

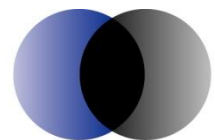


# Proposed Indonesia-Australia Free Trade Agreement

Submission on feasibility study

Prepared for Department of Foreign Affairs and Trade

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**ACIL Tasman**

Economics Policy Strategy

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## 1 Introduction

ACIL Tasman Pty Ltd is pleased to make this short submission to the Department of Foreign Affairs and Trade on the proposed Indonesia Australia FTA.

This submission provides comment on the issues from the perspectives of some of ACIL Tasman's clients and from the view of ACIL Tasman as an exporter of business services.

The topics are addressed only briefly as most are well known to DFAT.

ACIL Tasman is a member of the Australia-Indonesia Business Council and Australian Services Roundtable and endorses the positions put by AIBC and ASR in their submissions to this study.

## 2 Overview

The Australia-Indonesia trade and investment relationship is underperforming relative to the sizes of the respective economies, the cooperative relationship and the proximity of the two countries.

There is anecdotal but strong evidence of increased investor interest from Australia to Indonesia. There is also some evidence of increased Indonesian investor interest in Australia and Australian companies.

This evidence may also be a leading indicator of increased trade. In services, Australian tourism to Bali is increasing rapidly.

The Indonesian economy is growing strongly after many years in the doldrums. The Australian economy is also growing strongly.

The political and inter-government relationship continues to strengthen.

The APEC agenda for addressing behind-the-border inhibitors to economic development is highly relevant to Indonesia.

These positive trends point to the timing of FTA negotiations being opportune. In other words, there is a widening window of opportunity.

### **3 Bilateral and multi-lateral agreements**

ACIL Tasman's position on trade liberalisation is in accord with government policy: Multi-lateral trade liberalisation is preferable to bilateral trade agreements. These are only stop-gap measures pending further multi-lateral liberalisation. Bilateral preferential trade agreements must not compromise the achievement of multi-lateral liberalisation or reduce the incentives of countries to achieve it.

That said, PTAs/FTAs, including the proposed FTA with Indonesia, can offer significant benefits to Australia, providing they are comprehensive and do not discriminate or trade-off between sectors.

### **4 Issues for consideration**

#### **4.1 Business services**

There is excellent potential for increased trade in services with Indonesia. Given the nature of the two economies, services trade is likely to comprise a larger proportion of Australia's total exports than with other countries.

Trade in business services are of particular interest to ACIL Tasman and we are actively pursuing opportunities in Indonesia. Business services trade has the potential to grow significantly and sharply, driven by growth in investment, developing markets in energy, agriculture and other sectors and through ongoing microeconomic reforms that help to develop effective markets and enhance economic growth and robustness.

There are significant barriers to trade in business services that have been identified in the DFAT background paper and in submissions from ASR and others. The FTA must address these impediments.

#### **4.2 Trade in labour services**

We understand that the Indonesian Government has put trade in Indonesian labour services high on its agenda, including for the FTA. An AusAID funded study is currently underway within the Government of Indonesia to examine prospects for overall trade in labour services. At least one regional government is developing a strategy for export of labour services to Australia.

It is important to recognise that barriers to trade in labour services work both ways. Indonesia has significant barriers to Australians working in Indonesia. In particular, visas and work permits are difficult to obtain, recognition of

qualifications is problematic, and the applicable laws and their interpretation are not clear.

These are major inhibitors to development of Australian services exports generally. The FTA negotiations should seek to address them.

### **4.3 Mineral and petroleum exploration and development**

In minerals and petroleum, Australian companies and companies with regional headquarters in Australia are likely to be growing investors in Indonesia. The FTA could enhance the position of Australian companies in Indonesia relative to others.

Behind the borders regulatory issues and uncertainties have severely inhibited the ability of companies to establish mines in Indonesia. Legislative reforms that are in train should improve the situation provided that these reforms are not undermined by the actions of regional governments.

It is important that any macro investment liberalisation under the FTA is matched by regulatory reform that improves the overall climate for minerals and petroleum investment in Indonesia.

### **4.4 Cross-border trade in gas**

Facilitation of cross border trade in gas is high on the energy agendas of both APEC and ASEAN. It should also be high on the agenda for negotiations of the proposed Indonesia- Australia FTA. Just as the ASEAN nations are seeking to facilitate movement of gas across borders between member countries, so too should Australia and Indonesia seek to trade gas, albeit under rather different circumstances. The principles are very similar.

Appendix A contains a summary of recent initiatives on cross border trade in gas in the region.

