

ATTACHMENT 1: TRADE OVERVIEW – WESTERN AUSTRALIA AND INDONESIA

EXECUTIVE SUMMARY

Western Australia currently enjoys strong trade relationships with Indonesia, particularly through our Sister State Relationship with East Java. However, Western Australian companies often find Indonesia a challenging and difficult market to deal with. Conversely, Indonesian companies find Australian trade requirements difficult to satisfy. There is a natural synergy between Western Australian and Indonesian trade interests, especially in the areas of agriculture, food and the mining and service industries, that are being hampered by factors that can be addressed through the negotiation of an IA-CEPA. During the IA-CEPA process, this submission recommends that Australia offers capacity building assistance to Indonesia to assist with the development of trade management; that immigration and visa laws be relaxed in both countries to facilitate the flow of skilled labour; that Australia negotiates greater access to the services sector in Indonesia; and that regulations governing the trade of food products be reviewed.

INDONESIA – A GROWING ECONOMY

Last year Indonesia was the only country in the Group of 20 leading economies to lower its public debt-to-GDP ratio – a reflection of improved economic management in recent years. Indonesia's economic growth during the first nine months of 2010 reached 5.9%, with private consumption accounting for more than half of Indonesia's GDP. It is expected that Indonesia will continue its trend growth of around 6%, provided progress is made in key areas such as infrastructure, investment and energy subsidy reform.

Trading with Indonesia

Indonesia is currently in the process of negotiating trade agreements Australia, Pakistan, India, Chile and US.

Indonesia's exports gained 40% in the first eight months of 2010, and imports grew 47%. Since its entry to the World Trade Organisation (WTO), Indonesia has been lowering tariffs and non-tariff trade barriers. Current import tariffs are mostly imposed on an ad valorem basis, with an import duty of 0%-20% for most items. Most imports to Indonesia are also subject to value-added tax (VAT). Certain items such as particular foods, alcohol, perfume, cosmetic or toilet preparations, plastics, ceramic products and cars have tariffs of 30%-150%. In addition a luxury sales tax of 10%-75% is imposed on various items such as large-size televisions, sports equipment, carpets, and jewellery among others.

The import of rice, sugar, alcohol, plastics, medicine and lubricants, among others, have certain restrictions, such as special licences and/or limited import volume. Indonesia is currently party to the ASEAN Common Effective Preferential Tariffs (CEPT) scheme, under which all industrial products traded between ASEAN countries are subject to import duties of 0%-5%, the China-ASEAN Free Trade Agreement, allowing most Chinese exports tariff-free access to the Indonesian market, and an agreement with Japan, whereby lower duties are applied to Japanese imports.

Foreign Investment in Indonesia

Indonesia is an attractive option for foreign investment experiencing strong growth since mid-2009. Indonesia's free trade zones in Batam, Bintan and Karimun designated to encourage foreign investment are free of import tariffs, VAT and luxury goods tax. These zones are popular as offshore production bases for Singapore manufacturers. Indonesia's business environment for foreign investors is expected to improve 2011-14, however, the pace of privatisation is expected to be slow, and the labour market will remain highly inflexible. Further work towards developing Indonesia's capital market could make foreign investor inflows more productive in the economy.

Growth

Indonesia's GDP is expected to grow 5.2% per annum between 2011 and 2030. Private consumption is expected to drive economic expansion in Indonesia, increasing by an average of 5% per annum as employment growth accelerates and real wage increases pick up. The external sector is expected to make only a small contribution to GDP growth in 2010/11. Indonesia's relatively young population will facilitate rapid growth in the working-age population, further contributing to economic prosperity. Hindrances to Indonesia's future financial stability and growth are weaknesses in Indonesia's legal and institutional frameworks and governance.

