

SUBMISSION

SUBMISSION TO

DEPARTMENT OF FOREIGN AFFAIRS & TRADE

IN RESPONSE TO

FREE TRADE AGREEMENT WITH INDONESIA

November 2007

PREFACE

The red meat sector is now Australia's No.1 agricultural enterprise. The Australian Meat Industry Council (AMIC) is the only employer association and recognised Peak Council in Australia, representing the commercial export and domestic processing industry.

AMIC is also the Peak Council representing the post-farm gate sector including smallgoods manufacturers, wholesalers, distributors, boning rooms and independent retail butchers – in total, close to 3,000 member companies representing over 55,000 workers directly employed in meat processing, exporting, wholesaling and retailing in Australia.

In addition, there is conservatively at least the same number again of Australian's involved in the road transport, shipping, carton and equipment manufacture, insurance, banking, laboratories and other ancillary industries – all dependent on the red meat processing and export sector for a proportion of their livelihood – an industry worth an estimated A\$15 billion to the Australian economy in total.

AMIC provides services and support to members that improves their working environment and is focused on achieving the best outcomes for the industry and its members as part of one voice on issues critical to their business.

MARKET ACCESS TO INDONESIA & A FREE TRADE AGREEMENT

1. INTRODUCTION

The Australian Meat Industry Council (AMIC) on behalf of the red meat processing and export sector, welcomes the opportunity to make the following comments on the proposal to enter into a Free Trade Agreement with Indonesia.

This submission should be read in association with the general industry submission from Meat & Livestock Australia (MLA). There are specific issues however relating to the red meat processing sector's access to the Indonesian market that should be emphasised and this submission seeks to address them.

Indonesia is a vital export market for Australia's processed red meat products taking 32,670 tonnes of beef, sheepmeat and offals worth over A\$200 million to the Australian industry in 2006/2007. While in the context of Australian global sales, Indonesia only represents 2.5% of total volume exports, to those who specialize in the market, it is a highly important international market with significant potential and a major part of their overall business. With 90% of Australia's beef exports tied to just 4 countries, The US, Japan, Korea and Taiwan, the opportunity to diversify sales into newly emerging markets like Indonesia must be promoted.

As one of the world's largest Halal markets, it requires exporters with knowledge and capability to service its specific needs. A number of exporters have made a significant investment in developing the market for red meat products in Indonesia. In principle, AMIC supports the commencement of a feasibility study as a precursor to any negotiations on a Free Trade Agreement with Indonesia as long as the agreement is comprehensive, inclusive of all aspects of Australia's trading relationship with Indonesia and it leads to a more transparent and internationally consistent trading environment between the two countries.

There are some specific areas of the trading relationship any Agreement should address.

KEY OUTCOMES FROM ENTERING INTO AN FTA WITH INDONESIA

- Any study must be comprehensive and include all aspects of Australia's trading relationship with Indonesia.
- Removal of the 5% import duties on all red meat products consistent with the zero tariff levels faced by the live cattle trade. Processed red meat products and the live export trade should be competing on a level playing field. This would not appear to be the case at present.

- Removal of all non-tariff trade barriers. The Indonesian Meat regulations covering imports and distribution of imported meat are limiting to trade in some instances and do not reflect normal commercial and international practice – e.g. Bans on the imports of lungs, tripe and spleen should be removed.
- A dispute resolution framework for resolving trade related issues that does not require disruption to the trade.
- Mutual agreement to a process for accreditation of plants and Halal certification under the AGMS system

2. INDONESIAN MEAT REGULATIONS CONCERNING IMPORT & SUPERVISION OF DISTRIBUTION OF IMPORTED CARCASE MEAT & INNARDS –

64/Permentan/OT.140/12/2006
61/Permentan/OT.140/8/2007
64/Permenton/OT.140/3/2007
27/Permenton/OT.140/3/2007

In December 2006, Indonesia issued a draft meat regulation that imposed constraints and new requirements on meat products exported to Indonesia. At the time, industry expressed its concern at the uncommercial nature of the proposals.

In August of this year a revised meat regulation was released that imposed additional requirements to those in the document provided last December. Combined, these documents now represent a considerable concern to the meat processing and export sector servicing the Indonesian market. Indonesian authorities advise they have developed these new regulations to control the import and distribution of meat and offals in Indonesia however the commercial impact of their implementation in their current form will be to limit trade.

