DSICA

Distilled Spirits Industry Council of Australia Inc.

31 March 2011

Dr Armstrong
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Mr Michael Mugliston
Special Negotiator
Free Trade Agreement Division
Department of Foreign Affairs and Trade
RG Casey Building
John McEwen Crescent
BARTON ACT 0221

RE: Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) negotiations: ***Inclusion of alcohol beverages in tariff reduction negotiations***

Dear Mr. Mugliston,

I write to you on behalf of the Distilled Spirits Industry Council of Australia Inc. (DSICA). Established in 1982, DSICA is the peak industry body representing the interests of manufacturers and importers of distilled spirit beverages in Australia.

DSICA would like to put forward its position regarding the current negotiations between Australia and Indonesia to establish the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). DSICA congratulates both the Australian and the Indonesian Governments for agreeing to enter into the IA-CEPA negotiations. The reduction of tariff and non-tariff barriers to trade between our two countries is in the best interests of consumers, industry and the future economic prosperity of both Australia and Indonesia.

As an industry body representing the interest of Australian producers and distributors, DSICA believes that Free Trade Agreements (FTAs) can enhance the competitiveness of signature parties' domestic industries, and open up access to duty-free raw materials and ingredients for use in domestic production. DSICA also understands the political sensitivities that arise as a result of trade negotiations to establish a bilateral or regional trade agreement. In particular, domestic sensitivities often arise with regard to the impact of an FTA on alcohol beverage products, due to social and religious concerns.

Alcohol beverages are generally excluded from FTAs on religious grounds in countries where the majority of the population adheres to the Islamic faith. This is currently the case in Indonesia, where alcohol is excluded from tariff reduction measures in existing FTAs, such as the *ASEAN Free Trade Agreement (AFTA)*.

Whilst this is understandable, it is difficult to reconcile this policy with the fact that Indonesia has a large domestic beer and spirits industry. DSICA believes that the existence of significant domestic industries is in conflict with the principle of excluding the entire alcohol beverage sector from FTA tariff reduction commitments.

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DSICA strongly advocates that the Australian Government seek to have alcohol products included in tariff reduction negotiations as part of the overall negotiations between Australia and Indonesia towards the IA-CEPA.

In April 2010, the Indonesian Government reformed the taxation system for alcohol beverages in Indonesia, by removing the ad valorem luxury sales tax on all alcohol beverage products and simplifying the unitary (by total volume of liquid) excise taxation system. Additionally, Indonesia reformed customs duties on imported alcohol beverages, by shifting from an ad valorem system to a unitary system, and has increased the number of alcohol import licences in Indonesia. DSICA commends Indonesia for these forward-looking reforms, which have significantly reduced the total tax burden on premium imported spirits and have reduced the incentive for illegitimate alcohol importation into Indonesia.

Despite these developments, customs duties remain high and imported spirits continue to face higher excise taxes than domestic spirits. Indonesia also applies strict import quotas on all alcohol beverages, but the reality is that *actual* consumption of imported alcohol is considerably higher than the quota limits.

Further changes are needed to develop a non-discriminatory tax and regulatory environment for imported alcohol beverage products. Reducing the customs duty rates, easing import quota restrictions and harmonising excise rates between domestic and imported spirits would greatly assist in levelling the playing field between domestic and imported products. Indonesia would benefit greatly from these changes as: (a) the imported alcohol market is further legitimised at the expense of smuggled/counterfeit activity, (b) the tax base will grow and support government revenue, (c) there will be flow on effects on Indonesia's tourism and hospitality industries, and (d) the changes will support a responsible drinking environment for those that choose to drink.

To progress these reforms, DSICA believes including alcohol beverages as part of tariff reduction negotiations between Australia and Indonesia towards the IA-CEPA is an important first step. This will initiate a constructive dialogue and strong platform to engage Indonesia in enhancing its tax and regulatory policy for alcohol beverage products.

Thank you for your consideration of DSICA's position on the inclusion of alcohol beverages in the IA-CEPA negotiations. DSICA looks forward to maintaining an ongoing dialogue with DFAT and other relevant government agencies regarding this issue. Please do not hesitate to contact me on (03) 9696 4466 if you have any queries in relation to this letter. Alternatively, I look forward to your response.

Yours sincerely,

Gordon Broderick
Executive Director