### **4.5 Development of supply chains**

The geographic proximity of Australia and Indonesia and the complementary nature of some of their factors of production may enable the development of some unique trade relationships. These take the form of cross-border supply chains. Some are developing already, in different forms. Examples are:

- Export of live cattle bred and grown out in WA and the NT and exported to Indonesia for fattening in feedlots and slaughtering for domestic consumption

- Investigations are being undertaken into expanding this supply chain to volumes that could service larger abattoirs in Indonesia and build a meat export trade.
- Offshore oil and gas supply and servicing jointly undertaken between Australia and Indonesia, which are able to provide complementary capabilities to the same offshore facilities, with personnel and materials moving freely between the countries.

The Indonesian Customs pre-inspection service in Darwin provides rapid and efficient approval of exports through that port to Indonesia and such services could enhance the viability of cross-border supply chains

#### **4.6 Decentralisation and FTA effectiveness**

Decentralisation of government in Indonesia should deliver economic and governance benefits and enhance national cohesion. It could also add to complexity and uncertainty for investors. Already is clear that under-capacity in regional governments is delaying decision-making on projects and much-needed expenditure on infrastructure and services.

The effectiveness of the proposed FTA could be compromised as a result. It is therefore in the interests of the parties to identify and address potential regional inhibitors to FTA effectiveness.

## A Recent initiatives on cross border trade in gas

### APEC

APGAS is the APEC Gas Forum established by government and industry to foster a competitive, open and transparent marketplace for gas, and in particular to expand natural gas (pipeline, LNG and CNG) trade. The rationale for this is, in summary:

- Improving energy security through supply diversity, market stability, infrastructure availability and competitive fiscal regimes
- Reduce emissions of greenhouse gases through increased use of gas
- Improve energy sustainability by promoting natural gas as the fuel to lead economies in the direction of more sustainable energy systems.

There are three unique aspects of cross-border natural gas trade, each of which represents a major potential trade bottleneck:

- Natural gas trade requires massive investment, with long lead times in exploration and development, large-scale transportation systems and complex commercial arrangements
- Natural gas projects typically involve complex, multi-party relationships and entail decade-long exploration, appraisal, development and commercialisation cycles.
- Markets for natural gas are immature and prone to market failure as markets not only determine whether gas resources are developed but they dictate the pace of development. Many APEC domestic gas markets are currently small and many governments do not yet have policies in place to define the share that gas should take in their overall energy mix.

The Darwin APEC Energy Ministers' meeting in May 2007 directed the APEC Energy Working Group to review the uptake and currency of Best Practice Principles on: Accelerating Investment in Natural Gas Supplies, Infrastructure and Trading Networks in the APEC Region; Facilitating the Development of LNG Trade; Financing Energy Projects; and Natural Gas Trade.

The 2007 APGAS Forum held in San Diego in September agreed that the main barriers to expansion of natural gas trade in the Asia-Pacific region are the barriers that continue to impede investment in new capacity.

See <http://www.apgasforum.com/>



## ASEAN

The ASEAN Plan of Action for Energy Cooperation 2004-2009 has, as a priority facilitation of trade in gas through facilitating implementation and realisation of the Trans-ASEAN Gas Pipeline Infrastructure Project to ensure greater economic value and security of gas supply. An MOU signed by ASEAN Energy Ministers in 2002 includes:

Individual and/or joint studies, either on a bilateral or multilateral basis, to support and encourage the production, utilisation, distribution, marketing and sales of natural gas among ASEAN member countries.

Assessment and review of national and regional legal and institutional frameworks for natural gas, concerning cross-border issues relative to the commercial and economic feasibility, construction, financing, operation and maintenance of the pipeline as well as supply transportation and distribution of natural gas to member countries shall be undertaken.

Transit Rights: To determine acceptable measures to facilitate issuance of permits, licenses, consents or other authorisations for transit pipelines and natural gas being transported through the territory of member countries.

Taxation and Tariff: To determine arrangements for the mutually agreed imposition of, or exemption from import, export or transit fees, duties, taxes or other government imposed fees and charges on the construction, operation and maintenance of the pipeline as well as the natural gas in transit.

See [http://www.aseanenergy.org/ace/work\\_programme.htm](http://www.aseanenergy.org/ace/work_programme.htm)

## Recent gas supply and demand study

ACIL Tasman recently completed a project to assess gas supply and demand in the ASEAN region through the ASCOPE Gas Centre on behalf of the ASCOPE Trans-ASEAN Gas Pipeline Task Force.

The work involves developing a model of gas supply, demand and transportation infrastructure (both existing and proposed) in order to explore the demand for gas pipeline transportation services on various elements of the proposed Trans-ASEAN Gas Pipeline (TAGP) network, under a range of future scenarios.