billion; however, we need special attention to Indonesia's growing trade deficit of USD 6.3 billion.

The deficit was due to a significant increase in the import of raw materials and capital goods, which reached 92.14% of Indonesia's total imports from Australia.

Nevertheless, a more balanced trade relationship is essential for Indonesia.²

c. Unified national strategy

A unified national strategy to implement IA-CEPA has yet to transpire from both sides of Indonesia and Australia, *much less being implemented at the state and regional levels.*

d. Australian Immigration policy

The existing Australian immigrational policy and regulation remains one of a pre-IA-CEPA era and has yet to accommodate the spirits embodied in the clauses of IA-CEPA.

There is a greater need for a balanced approach to immigration policy and improved business engagement. Some business delegations expressed difficulty obtaining a visa for business purposes, despite the sounding Governments' shared commitments to improve bilateral business interactions.

e. A gap of understanding between policymaker and business sectors

A significant gap in knowledge between policymakers and business sectors on the benefit of IA-CEPA. This requires a more intensive exchange of knowledge of the regulations and technicalities surrounding the implementation of IA-CEPA.

For example, our trade office in Sydney highlighted that only 1% of exporters utilise the IA-CEPA Certificate of Origin due to a lack of understanding of the benefits of IA-CEPA as opposed to AANZFTA.

f. Trust building

There is a greater need for trust-building for WA businesses to invest and trade in Indonesia. Currently, Indonesia ranks 73rd out of 190 countries surveyed in terms of Ease of Doing Business (EoDB) and is endeavouring to reach 50th place as mandated by President Joko Widodo.³

² Ministry of Trade op. Cit.

³ Ministry of Investment of the Republic of Indonesia,

<https://www9.bkpm.go.id/en/publication/detail/news/in-eodb-ri-will-focus-in-starting-a-business>

Chapter III

How the Improved Cooperation under IA-CEPA Is Translated at the Operational Level: Indonesia's Point of View

Given the geographical proximity and economic complementarity, backed by a strong political commitment at the national and state levels, Western Australia is Indonesia's significant partner.

However, how do these closer economic ties translate at the operational level?

Has it been optimally utilised to generate more benefits beyond political commitment, as IA-CEPA offers?

To answer those questions, we attempt to assess the operationalisation of each sector under IA-CEPA, primarily the trade sector as the focus of this Inquiry. Other sectors, including investments and services, will also be discussed in general terms.

A. Trade Cooperation

1. In the trade sector, Western Australia is an essential partner for Indonesia. Indonesia ranked the 8th largest WA market for export of goods by value in the 2021-2022 financial year and contributed 1.3% of WA's total export share.⁴
2. Whereas for Indonesia, Western Australia is among the top export destinations, after NSW and Victoria.⁵
3. Indonesia ranked the 9th largest WA import supplier in the 2020 – 2021 financial year and contributed 2.8% of WA's total imports.
4. This rank has shifted lower in the latest financial year due to a substantial decline in Indonesia's export to WA, which contributes to the exclusion of Indonesia from WA's top ten import suppliers in the 2021 – 2022 financial year.
5. The most significant decline occurred for jewellery products (HS 71) with a -90.69% trade change in value, followed by mineral fuels (HS 27) with a -48.02% trade change in value.⁶
6. However, significant export growth is observed for tubes, pipes, and hoses products (H3917) that match WA's growing demand for infrastructure development materials.⁷

On top of that, we have also measured the bilateral trade trend within a controlled period to observe the potential implication of IA-CEPA in Indonesia – WA trade relationship, as follows:

⁴ WA Government, "Western Australia's economy and international trade", <https://www.wa.gov.au/government/publications/western-australias-economy-and-international-trade#western-australia-top-10-trading-partners>

⁵ Please see attachment.

⁶ Indonesian Trade Promotion Centre in Sydney, Input for WA Parliament Inquiry, 2022

⁷ Ibid.

