

## **Foreword**

Citrus Australia appreciates the opportunity to provide the Department of Foreign Affairs and Trade (DFAT) with input into the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). In February 2016, Citrus Australia provided DFAT and the Australian Government Department of Agriculture and Water Resources (DAWR) with information on the challenges being experienced by the Australian citrus industry in relation to the trade restrictions on Australian citrus exports to Indonesia. That information remains current and this submission builds upon that advice.

Citrus Australia is the Industry Representative Body for the Australian citrus industry, representing 1 500 citrus businesses across Australia. Our membership includes citrus growers, packing-houses, exporters and other value-chain participants.

The Australian citrus industry is one of the largest industries in the horticulture sector, farming on approximately 25 000 hectares of land in all mainland states and territories. Key production regions include the Riverina region of New South Wales, the Murray Valley region of Victoria/New South Wales, the Riverland Region of South Australia and the Central Burnett Region of Queensland. There are also substantial plantings of citrus in Emerald (Queensland) and in Western Australia.

Indonesia is an important export destination for the Australian citrus industry as it is for several other Australian agricultural industries such as meat, livestock, sugar and grain. However, trade-restrictive measures imposed by Indonesia on imports from Australia have continued to create difficulties and a large amount of business uncertainty. While we are of the firm view that the measures being imposed on agricultural imports from Australia are inconsistent with Indonesia's obligations as a member of the World Trade Organization (WTO), an appeal to the WTO is likely to be a lengthy process without any guarantee of meaningful change. However, the IA-CEPA could provide an opportunity to resolve the current challenges and create greater business certainty for Australian exporters and their Indonesian partners.

Australia exports approximately two-thirds of its agricultural goods it produces and it has a competitive advantage in quality, reliability, safety and proximity to market – particularly in Asia. Australia's primary focus in the IA-CEPA should therefore be the removal of tariffs, quotas, import licensing arrangements and other technical barriers to trade in agricultural commodities.

In principle, Citrus Australia supports the Australian Government's free trade agreement negotiations with Indonesia. However, the agreement will be of little value unless it contains specific text that resolves the issues related to quota allocation for Australian imports, and provides a higher level of regulatory transparency.

### ***Current conditions of trade in Australian citrus to Indonesia***

In September 2012, Indonesia introduced new regulations which limit the volume of imported horticultural products through a quota-based system. Separate sets of regulations were set by Indonesia's Ministry of Trade and the Ministry of Agriculture that seek to protect the interests of domestic producers. Under the new system, the Indonesian import authorities attempt to link import volumes with demand signals in the market.

In brief, Indonesia's import regulations (set by the Ministry of Trade and Ministry of Agriculture) are as follows:

1. Importer Registration – Importers of horticultural produce are required to apply to the Ministry of Trade to be registered as either an Importer Producer (IP) or Registered Importer (IT) of Horticultural Product. Importers are required to demonstrate that they meet certain criteria and possess the required infrastructure (e.g. cold storage facilities and means of transport) before being registered.
2. Recommendation to Import Horticultural Produce – Once registered with the Ministry of Trade, importers are required to apply to the Ministry of Agriculture for a Recommendation to Import Horticultural Produce (RIPH). The Ministry of Agriculture operates on a 'two-semester' system whereby importers apply for recommendations (quotas) in December (for imports between January and June) and apply for quotas in June (for imports between July and December).

The 2012 regulations (60/Permentan/OT.140/9/2012) explicitly state that before issuing the RIPH, the Ministry will consider:

- production of similar domestic products
- domestic consumption of Horticultural Products that will be imported
- availability of similar Horticultural Products in the domestic market
- products potential in creating market distortion
- harvest period of Horticultural Products
- fulfillment of food safety
- packaging requirement and labelling in Indonesian
- safety for the health of human, animal, plantation, and environment.

60/Permentan/OT.140/9/2012 also stated that availability of similar Horticultural Products as intended in (point 1 above) is conducted in according to national demand analysis.

