

26 July 2017

Free Trade Agreement Division  
Australian Government Department of Foreign Affairs and Trade  
R.G. Casey Building, John McEwen Crescent  
Barton ACT 0221 Australia  
Via email: [ia-cepa@dfat.gov.au](mailto:ia-cepa@dfat.gov.au)

Dear Sir/Madam,

**RE: Indonesian Feed Grain Market Access, Submission to IA-CEPA Negotiations**

GrainGrowers welcomes the opportunity to make a submission regarding the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) negotiations.

GrainGrowers is a grain farmer representative organisation with 17,500 members across Australia. GrainGrowers' goal is a more efficient, sustainable and profitable grain production sector that benefits all Australia grain farmers and the wider grains industry.

Indonesia is Australia's largest export market for wheat, valued at \$1.3 billion per annum, however the current grain trade is almost exclusively for flour milling purposes. Australia's narrow focus is partly because the Indonesian Government is currently not issuing import permits for feed grains.

GrainGrowers estimates the underlying total size of the Indonesian feed grain import market at 2-3 million tonnes per annum, equating to a value \$550-825 million (AUD fob value). Indonesia's current non-tariff barrier to trade means the Australian grain industry is unable to access this lucrative market.

Furthermore, Indonesia's current restrictions on feed grain imports has resulted in an increase in Indonesian feed grain prices. Artificially high Indonesian feed prices threaten the current expansion of the Indonesian stockfeed manufacturing and livestock production sectors. Resolution of this matter will provide mutually beneficial outcomes for both Indonesia and Australian grain and livestock industries.

The Australian grain industry, via the current IA-CEPA negotiations, seeks feed wheat, barley and sorghum market access. In particular, GrainGrowers request the Australian Government engage with the Indonesian Government with the aim of having the Indonesian Government issue import permits for Australian feed wheat, barley and sorghum on a bilateral basis.

I attach GrainGrowers' submission "Indonesian Feed Grain Market Access, Submission to IA-CEPA Negotiations". This submission is complementary and supportive to the Concept Brief for the Strategic Grains Initiative (as submitted to and included within the Indonesia Australia Business Partnership Group *Partners in Prosperity* (August 2016) submission to IA-CEPA).

GrainGrowers notes that this submission has been prepared following engagement with the wider grains industry. We thank the contribution and endorsement of GTA, GIMAF, AGEA and the many private companies engaged in the export of Australian grains to Indonesia who provided direct input to this submission.

Yours sincerely,



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**ATTACH 1:** Indonesian Feed Grain Market Access, Submission to IA-CEPA, July 2017



# Indonesian Feed Grain Market Access

## Submission to IA-CEPA Negotiations

26<sup>th</sup> July 2017

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### Contribution and Acknowledgments

This submission to the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) negotiations has been prepared following engagement with the wider grains industry. We thank the contribution and endorsement of GTA, GIMAF, AGEA and the many private companies engaged in the export of Australian grains to Indonesia who provided direct input to this submission.



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## Key Issue and Recommendation

### Key Issue

Although Indonesia is Australia's largest export market for wheat, valued at \$1.3 billion per annum, the current grain trade is almost exclusively for flour milling purposes.

Australia's narrow trading focus is partly because of the Indonesian government's unwillingness to grant import permits for feed grains.

GrainGrowers estimates the underlying total size of the Indonesian feed grain import market at 2-3 million tonnes per annum. Assuming a free-on-board price of A\$275/T, the theoretical total value of Indonesian feed grain import market is therefore \$550-825 million per annum (Australian fob value). Australian access to this key market would deliver an alternative option for feed grain, within close proximity.

Indonesia's current restrictions on feed grain imports has resulted in an increase in Indonesian feed grain prices. Artificially high Indonesian feed grain prices threaten the current expansion of the Indonesian stockfeed manufacturing and livestock production sectors.