Table 1. Indonesia – WA Trade Transaction Before and After the Implementation of the IA-CEPA

No	Period	Indonesia Export to WA (AUD 000)	Indonesia Import from WA (AUD 000)	Trade Balance (Indonesia's Perspective)	Total Bilateral Trade (AUD 000)	Trade Balance out of Total Trade Value	Growth of Bilateral Trade
Before the implementation of the IA-CEPA							
1	July 2018 - June 2019	984,163	2,215,726	-1,231,563	3,199,889	-38.49%	0.49%
2	July 2019 - June 2020	1,044,101	2,171,403	-1,127,302	3,215,504	-35.06%	
After the implementation of the IA-CEPA							
3	July 2020 - June 2021	974,346	2,596,181	-1,621,835	3,570,527	-45.42%	6.13%
4	July 2021 - June 2022	756,242	3,033,232	-2,276,990	3,789,474	-60.09%	

Source: ABS, calculated by the author

7. From the data above, we note there has been significant growth in total bilateral trade during the implementation of IA-CEPA.
8. As we can see, the total bilateral trade positively grows each year, from initially AUD 3.19 billion in July 2018 – June 2019 to AUD 3.78 billion in the latest financial year transaction.
9. The data also shows that the bilateral trade growth reached a more significant rate during the implementation of IA-CEPA, which is 6.13% in the period of July 2020 – June 2021 to July 2021 – to June 2022, as compared to only 0.49% total trade growth in the pre-IA-CEPA financial years.
10. This optimistic Indonesia – WA total trade value also reflects the positive development of complete national trade transactions, where in 2021, the deal reached a record high of USD 12.6 billion.⁸
11. Despite this substantial growth in the total bilateral trade value, Indonesia's trade balance to WA has consecutively declined over the measured periods, much less reaching the positive value.
12. Whereas ideally, IA-CEPA provides greater access to trade for both countries due to the significantly reduced tariffs, in which 100% of Indonesian goods can enter Australia duty-free (6,474 tariff items), and 94.6% of Australian goods can enter Indonesia duty-free. At the same time, this Agreement coexists with the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), to which Indonesia is also a party.⁹

⁸ Ministry of Trade of the Republic of Indonesia, Input for WA Parliament Inquiry, 2022

⁹ Businesses can use any preferential tariffs as outlined under the FTA frameworks.

13. Business communities' relatively low awareness of IA CEPA lies behind the phenomenon, as indicated by data on the issuance of Certificate of Origin (SKA) obtained from the Data and Information Centre of the Ministry of Trade of Indonesia. In contrast, the utilisation of the IA-CEPA form in export-import activities is still very low, at only 1 per cent. The rest utilise Form B (2 per cent), and the majority still use AANZ FTA Form (97 per cent).

B. Investment and Services Cooperation

14. In terms of investment, the significant investment footprint of WA in Indonesia is represented by the Fortescue Metal Group (FMG), through its subsidiaries, Fortescue Future Industries (FFI), in the green hydrogen project signed in 2020, situated in Kayan River, North Kalimantan.
15. In addition to the Kayan River, many other large tributaries with promising potential hydroelectricity capacities, such as the Karayan River, Bahau River, and Mentarang River, have an average power of 5.6 Gigawatts. In addition to North Kalimantan and Papua, FFI Indonesia also plans to have energy plant projects related to green hydrogen fuel, namely in North Sumatra, Sulawesi, East Java, and Java-Bali.
16. FFI Indonesia is discussing the fuel bunker facility for green hydrogen with Seaport Indonesia Ltd. (PT Pelindo). FFI Indonesia prefers establishing the facility in Jakarta to support the Jakarta International Container Terminal (JICT) installation.
17. At the same time, PT Pelindo is more likely to suggest constructing a similar facility in Makassar. In this case, FFI Indonesia believes that JICT's much larger economic scale will align with its business model compared to the Makassar port, which has a smaller capacity.
18. Regarding production output in the form of green hydrogen, FFI Indonesia said that the balance between exports and domestic supply would be one of the main concerns, considering that domestic off-takers for green hydrogen are diverse, including the metal industry PT Gunung Raja Paksi (GRP), PT INKA (Persero) Tbk, PT Pertamina Power Indonesia, and Surakarta City Government (for City Buses), all of which have a significant need for hydrogen fuel cells.
19. For the technology transfer aspect, FFI Indonesia conveyed the commitment of FMG Chairman Andrew Forrest to build an electrolysis technology factory in Indonesia to create Indonesia's homegrown capability in green hydrogen production. As is well known, electrolysis technology plays a significant role in the production of green hydrogen.
20. With domestically produced electrolysis technology, the price of electrolysis machines will drop by up to a third compared to imports. It is estimated that this will directly impact the cost of green hydrogen fuel cell products in the domestic market; from the current international market price range of USD 5/litre, it can be reduced to only USD 1/litre.
21. This will undoubtedly increase Indonesia's competitiveness in the New and Renewable Energy field, especially if Indonesia, in time, begins to change the

benchmark of the APBN assumption from oil and gas to hydrogen, as well as marking the momentum of Indonesia's energy transition from carbon to NRE.