Among other things, the RIPH issued by the Ministry of Agriculture includes:

- country of origin
- quantity of goods permitted entry (i.e. quota allocation)
- point (port) of entry
- validity period
- import destination and distribution.

While we acknowledge that some of the above 'protectionist' wording may have changed in subsequent Indonesian legislation, in practice the process remains unchanged and quota allocations have become less transparent and non-existent for certain months of the year.

3. Import Agreement from the Minister of Trade – After obtaining an RIPH from the Ministry of Agriculture, importers must then apply to the Ministry of Trade for an Import Agreement within 10 days of the RIPH being issued.
4. Pre-shipment third-party verification survey – Importing countries that have inadequate customs services (including Indonesia) require that certain customs requirements be fulfilled prior to departure at the point of origin by way of a third-party official survey.

After an order is placed by an Indonesian importer, the Australian exporter must provide the importer with a *pro-forma* invoice. The importer must present the *pro-forma* invoice to the official governmental agency (KSO Indonesia) to apply for a Verification Order. KSO delegates the responsibility of conducting the pre-shipment survey to various third-parties around the world. At the time of writing, Bureau Veritas is the designated third-party in Australia.

The third-party surveyor (Bureau Veritas) is responsible for supervising the loading of goods and verifying a range of requirements that include:

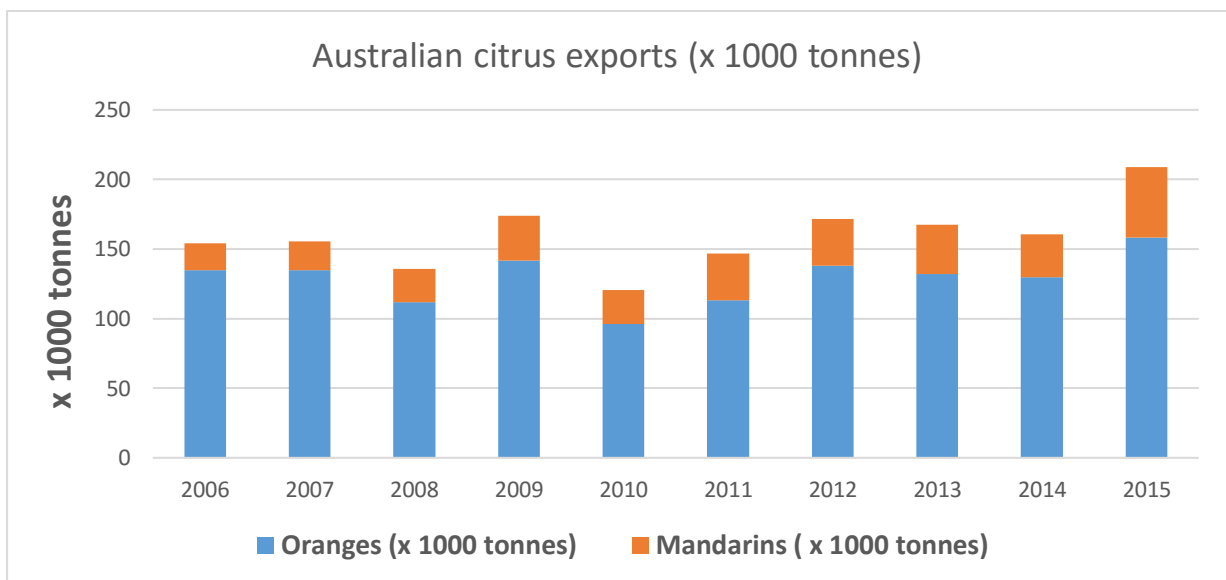
- country and port of origin
  - tariff post or HS number
  - product description
  - type and volume
  - date of shipping
  - port of destination
  - inclusion of food grade logo and recycling code on packaging
  - Health Certificate
  - Phytosanitary Certificate
  - Certificate of Origin.
5. Tariffs – Australian citrus exports to Indonesia attract tariffs depending upon the traded commodity. Oranges (*Citrus sinensis*) (HS 080510) attract a tariff of 5 per cent. Mandarins (*Citrus reticulata*) (HS 080520) attract a tariff of 20 per cent, while lemons (*Citrus limon*) (HS 080550) attract a tariff of 5 per cent (ITC Market Access Map, 2016).
  6. Phytosanitary conditions – phytosanitary conditions apply to citrus exports to Indonesia which largely centre around risk mitigation for fruit flies. A range of risk mitigation measures are available that include in-transit cold disinfestation, fruit fly pest free area certification, irradiation and fumigation.
  7. Country recognition agreement on food safety – for several years, Indonesia has recognised Australia’s food safety monitoring systems. This agreement negates the need for on-arrival food safety (maximum residue limit) testing in Indonesia and provides access through a range of Indonesian ports. The Indonesian authorities are required to visit Australia and verify Australia’s food safety monitoring systems every three years for the agreement to be renewed. Although the agreement provides access through a range of ports, this point is redundant - as the RIPH issued by the Ministry of Agriculture is port specific.