Restrictions on feed grain imports therefore impede Indonesia's stated goal of developing a more value-added economy, through the promotion of domestic manufacturing industries, and also undermine Indonesia's food security efforts. Resolution of this matter will provide mutually beneficial outcomes for both Indonesia and Australian grain and livestock industries.

### Recommendation

The Australian grain industry, via the current IA-CEPA negotiations, seeks market access Australian feed wheat, barley and sorghum. In particular, GrainGrowers request the Australian Government engage with the Indonesian Government with the aim of having the Indonesian Government issue import permits for Australian feed wheat, barley and sorghum on a bilateral basis.

Improved market access for Australian feed grain in the Indonesian market would complement Australia's existing milling wheat trade to Indonesia (the single most important market for both countries) and help support future growth in the Indonesian stockfeed manufacturing sector.

## Executive Summary

- Indonesia is Australia's largest wheat trading partner, however trade is almost exclusively wheat for milling purposes. The total value of Australian grain and oilseed exports to Indonesia average \$1.27 billion per annum<sup>1</sup>. Wheat accounts for 97-99% of Australian grain exports to Indonesia. Furthermore, wheat is the single largest Australian agricultural export to Indonesia (38% market share), followed by live cattle with 17% market share.
- Indonesia currently restricts imports of feed grains (including feed wheat, barley, corn) in an effort to support domestic corn producers. The import restrictions entered into force in 2015. Trade data show a significant decline in both corn and feed wheat imports in response to these import restrictions. Prior to the import restrictions, Indonesia imported up to 3 million tonnes of corn (for stockfeed purposes) and up to 1.8 million tonnes of feed wheat. Indonesia is expected to import no feed wheat in 2017.
- Indonesia's feed grain (stockfeed) consumption estimated at 18 million tonnes in 2017, and is growing by 1.1 million tonnes (7%) per annum<sup>2</sup>. Growth is driven by Indonesia's rapidly expanding livestock sector, supported by changing diets and improved technology (such as refrigeration and transportation).
- Current restrictions on feed grain imports are pushing Indonesian feed grain (corn) prices higher, which is in turn threatening the future expansion of the Indonesian stockfeed manufacturing sector and subsequently the intensive livestock (poultry, beef and pork) and aquaculture industries.
- Current restrictions on feed grain imports impede Indonesia's stated goal of developing a more value-added economy, through the promotion of domestic manufacturing industries.
- Australian feed grains, particularly feed wheat, barley and sorghum, offer a consistent source of feed grain for Indonesia's stockfeed manufacturing sector, thereby supporting Indonesia's goals of food security and transition to a value-added sector.
- GrainGrowers estimates the underlying total size of the Indonesian feed grain import market at 2-3 million tonnes per annum. Assuming a free-on-board price of A\$275/T, the theoretical total value of Indonesian feed grain import market is therefore \$550-825 million per annum (Australian fob value).

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<sup>1</sup> Source: ABARES Agricultural Commodities, June 2016. Based on three year average to 2015/16.

<sup>2</sup> Source: Indonesia Feedmills Association GPMT, presentation at AGIC Indonesia May 2017