AMIC members will have great difficulty with some of these requirements as currently proposed. There is no scientific, trade or religious basis for their introduction and we have sought Government intervention in effecting change to a number of elements in the new regulation.

There are 5 main areas for consideration: -

- a) The restricted offal list
- b) Non-commercial labelling requirements
- c) Storage temperatures
- d) Expiry Dates
- e) Halal requirements

a) Restricted Offal List

There is no case based on health, halal certification or trade practice that supports the current removal of key offal items from the permitted import list which is at present confined to hearts and livers, oxtail, tongue, lips and feet. This has resulted in a significant area of Australia's offal trade being affected. Indonesia was a significant market for lungs, tripe and spleen. They are now a prohibited item under the regulation without any valid reason.

Open and free trade should allow the market to decide the supply and type of offal required as long as health, hygiene and religious requirements are met. The same restricted offals walk freely into Indonesia as part of the live cattle trade from Australia. There are competitive market forces at work that have no basis under WTO, or in an FTA. While scope exists under the regulations to apply for the addition of offal items to the list, the ability to do so remains unclear especially now that the Director of DGLS that helped sponsor the inclusion of that clause has left the post.

b) Labelling Requirements

The new labelling requirements proposed include two areas of difficulty to AMIC members:-

- Dual language (Bahasa/English)
- Indonesia as the destination nation

Indonesian authorities advise that no other country destination is to be included or referenced on the label. Indonesian officials have raised concerns that in such cases they believe the product has been rejected by another country. Advice has been received that where labels have included Japanese, Chinese or Korean lettering, it may result in detained or rejected consignments.

These labelling requirements generate significant concerns for AMIC members and will be trade limiting. Exporters always try and use multilingual markings in order to suit production for all countries. This is no different to many other consumer goods labelled with various languages. It is not a reject from another market, just a multilingual approach to a global market.

The concern with the request for dual labelling is that eventually we will have that many countries wanting dual language labels that it will be extremely difficult to control from a production perspective, especially if it is required on the main end-panel label.

Many of our product lines are produced so that they can go into cold storage and can be later drawn from and shipped to any destination. It will be difficult to produce the cartons and not have them already pre-labelled with some countries label (eg Chinese labels are already on many). Having Indonesia on the carton as the

destination then would only make other countries question a carton's eligibility if redirected to this market.

The labelling requirements have the potential to be trade limiting if applied in full on the official carton label. Indonesia needs to better understand that multi-language labelling is normal international practice and can still be Halal. It is not a basis for rejection. Current labelling procedures in Australia should meet Indonesian requirements. However if additional information is required, then we should pursue agreement to a commercial label applied at time of load-out that carries additional generic Indonesian requirements including Destination Indonesia and any generic dual labelling requirements. Specific carton information is applied at the weight station.

c) Storage Temperatures

The December document only talked about storage temperatures of -18°C domestically while the August document appeared more definitive. There is no technical basis for departing from current international standards for load-out in Australia of -10°C to -12°C . The domestic requirements in Indonesia are for product to be stored at -18°C .

"Period of Storage...at a temperature of -18 Degrees Celsius" (i.e. environmental).

There is no evidence to suggest that these are product temperatures or that authorities are intending to measure product temperatures. As an export focussed industry we must be emphasising consistency of international standards. Current product load-out requirements in Australia must be accepted by Indonesia. There is no intent or request to impose Indonesian domestic requirements on the Australian supply chain and so any suggestion of variance from current standards in Australia should be rejected.

d) Expiry Dates

Expiry dates for mechanically de-boned meat (MDM's) have been set at one month for arrival in Indonesia and for all frozen product at 6 months. These requirements remain inconsistent with international standards and can place significant constraints on trade. As a WTO member and a country entering into discussions on a Free Trade Agreement with Australia, these requirements should be consistent with international standards. We believe Indonesia has got to be challenged on these issues. There is no scientific validation for these expiry date requirements and they remain a barrier to trade and reflect a lack of confidence in the security of our systems.

e) Halal Requirements

In Australia, Halal red meat production for export is governed by the Australian Government Muslim Slaughter Program (AGMS) the Government and industry considers the AGMS to be both a transparent and efficient Halal standard when included in an establishment's Approved Arrangement.