INDONESIA - WESTERN AUSTRALIA BILATERAL RELATIONSHIP

Indonesia is an important economic, social and political partner of Western Australia. Significant milestones in the Indonesia - Western Australia bilateral relationship include the signing of a Memorandum of Understanding (MoU) between Western Australia and East Java in 1990, formally establishing a Sister State Relationship. This relationship facilitates long term economic, and cultural co-operation in a variety of areas including economic development, commerce, industry, tourism and education. In 1992, Western Australia was one of the first Australian states to establish a presence in Indonesia, with the opening of its own representative office in Surabaya, Indonesia (the office is now located in Jakarta). In September 2007, East Java participated as Guest Nation at the 2007 Perth Royal Show, and in April 2010, the East Java Province Government and the Australian Government signed a MoU on Milk Industry Development cooperation.

Trade Statistics

In 2009/10 Indonesia ranked as Western Australia's:

- Largest market for wheat exports valued at A\$485 million.
- Largest market for live animal exports valued at A\$144 million.
- Largest market for beef exports valued at A\$32 million.

Western Australian Merchandise Trade, 2009/10	<i>Value (A\$m)</i>	<i>WA Share</i>	<i>Rank</i>
Exports to Indonesia	1,164	1.4%	10th
Imports from Indonesia	1,401	5.0%	8th
Total Trade	2,565	2.3%	9th

Major Western Australian Exports	<i>Value (A\$m)</i>	<i>Percentage</i>
1. Wheat and meslin	485	41.7%
2. Live animals (excluding seafood)	143	12.4%
3. Crude petroleum	135	11.6%
4. Iron waste and scrap	36	3.1%
5. Beef	32	2.8%

Major Western Australian Imports	<i>Value (A\$m)</i>	<i>Percentage</i>
1. Crude petroleum	803	57.3%
2. Gold, non-monetary	325	23.3%
3. Specialised machinery	27	2.0%
4. Monitors & projectors	22	1.6%
5. Iron and aluminium structures	20	1.4%

Western Australian Industry Sectors	<i>Value (A\$m)</i>	<i>WA Share</i>	<i>Rank</i>
Agriculture and Food: exports to Indonesia, 2009/10	685	14.4%	1st
Tourism: Indonesian visitors, 2009	73	4.3%	6th
Education: Indonesian student enrolments, 2009	<i>Number</i>	<i>WA Share</i>	<i>Rank</i>
	1,989	6.8%	6th

Significant Export Opportunities

Significant future export opportunities for Western Australia have been identified in:

- Education and training, including expanding Australia's services exports in this sector.
- Mining, including the supply of mining consumables, services and technologies.
- Environmental management, including the development of pollution control, water treatment equipment and spare parts, training and ISO14000 accreditation services.
- Health, including the development of private hospitals, alliances with strategic specialist suppliers, the provision of private health insurance schemes and hospital staff training.
- E-commerce, including opportunities for providing solutions in online services and value-added services, especially for software and Internet security.
- Food and agri-business, including processed food and dairy products, ingredients for the food services sector, technology transfer and consultancy services to the dairy industry.
- Dairy, including providing expertise in dairy farming, processing, distribution and marketing, development and management of integrated facilities, and the supply of dairy products.

- Information and communication technology, including information and communication technology, support systems/facilities management and professional services.
- Marine and transportation, including recreational and industrial shipbuilding and sales, ship repairs, freight and passenger transport services, and the railway industry.
- Retail, including lifestyle-related goods and services, and franchises.

TRADE BARRIERS BETWEEN WESTERN AUSTRALIA AND INDONESIA

Behind Border Trade Barriers – Indonesia

Behind the border trade barriers make Indonesia a challenging and difficult market for Western Australian companies. These barriers restrict trade and investment in Indonesia, particularly for our technical services, professional and labour services, and our food and mining industries. Trade restrictions include limits on foreign involvement and investment in certain sectors, particularly the service industry, a lack of capability and transparency in government agencies, unreliable intellectual property and copyright guidelines and Indonesian competition policy and immigration law, particularly in relation to work visas.