## Indonesian Stockfeed Manufacturing Industry

- The Indonesian feed mill sector capacity is reportedly 21-24 million tonnes per annum and expanded by 1.5 million tonnes in 2015/16. The reported number of feed mills range from 69-93 individual mills, based on estimates by the USDA Foreign Agricultural Service (FAS) and the Indonesian Feedmills Association (GPMT).
- Total livestock feed consumption in Indonesia for 2017 is estimated at 18 million tonnes, up from 16.4 million tonnes in 2016 and 13.0 million tonnes in 2012. Consumption has grown by an average 1.1 million tonnes (7% cagr) from 2012 to 2017. A continuation of this growth rate implies total stockfeed demand of 21.5 million tonnes by 2020 and 27.2 million tonnes by 2025. Estimates obtained by the Indonesian Feedmills Association are more aggressive, ranging from 25-28 million tonnes by 2020.
- The poultry industry consumes approximately 83% of Indonesia's animal feed. Aquaculture consumes 11% and the remaining six percent is consumed by cattle and swine.
- The USDA FAS and the Indonesian Feedmills Association indicate that livestock feed is typically composed of corn (50%), soybean meal (15-20%), corn gluten meal (3%), crude palm oil (2%), fish meal (5%), rice bran (15%), wheat pollard (8%), and premix (0.6%). Corn accounts for half of feed formulations (volume) and one-third of poultry feed production costs.
- Indonesian feed millers have been heavily reliant on imported feed ingredients. In 2014 around half of corn consumed in the Indonesian stockfeed sector was imported. Approximately 40% of Indonesian corn imports were typically sourced from Brazil. Factors that traditionally inhibit feed millers from sourcing local ingredients include low protein content, high raw fibre content, rancidity, limited and inconsistent corn supplies for commercial scale feed millers, and storage challenges.

## Indonesian Grain Production

- Indonesian grain production is dominated by rice with 80% market share, followed by corn with 20% market share. Indonesia does not produce wheat, barley or sorghum. Indonesian farmers typically plant corn as a secondary crop after paddy rice.
- Indonesian grain production stagnated between 2011/12 and 2014/15 at 44.5-45.5 million tonnes. However efforts by the Indonesian government to promote food crop self-sufficiency (via a raft of measures including subsidised access to land, seed and fertiliser, combined with import restrictions) has supported total Indonesian grain production lifting to 46.7 million tonnes in 2015/16, 48.0 million tonnes in 2016/17 and a forecast 48.4 million tonnes in 2017/18<sup>3</sup>. Corn has been the biggest contributor to the overall increase in Indonesian grain production.
- In support of Indonesia's self-sufficiency goals, the Ministry of Agriculture (MOA) issued regulation 56/2016 on "The Development of Agricultural Cluster Areas" on November 29, 2016. The regulation

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<sup>3</sup> Source: USDA PSD, June 2017



describes the Indonesian Government's production goals for food crops, horticulture, estate crops, and animal husbandry through the development of specified lands. (Source: USDA FAS)<sup>4</sup>

- Farm gate corn prices are increasing in response to (1) MOA's refusal to issue corn import permits, and (2) Indonesian Ministry of Trade (MOT) September 15, 2016 regulation 63/2016 which sets producer and consumer corn prices. The USDA reported that Indonesian farmgate corn prices rose ~USD20/MT (8%) between June 2016 and March 2017. Over the same time the FAO Global Cereals Price Index fell 6%. Recent field observations in southern Sumatera revealed that high corn prices are driving some farmers to switch to corn during the first and second crops of MY 2016/17. (Source: USDA FAS)<sup>5</sup>