As Australia's Halal red meat export program, the AGMS is incorporated into the arrangements of all Halal exporting red meat establishments. The AGMS is underpinned by legislation and Australian Government involvement through the Australian Quarantine and Inspection Service (AQIS). These aspects contribute to the transparency and efficiency of the AGMS and assist in assuring Australia's Halal export markets of the integrity of the system, a system accepted by the vast majority of the over 40 Halal markets Australia exports to around the world.

AMIC supports the AGMS system and strongly opposes attempts to customise it to individual countries. We understand that Halal certification is very important to Indonesian customers and consumers and Australia goes to great lengths to underpin the system's integrity. All religious certifiers under the AGMS system must be registered with the Australian Quarantine & Inspection Service (AQIS) and have an Approved Arrangement (AA) over how they will actually undertake their Halal certification responsibilities. All religious slaughtermen must be registered with AUS-MEAT, Australia's red meat industry quality assurance and accreditation body. At any time, an Indonesian customer can check through his supplier on any of these aspects in his Halal supply chain.

Given the above, there is no need to include the name and registration number of the Halal slaughterman on the Halal certificate. That will overly complicate certification and is unnecessary. This is already covered under the AGMS. A better understanding and acceptance of the Australian Government's AGMS system in Indonesia should be an essential part of any Free Trade Agreement.

3. LACK OF CONFIDENCE IN THE AUSTRALIAN SYSTEM

Many of the non-commercial requirements in the new meat regulations relate to Indonesia's lack of confidence in the Australian system. Their perceptions on the need for "Destination Indonesia" labels and concerns over foreign country labelling relate to lack of confidence in the security and integrity of Australian health and hygiene requirements as well as Australian Halal certification. The Indonesians need to understand that the additional labelling will not provide any additional security. It is the health certificates that underpin the security and integrity of the product. It is the AGMS system that provides the integrity of Halal slaughter and slaughterman. Any FTA negotiation process needs to highlight that message. There may be a role in time to promote carton barcodes linked to the Health Certificate as possible solutions to many of their concerns. This is an issue for further discussion within industry if through an FTA, Indonesia saw this as providing more confidence to our Indonesian customers.

Counterfeit documents covering illegal product out of India and other destinations with shipments via Singapore and other entrepot Asian ports remains a major concern for Indonesia. Australia can assist in providing documentation support systems that can help to control this when Australian product is concerned.

Transparency of the Sanitary and Phytosanitary regulatory framework is essential to promote expanded trade. A framework that allows areas of disagreement to be discussed and resolved without disruption to trade should be an essential outcome of an FTA if expanded trade is a true objective.

4. THE LIVE EXPORT TRADE – THE TRADE-OFF

Indonesia now represents 75% of Australia's live cattle exports. It is clear that this investment is in direct competition with the red meat processing sector in Australia for the live animal. AMIC accepts the existence of the live export trade as long as they compete on a level playing field. This does not appear to be the case at present in Indonesia.

Disparities in tariffs continue to exist between beef (5%) and live cattle imports (zero) tariffs. An FTA should seek to eliminate the 5% tariff disadvantage on processed beef products.

Currently offals banned from import because of Halal or quarantine reasons, walk into Indonesia as live animals and are sold on the domestic market following slaughter. Imported frozen offals such as lungs, tripe and spleens would compete with these fresh offals if they were not banned. A Free Trade Agreement must seek to deliver a transparent and open trading environment where all products compete on their ability to meet customer requirements, not their political affiliations. A forum to discuss and resolve trade issues with Indonesia of this nature without affecting day-to-day trade would facilitate trade enormously.

5. SUMMARY

AMIC members will have great difficulty with some aspects of the new Indonesian meat regulations as currently proposed. It is essential that every effort is made to address the issues raised above in order to allow commercial practicality to prevail in Indonesian import requirements. This is especially the case in an environment where Australia is now entering into discussions with Indonesia on a free trade agreement. There would appear to be political influence in the development of these regulations and their trade limiting nature. Given the size and political influence of the live export trade, it is essential a Free Trade Agreement delivers an open and transparent environment, especially amongst competing Australian companies and businesses. Areas of difference should be addressed quickly and without interruption to day-to-day trade based on science and established trading rules and not through areas of political and commercial influence.

***Processor Group
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