C. Opportunities in Indonesia - WA: Trade and Investment

22. According to Western Australia Investment and Trade Plan 2021-2022, Indonesia is one of Western Australia's investment destinations in energy, tourism, creative industry, education, mining, and technology.
- Indonesia is keen to strengthen investment in renewable energy, including sustainable mining, promoting investment opportunities in energy and mineral sectors, stronger cooperation in energy and mineral resources capacity building and elevating coordination efforts with WA's based energy companies.
 - Promoting stronger and broader cooperation with Fremantle Port as the port hub in implementing Indonesia and Western Australia's economic powerhouse to penetrate Indo Pacific market.
23. The mining sector contributes tremendously to West Australia's economy, and the Government has supported the development of mining, equipment, technology, and service (METS) in various exploration and research projects.
- Indonesia is keen to broaden the employment opportunities within the upstream and downstream sectors of the industry.
24. The Agrobusiness industry is another investment sector to be considered by Indonesia and Western Australia. Utilising the involvement of both Government, as well as *Australia Supply Chain Management dan Red Meat & Cattle Partnership* and *The Australian Export Grains Innovation Centre (AEGIC)* to:
- Promote economic powerhouse in port development, breeding, and slaughterhouse; processing Australian livestock in Indonesia into various products; developing Indonesian food industry using Australian wheat, especially in the small to medium enterprise, to penetrate the market in the region.

Chapter IV

Policy Recommendations

1. More substantial calibration of the whole-government approach to optimise the IA-CEPA, including establishing IA-CEPA implementation consultative meetings regularly attended by representatives of WA and Indonesia to review the implementation of IA-CEPA at the WA State-level.

A successful IA-CEPA on national and state levels can only be observed after some time. Short or middle-term observation will not serve as proof of success yet.

2. Encourage the practical platforms to assist business players, especially small to medium level from Indonesia and Western Australia, to understand the opportunity and challenges of respected countries' market environments.
3. To build trust, The Consulate and Team WA need to Identify and understand characteristic and complementary or mutually beneficial trade cooperation between Indonesia and West Australia utilising connections established by Indonesia's KADIN, CCIWA and AIBC-IABC.
4. Further promotion of the economic powerhouse concept between Indonesia and West Australia to encourage the increase of trade in supporting industrial activities.
5. Strengthening collaboration on skills exchange and knowledge transfer on relevant critical technologies.
6. Utilisation (and optimisation) of federal and national sources of funding, i.e., KATALIS, KIAT (Indonesia Australia Infrastructure Partnership), and Australia – World Bank Indonesia Partnership (ABIP).
7. With Indonesia at the helm of G-20 this year, we must also take the chance to focus on areas of cooperation that have been set as priorities.

We would welcome more engagement in global health infrastructure, energy transition, and digital transformation sectors.

8. Developing WA and Indonesia Government working group on the implementation of Sister Province/State MoU of East Java and WA to provide both parties analysis on the market opportunities in both provinces/states.
9. Finally, this might be the most crucial cooperation for both Indonesia and Western Australia:

→All relations start from people's connections. It is essential to cooperate in our efforts to understand each other beyond the surface level and through in-depth collaboration in understanding our culture, customs, and habits.

→The approach can be made by increasing cooperation in people-to-people connections through soft diplomacy in arts, language, education, training, and sports.

ATTACHMENT

The Comparison Value of Indonesia's Export to Australia by States and Territories during the Implementation of IA-CEPA

No	States/Territories	July 2020 – June 2021 (AUD 000)	July 2021 – June 2022 (AUD 000)
1	Western Australia	974,346	756,242
2	New South Wales	1,267,291	1,396,220
3	Queensland	781,501	952,200
4	Northern Territory	19,163	10,325
5	Australian Capital Territory	0	0
6	Victoria	1,712,902	1,670,075
7	South Australia	155,563	218,535
8	Tasmania	9,220	14,012

Source: ABS, calculated by the author