## Indonesian Grain Imports

- Indonesian grain imports are dominated by wheat for milling purposes, driven by strong growth in noodle and bread consumption. Over the past five years wheat contributed 75% total grain imports, followed by corn (17%) and rice (8%). Total wheat imports reached 10.1 million tonnes in 2015/16.
- Stagnant Indonesian corn production and strong growth in stockfeed demand caused in a surge in corn imports from 1.7 million tonnes to 3.5 million tonnes between 2011/12 and 2013/14. However subsequent trade restrictions saw corn imports drop to 1.8 million tonnes in 2015/16, and 500 thousand tonnes in 2016/17.
- Indonesian wheat imports jumped from 7.5 million tonnes in 2014/15 to 10.1 million tonnes in 2015/16, partially driven by the stockfeed industry switching from corn imports to feed wheat imports. The Indonesian Feedmills Association estimate that feed wheat imports exceeded 1.8 million tonnes in 2016. Subsequent efforts by the Indonesian government to extend corn import restrictions to feed wheat (and other feed grains) has resulted in a decline in feed wheat imports. The Feedmills Association indicates that feed wheat imports will be virtually nil in 2017. The USDA suggests total wheat imports will fall by 1.1 million tonnes 2016/17 (as the reduction in feed wheat imports outweighs further growth in milling wheat imports).
- Australia is largest supplier of wheat to Indonesia, although Australia's market share is falling. In the five years to 2016, Australian wheat exports to Indonesia averaged 4 million tonnes per annum, averaging 50% market share, followed by Canada (18%), Ukraine (10%) and the United States (9%). In 2016 Australia's market share fell to 33% as Ukrainian wheat exports to Indonesia surged from 0.6 million tonnes to 2.5 million tonnes.<sup>6</sup> Ukraine wheat imports were used in both the milling and stockfeed sectors.
- GrainGrowers estimates the underlying size of the Indonesian feed grain import market at 2-3 million tonnes per annum, based on trade flows observed prior to current import restrictions. Assuming a free-on-board price of A\$275/T, the theoretical value if Australian feed grain exports captured this opportunity to Indonesia is therefore \$550-825 million per annum.

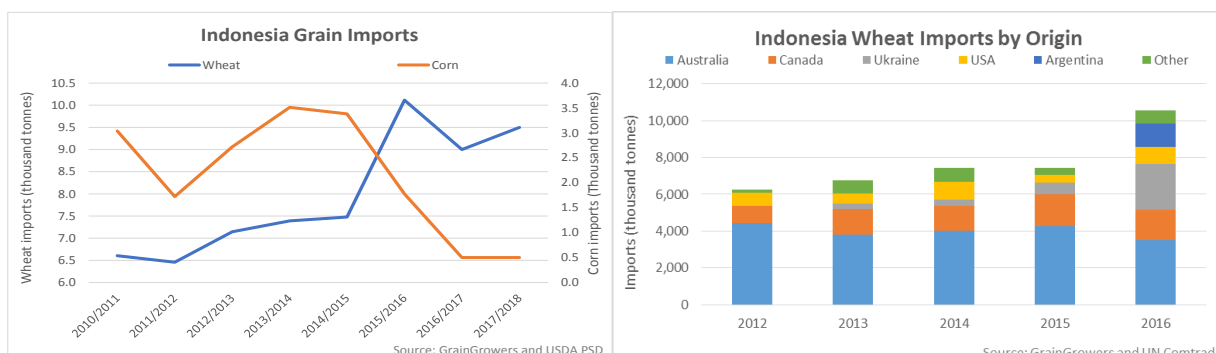
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<sup>4</sup> [https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual\\_Jakarta\\_Indonesia\\_3-30-2017.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Jakarta_Indonesia_3-30-2017.pdf)

<sup>5</sup> [https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual\\_Jakarta\\_Indonesia\\_3-30-2017.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Jakarta_Indonesia_3-30-2017.pdf)

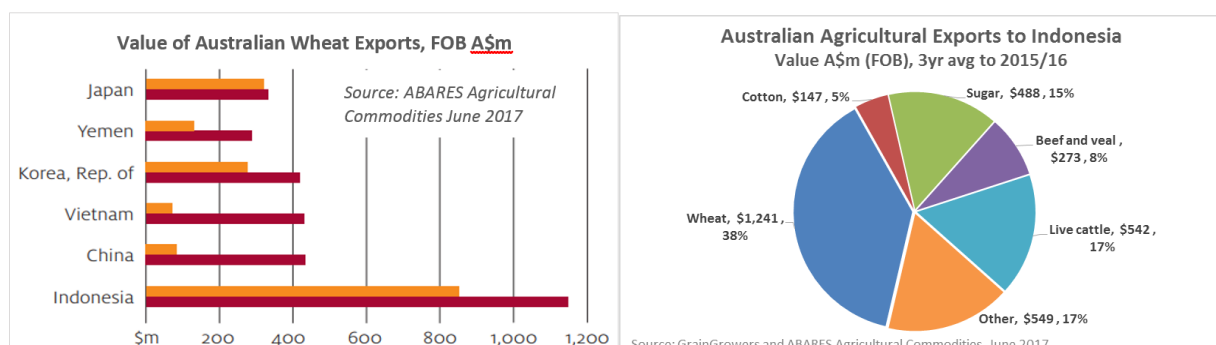
<sup>6</sup> United Nations Comtrade Database, <https://comtrade.un.org/> June 2017