### **Australian citrus exports**

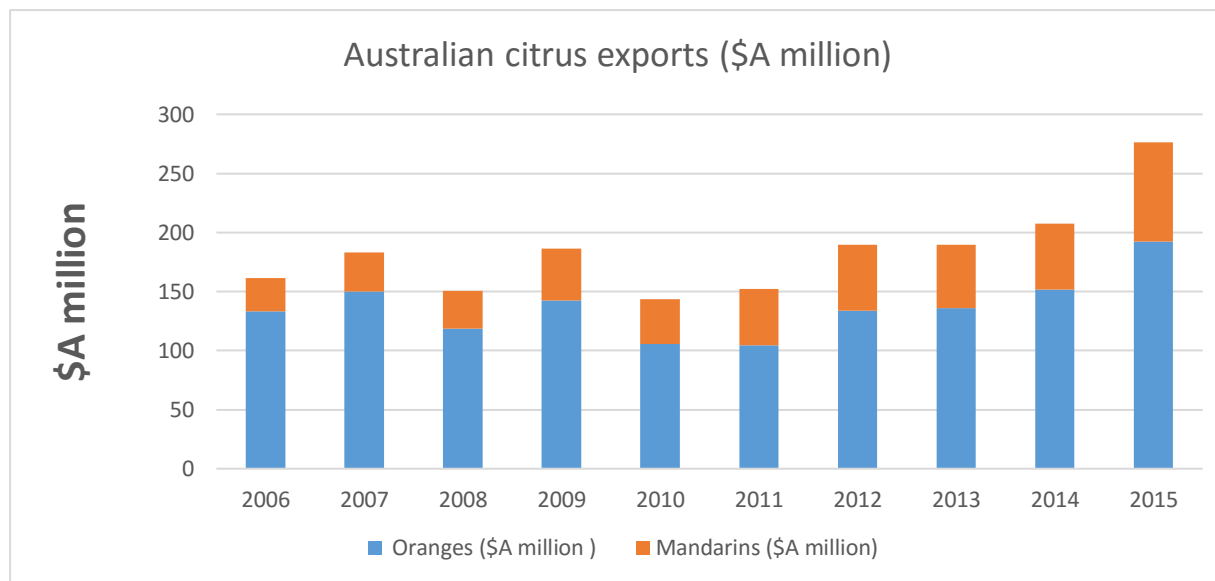
As one of the largest horticultural industries, the citrus industry is also the largest (by volume) horticultural export industry. In 2015, 212 000 tonnes of citrus (HS 0805) were exported to overseas markets to a value of \$A284 million (ITC TradeMap, 2016). The top ten export markets include Hong Kong, Japan, China, United Arab Emirates, Singapore, Malaysia, United States, New Zealand, Indonesia and Thailand. Exports are dominated by oranges (HS 080510) (77.43 per cent) with mandarins (HS 080520) representing 21.82 per cent. Exports of Australian lemons, limes and grapefruit represent less than one per cent of the export trade.