Behind Border Trade Barriers – Australia

Western Australia frequently suffers skill shortages that Indonesians could fill. However, Indonesian people are heavily restricted from working here by what are considered unsuitable requirements regarding the level of English skills due to the current 457 visa class. Food imports also suffer as Indonesia finds it difficult to meet the requirements of the Australian Quarantine Policy, particularly in the area of fresh tropical fruits. This contributes to a perception that Australian restrictions on Indonesian exports are unfair, which further discourages trade.

Mining Industry

Minerals and related products account for one fifth of Indonesia's exports. Indonesia is rich in mineral resources, and has significant reserves in gold, bauxite and phosphates. On an international level Indonesia ranks: second in tin production; third in copper; and fourth in nickel production; and currently ranks second behind Australia in coal exports. Australia has been a dominant foreign player in the Indonesian mining industry for many years. Over 120 Western Australian enterprises are operating in Indonesia's mining sector.

There is strong interest in Indonesia's resource projects among Western Australia's mining and infrastructure services, and its hydrocarbon industry, and there are significant opportunities for the supply of West Australian mining equipment, consumables, technology and services. However, Western Australia's capacity to develop business in the large Indonesian mining sector is restricted on many fronts. Australian distributors encounter higher taxes than domestic suppliers and complex processes for the import of essential technical equipment for later re-export. They also find that professional personnel cannot easily obtain the appropriate visa to do the work that Indonesian companies require.

Agriculture & Food Industry

Indonesia is Western Australia's second largest market for agrifood exports taking some 14% of the State's exports worth approximately \$685 million in 2009/10. With a population of approximately 230 million, food security is an issue for Indonesia. Food price inflation is rising sharply in Indonesia, and according to the UN's Food & Agriculture Organisation, global food prices increased between June and December 2010 by 57% for grains, 56% for oils and fats, and 77% for sugar. Prices for wheat, corn, sugar and oil seeds are now above their highs of 2007 and 2008.

Western Australia has much to offer Indonesia in the area of foodstuffs. Improved economic prosperity in Indonesia has meant that many Indonesians are beginning to favour western cuisine over traditional foods. Grains, live cattle, meat and fruit have been identified as areas where Indonesia has the potential to become a much larger importer and therefore a major export destination on Australia's northern doorstep. But despite the available opportunities, the growth of the food industry has suffered from a lack of transparency, and its overly complex regulatory environment dissuades exporters from trading with Indonesia.

Service Industry

The tertiary/services industries in Western Australia, including insurance, travel, education, health, banking, architecture, engineering, medical research etc, are particularly well developed. Given the state's relatively small population, the prospect of Western Australian participation in Indonesia's tertiary sector is very attractive. However, current labour and company laws heavily restrict or prevent participation.

RECOMMENDATIONS

The following recommendations are submitted for the negotiation of an IA-CEPA between Australia and Indonesia:

1. That Australia consider offering capacity-building assistance to Indonesia to facilitate the growth of trade management capabilities.
2. That Australia develop mechanisms to assist Indonesia in meeting the requirements of Australian Quarantine Policy.
3. That regulation regarding the movement of skilled people in both directions be revised, including Australia's immigration and visa laws and particularly the current 457 visa.
4. That Australia negotiates greater access to the services and mining sectors in Indonesia.
5. That Indonesia and Australia work towards fostering better trade relations in agriculture and food. Including working towards automatically recognising the properly registered food products in each country as fit for sale in both countries.

Sources: Austrade, Department of State Development Western Australia, Department of Foreign Affairs and Trade Australia, Economist Intelligence Unit, Economist.com, Hong Kong Trade & Development Commission, Deutsche Bank – DB Research online, International Monetary Fund online, Intierra online, Tourism Western Australia, Perth Education City, Australian Bureau of Statistics, Australian Education International and the Department of Agriculture and Food Western Australia