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9 November 2007

Indonesia-Australia FTA Feasibility Study
Department of Foreign Affairs and Trade
RG Casey Building
John McEwan Crescent
Barton
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Dear Sir

Submission: Joint Feasibility Study into an Indonesia-Australia Free Trade Agreement (FTA)

Queensland Citrus Growers Inc wishes to make a submission in relation to the Joint Feasibility Study into an Australia-Indonesia Free Trade Agreement (FTA) as part of the stakeholder consultation process.

The Queensland citrus industry produces approx 100,000 tonnes of citrus per annum, with a value in excess of $150 million. The Queensland industry is orientated towards the production of mandarin varieties, with almost 70 percent of Australia's mandarins produced in Queensland.

Citrus, and mandarins in particular, are Queensland's leading horticultural export, and export volumes were in the range of 19,000 to 22,000 tonnes, with a FOB value $27 million to $32 million, during the peak years of the latest cycle from 2002 to 2004 - although there has been somewhat of a decline in the past 3 years. Obviously, the performance of mandarin exports is vital to the economic well being of the Queensland citrus industry, and the rural communities where it is centred, particularly Gayndah, Mundubbera and Emerald.

On a long term basis, Indonesia has been in the top two markets for Queensland mandarins. In fact 70 percent of Queensland's mandarin exports went to Indonesia up until the Asian economic collapse in 1997, after which it fell away to less than 10 percent of our industry's export volumes the next year. When this occurred, Indonesia was replaced by Hong Kong as the top export destination, and Hong Kong has remained the top export market for Queensland mandarins to the current time. Indonesia has never returned to its former prominence, however it has recovered to the point where it has been the number two export market for quite a few years.

Queensland and Australian Mandarin Exports for the years 2001 to 2007 (to 30 September 2007) are set out in the tables in Attachment A. They indicate that Australian (mostly Queensland) exports to Indonesia peaked at 7,502 tonnes in 2004 (FOB value $8.7 million). However there was a major dislocation of this trade when under a "tariff harmonisation" program, Indonesia increased the rate of tariff on mandarin imports from 5% to 25% on 1 January 2005.

The impact of this was a 43% decline in the first year after this decision (2005) to 4,227 tonnes, and there was a further decline to 3,377 (20%) the following year - 2006. With the 2007 season now effectively finished, this year's tonnage has barely reached 2,000 tonnes. Overall this market has declined by 72% in the 3 years since the Indonesian tariff was increased.

The effective loss of this major market for the second time in the past 10 years, has had a major economic impact on the Queensland citrus industry. The impact has not only been the loss of sales in the Indonesian market, but other markets have also become more difficult, as the surplus volumes have increased supply pressures on other Asian markets.

The logical purpose of any tariff is to protect a domestic industry. However in this case, the increased Indonesian tariff does not appear to have been of any benefit to the Indonesian citrus industry (if there is one – citrus is a temperate crop). What it has done, is transfer this Australian market to competitor countries China and Thailand, who have both seen a substantial increase in their exports to Indonesia in the past 3 years, as they continue to have the advantage of a zero tariff under the ASEAN China FTA, and as the 25% tariff increase on mandarins does not apply to them.

QCG has sought to have this adverse tariff decision reversed on several occasions since 2005 – Ministerial representations, a Ministerial level trade delegation has taken place (lead by Parliamentary Secretary Susan Ley – September 2006), an Australian submission to the Indonesian Tariff Board (facilitated by the Horticultural Market Access Committee - HMAC) and input into various bilateral trade and agricultural co-operation fora which have occurred in recent years – all without success.

In light of these unsuccessful efforts to have the Indonesian mandarin tariff addressed, HMAC and DAFF have indicated that this matter "might best be pursued under the ASEAN FTA negotiations, or **under negotiations with Indonesia should a bilateral FTA be proposed in the future**".

In our view the Indonesian tariff is a trade barrier which has no merit as a tool to support Indonesian agriculture, and which we believe is inconsistent with Indonesia's WTO obligations to reduce trade distorting tariff barriers. **Queensland Citrus Growers therefore believes that any FTA with Indonesia would be deficient if it did not include on the Indonesian side, the complete and immediate (not phased) removal of all tariffs on mandarin imports from Australia.**

Yours faithfully

Chris Simpson
Executive Manager