The industry is currently in a buoyant phase with export volumes and values reaching record levels in recent seasons. Results from a national tree census conducted in 2014 (and ongoing each year thereafter) indicate that the industry is gearing-up for future export growth by planting new, more productive citrus varieties. We are also aware of a large amount of new investment in the industry in more modern packing facilities that utilise the latest technology and at other points along the supply chain. Foreign capital is also flowing into Australian citrus businesses at a rapid rate.

**Figure 1. Australian citrus exports (tonnes) 2006- 2015. Source ITC Trademap 2016**



**Figure 2. Australian citrus exports (\$A million) 2006- 2015. Source ITC Trademap 2016.**

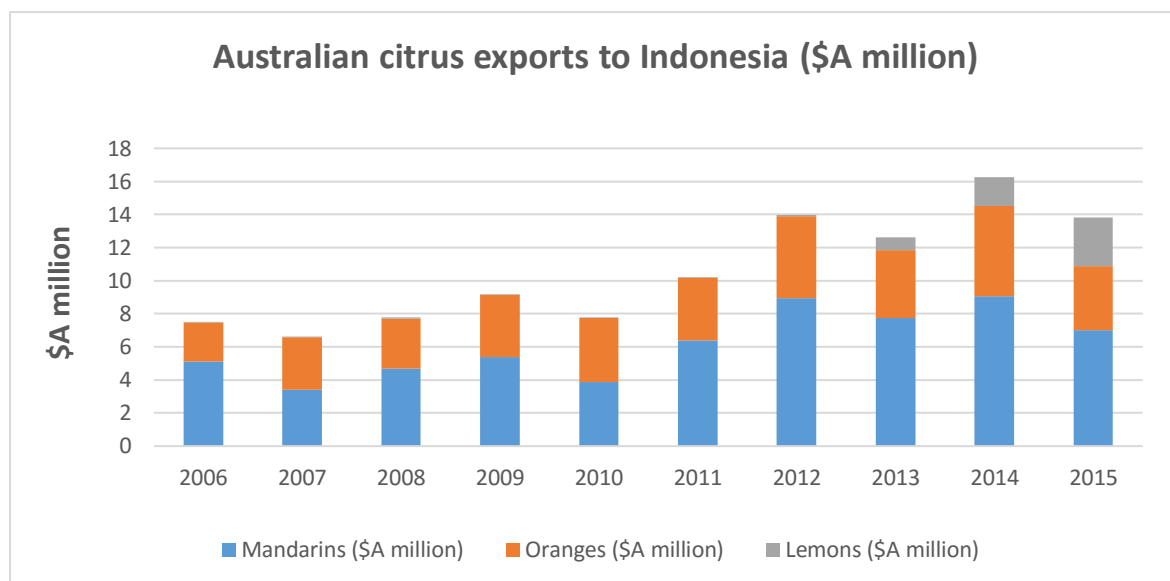


***Australian citrus exports to Indonesia***

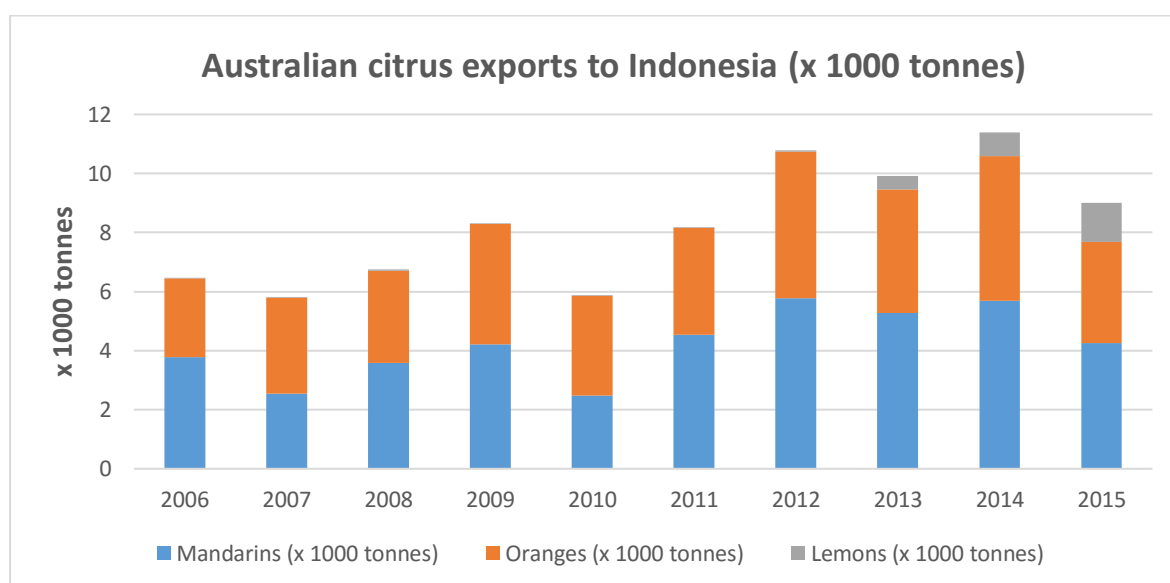
Indonesia is an important export market for the Australian citrus industry. Historically, the trade has been a balance (in volume) of navel oranges and mandarins. More recently, Indonesia has been an emerging market for Australian lemons. While the trade volumes to Indonesia represent only around 5 per cent of the total Australian citrus export volume, Indonesia is a particularly important market for mandarin growers in Queensland. In some years, 25 per cent of the Queensland export trade in mandarins has been to Indonesia.

Despite the ongoing difficulties, Indonesia remains a key market for Australian citrus with annual trade values typically between 10 and 15 million Australian dollars (Figure 3) with trade volumes in the range of 8 to 11 thousand tonnes (Figure 4). Australian table grape exports to Indonesia reached \$A35 million in 2015 (GTIS 2016) and our two industries generally track closely in their export performance. If Indonesia’s trade-restrictive regulations were not in place, a doubling of the citrus export trade is a realistic target. Indonesia has a large population and like many other Asian nations, an expanding middle class. It has a sophisticated retail sector that