## Australian Exports to Indonesia in More Detail

- Indonesia is Australia’s largest wheat export market. Over the past five years, the Indonesian market has accounted for 21% of Australian wheat exports, by volume, followed by exports to Vietnam (8%), South Korea (7%), China (7%) and Japan (5%). Australian wheat in Indonesia is almost exclusively used for flour milling.
- Wheat accounts for roughly 40% of Australia’s total agricultural, fishery and forestry exports to Indonesia, 2.3X larger than the next largest agricultural commodity export, live cattle.<sup>7</sup>



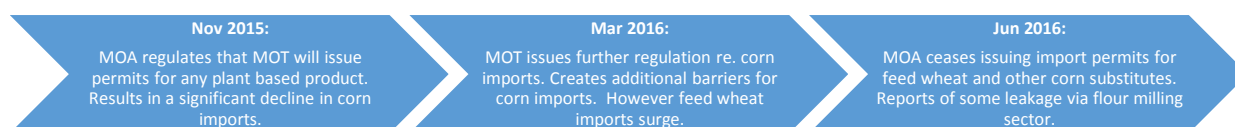
## Indonesian Feed Grain Import Regulations

- Both food and feed wheat and feed barley enter Indonesia duty free under AANZFTA. Imports are determined by the Ministry of Agriculture’s ‘import recommendations’ and Ministry of Trade’s Permit systems, governed by Indonesia’s “Horticulture Law”. This states that the Agriculture Minister issues recommendations on imports to the Ministry of Trade, who then allocate permits. Under these conditions, food wheat is currently allowed to enter under permit.
- However the Indonesian government, in support of efforts to boost domestic corn production (and support corn producer’s incomes), has imposed a number of restrictions on imports of corn and other

<sup>7</sup> Based on three years to 2015/16. Source: ABARES Agricultural Commodities, June 2017

feed grains. Import permits are currently not being issued for feed grains. Details on the exact nature of the trade restriction are limited. The key timeline regarding Indonesia’s feed grain import restrictions is as follows:

- a) **November 25, 2015:** MOA issued Regulation No. 57/2015 on Imports and Exports of Plant Based Feed Ingredients. The regulation stated that the Minister of Trade will issue import permits for any imports of plant-based feed ingredients. In order for this regulation to be implemented, the Ministry of Trade (MOT) must also issue a corresponding regulation to MOA 57/2015 for the administration of import licensing.
  - b) **March 24, 2016:** MOT issued regulation 20/2016 on corn imports.
    - a. The regulation classified corn imports into three categories: feed, food, and industrial use. The volume of corn that can be imported for feed, food, and industrial use will be decided via an inter-ministerial meeting including MOT, MOA, state-owned trading company BULOG, the Ministry for State-Owned Companies, and the Coordinating Ministry for Economic Affairs.
    - b. The regulation assigns BULOG as the single importer of feed corn. In order to import feed corn, BULOG must get an import authorization from the Ministry of State Owned Companies and an import recommendation from MOA prior to obtaining import approval from MOT.
    - c. Imports of corn for food and industrial use can be conducted by private sector importers with either a general importer identification number or a producer importer identification number. MOT will issue import approvals quarterly at the beginning of each quarter. Corn imported by producer-importer companies must only be used as an ingredient for production in Indonesia and cannot be traded or transferred to another party.
  - c) **June, 2016:** Ministry of Agriculture stopped issuing import recommendations for feed wheat (and other corn substitutes such as feed barley and sorghum) starting in June 2016.
- Anecdotal feedback indicates that some Indonesian flour mills are importing milling wheat, which is then being re-sold into the Indonesian feed sector. It is not possible to accurately quantify the extent of this trade. This loophole creates inefficiencies and risks within both the Australian and Indonesian grain supply chains.