has a strong appetite for a reliable supply of quality fresh produce from Australia. Supply-chain logistics are gradually improving. There is very little competition from other southern hemisphere suppliers with minor volumes of mandarins from Argentina and Valencia oranges from South Africa entering the Indonesian market during Australia’s export season. Our intelligence tells us that South America and South Africa will focus more on Europe, North America and the Middle East over the next decade. With its close proximity to market and short voyage times, Australia is ideally positioned to supply the Indonesian market with citrus.

**Figure 3. Australian citrus exports to Indonesia (\$A million) 2006- 2015. Source ITC Trademap 2016**



**Figure 4. Australian citrus exports to Indonesia (tonnes) 2006- 2015. Source ITC Trademap 2016**



***Five years of business uncertainty, confusion and frustration***

Indonesia’s implementation and administration of a quota-based system for citrus imports (whereby the quota is re-assessed every six months) has been disastrous since day-one.

Since Indonesia’s new regulations entered into force in 2012, the trade in Australian citrus has been problematic and frustrating for Australian exporters. Import conditions are in a constant state of change with at least two Indonesian government agencies setting separate and uncomplimentary new regulations at an alarming frequency. The constant changes and challenges associated with

seeking import approvals through multiple bureaucracies have caused a high-level of difficulty and business uncertainty for Australian exporters and their Indonesian partners. The Indonesian authorities provide no advice on what the import quota is each semester or what it will be in future semesters. This makes any forward planning impossible. Australian citrus exporters are not 'spot-traders' and have well-established relationships in all markets. A large number of Australian citrus businesses have withdrawn entirely from the Indonesian market and many long-standing business relationships have disintegrated.

In 2012, when the new regulations entered into force, the Indonesian authorities were slow to process applications and importers were not provided with Import Agreements until well into the semester. This essentially meant that the Australian industry lost a substantial part of its export season.

In 2013, Indonesian businesses, realising that import quotas had become 'tradeable', were quick to capitalise on the new regulations and there was a sharp increase in the number of registered importers applying for quota - with many having no real intention of importing fruit. There was a large 'dilution' of quota across a large number of importers and traditional importers were being granted less than 20 per cent of the volume they had historically traded. To our knowledge, import quotas were being traded between importers for as high as \$20 000 per container load.

In 2014, in response to the secondary trade in quota that had developed, the Indonesian authorities granted excessive quotas and the market became over-supplied with fruit - with importers forced to fill their entire quota or risk losing it the following semester.

In 2015, the Indonesian authorities only issued quota for Australian citrus in the second semester for the months of July, August and September – effectively closing a large part of the Australian export season. The Indonesian authorities provided no formal advice on this decision and we were only made aware of this through the Indonesian trade.

In 2016, Indonesia issued quotas only for the months of February, March, April, September and October. Australian citrus exports arrive in Indonesia between June and October. Once again, Australia lost the three best months of its export season.

At the time of writing, we have no indication of what the import quotas will be in 2017 but it is unlikely that we will see any positive changes in the short-term.

### ***The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)***

Citrus Australia welcomes the news that Minister the Honourable Steven Ciobo MP has re-started the dialogue with his Indonesian counterpart on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). We are however concerned about the ambitious timeframes being set for conclusion of the negotiations. While the Australian government has recently negotiated free trade agreements in impressive timeframes with South Korea, Japan and China, it is unlikely that the negotiations with Indonesia will be so straight forward. Indonesia has strong domestic policies that protect its domestic producers from external competition and a goal of food self-sufficiency within three years. It is therefore likely that the two sides will reach an impasse when discussions centre around agricultural trade. Australia should not enter into any agreement until Indonesia provides a realistic and genuine offer for Australian agriculture.

Indonesia's import regulations are inconsistent with its international obligations as a World Trade Organisation member. We are therefore sceptical that commitments made under any economic

agreement with Indonesia will be fully honoured or not over-ridden by Indonesian import legislation. Given that Indonesia has trade-restrictive measures deeply embedded in its legislation across several ministries, it is difficult to imagine that the issues related to quota allocation would be resolved through an economic agreement.

Indonesia is the most distorted market for Australian citrus exports and other Australian agricultural exports. There is a distinct lack of good governance and regulatory transparency. We therefore consider that entering into an economic partnership with Indonesia without resolving the issues of quota-based restrictions would be premature. Tariff reductions without access to market would be meaningless.

In the first instance, Citrus Australia proposes that all quota-based restrictions for Australian citrus exports to Indonesia be removed. This should be well codified in the agreement. Alternatively, a fixed and transparent annual quota of 10 000 tonnes for mandarins (HS 080520) and 10 000 tonnes for oranges (HS 080510), and eliminated over a five years would be acceptable. This would provide a greater level of business certainty, allow greater forward planning, and allow business partnerships to be re-established.

In relation to tariffs, the Australian citrus industry expects that the tariffs for oranges (HS 080510), mandarins (HS 080520) and lemons (HS 080550) would be completely eliminated over a five-year period.

We request that the economic agreement contains specific text be included on Australia's country recognition agreement on food safety and that formal mechanisms be established for regular renewal of that agreement.

As is the case with all trading partners, the Australian citrus industry is always keen to share its expertise with overseas industries and a specific chapter on agricultural cooperation should also be included.