## Opportunities for Mutually Beneficial Trade

- The development of the Indonesian stockfeed manufacturing and livestock production sectors requires a consistent source of feed grain supplies. Growth in Indonesia’s livestock production sector is critical for the Indonesian Government stated goal of food security.
- The Indonesian Government’s current restrictions on imports of Australian feed grains has resulted in an increase Indonesian feed grain prices, both in absolute and relative terms. High feed grain prices threaten

the expansion of the Indonesian stockfeed manufacturing and livestock production sectors, and impede Indonesia's stated goal of developing a more value-added economy.<sup>8</sup> By threatening the stockfeed manufacturing sector, the current import restrictions of Australian feed grains is also threatening Indonesian goal of food security.

- Australian feed grains, particularly feed wheat, barley and sorghum, offer a consistent source of feed grain for Indonesia's stockfeed manufacturing sector, thereby supporting Indonesia's goals of food security and transition to a value-added sector. Australia is a very small producer of corn with virtually no exports; therefore improved market access for Australian feed grain to Indonesia is likely to complement domestic Indonesian corn farmers via.
- The Australian grain industry seeks market access for feed wheat, barley and sorghum. Improved market access for Australian feed grain in the Indonesian market would complement Australia's existing milling wheat trade to Indonesia (the single most important market for both countries) and help support future growth in the Indonesian stockfeed manufacturing sector.

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<sup>8</sup> For example, recent growth in Indonesia's flour milling sector, which exported around US\$80 million worth of flour-based products in 2015, is evidence of Indonesia's capacity to lift food and feed manufacturing.

## About GrainGrowers

GrainGrowers is an independent and technically resourced, grain farmer representative organisation with 17,500 members across Australia. GrainGrowers' goal is a more efficient, sustainable and profitable grain production sector that benefits all Australia grain farmers and the wider grains industry.

GrainGrowers has three divisions which work cooperatively to achieve improved grain industry outcomes: 1) Capability Building, 2) Industry Engagement and 3) Policy and Innovation.

Trade & Market Access is a key focus within Policy and Innovation and GrainGrowers has the specific aim to:

*Drive the development and implementation of positive international trade and market access outcomes for the Australian grains industry and its customers.*

Australian grain farmers annually grow some 45 million tonnes of wheat, barley, oats, sorghum, canola and pulses such as chickpeas and faba bean, which at the farm gate alone is worth value of \$13.5 billion. This production generates more than 170,000 jobs in rural, regional and metropolitan areas across Australia. Over 70% of Australia's grain production is exported, earning some \$11.4bn in export earnings annually, and accounting for more than a quarter of all agricultural export earnings. Furthermore, domestic sales of grain underpin the fortunes of other important export industries such as the red meat and dairy industries.

Trade is vital for the Australian grains industry, and grains deliver significant export earnings for Australia and employment across rural, regional and metropolitan Australia. Where there are opportunities to engage in agreements which assist the competitiveness of Australian grains in international markets, it is imperative Australia does so.

## Relationship with existing submissions and reports

This report should be considered in conjunction with existing submissions by the grain industry, including:

- i. "A Grains Industry Strategic Initiative for Indonesia; Concept Brief", GrainGrowers, Feb 2017
- ii. "Submission to the JSCTIG inquiry on Growth Potential in Australian Trade with Indonesia", GrainGrowers, 14 Feb 2017
- iii. "The Indonesian Market for Australian Grains", GrainGrowers, May 2017