Australia’s trade and investment relationship with Indonesia

Submission to the Joint Standing Committee on Trade and Investment Growth

12 January 2017

Winemakers’ Federation of Australia

Contents

1. Introduction

On Tuesday, 29 November 2016, the Minister for Trade, Tourism and Investment, the Hon Steven Ciobo MP, asked the Joint Standing Committee on Trade and Investment Growth to inquire into and report on the 'Growth potential in Australia's trade and investment relationship with Indonesia'. Submissions to the Committee are requested by Tuesday, 14 February 2017 with the following Terms of Reference (Box 1).

Box 1: AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH INDONESIA TERMS OF REFERENCE

The Joint Standing Committee on Trade and Investment Growth shall inquire into Australia's trade and investment relationship with Indonesia. In conducting its inquiry, the Committee shall have particular regard to:

- Australia's existing trade and investment relationships with Indonesia
- barriers and impediments to trade and investment with Indonesia for Australian businesses, including examination of supply chain costs
- emerging and possible future trends
- opportunities for deepening existing commercial and cultural links, and developing new ones, with Indonesia
- the role of government in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in Indonesia
- the contribution of diaspora communities to Australia's relationships with Indonesia
- profit and payment repatriation structures for Australian businesses operating in
- Indonesia.

2. Winemakers Federation of Australia

The Winemakers' Federation of Australia (WFA) is the national peak body for Australia's winemakers. Our objective is to represent the interests of Australian winemakers and grape growers of all sizes on national and international issues affecting the Australian Wine Sector, through a single organisation.

Government recognition of WFA as a representative organisation is on the basis WFA represents the entire Australian winemaking sector, including members and non-members. WFA is recognised as a representative organisation under the *Australian Grape and Wine Authority (AGWA) Corporation Act*. WFA is incorporated under the *SA Associations Incorporation Act 1985.*

WFA membership represents over 75% of the national wine grape crush. WFA represents small, medium and large winemakers from across the country's wine-making regions, with each having a voice at the Board level. WFA Board decisions require 80% support so no one sector can dominate the decision-making process. In practice, most decisions are determined by consensus. WFA works in partnership with the Australian Government and our sister organisation, Australian Vignerons (AV), to develop and implement policy that is in the wine sector's best interests.

WFA's activities are centred on providing leadership, strategy, advocacy and support that serves the Australian wine industry now and into the future.

3. Background

The Indonesian economy grew more than 6 per cent annually in 2010-12, outperforming its regional neighbours, but faced economic challenges in 2015. Unemployment, poverty, inadequate infrastructure, corruption and inflation remain high priorities for economic growth. A nationalistic food sovereignty policy is making exporting to Indonesia more difficult.

Indonesia is a predominantly Muslim country and alcohol cannot be consumed under Islam. In general, Indonesians are fairly tolerant towards alcohol and do not pose any significant barriers to the market. Alcohol sales and distribution are strictly controlled and excise duties are high. The non-Muslim population is predominantly Christian and of Chinese origin. This sector of the population is also recognised as having the disproportionate share of the wealth, so has the capacity to purchase a higher percentage of the alcoholic beverages available.

Around 87 per cent of the population adhere to the Muslim faith which means that potentially there is still a total available market of 33 million people. Growth in the alcoholic drinks market has been slow but fairly steady in Indonesia driven by wealthy Indonesians, the expatriate community and tourists. Alcohol is heavily taxed by the Government in order to discourage consumption and raise revenue. Consequently, a significant black market exists. By all reports, the wine market is expected to continue its steady growth into the future.

The wine market was estimated at around 1.68 million litres in 2012 valued at Rp 8,940 million.1 The red wine category has experienced the most significant growth rates over recent times however every wine category has experienced some level of growth. Excise duties were increased in 2014 which led to significant average unit price increases. The number of importers has increased to over 18, providing a wider supply and distribution network; however, distribution problems continue to hamper growth.

Australia is the dominant supplier to the Indonesian market. ‘New World’ wines account for the largest volume of sales, estimated at over 70 per cent of the market, led in particular by Australia, New Zealand, Chile and the USA. French wines remain popular especially amongst the wealthy. Official statistics are not available but estimates suggest Australian wines hold 40 per cent of the wine market share by volume and around 40 per cent by value.

Australian wines are regarded as being reasonably priced quality wines but there is competition from European and American wines and emerging competition from Chile, South Africa and New Zealand. Australia has been the number one exporter to the market for some time and is particularly strong in Bali. There are a small but growing number of wineries emerging in Indonesia despite the tropical climate, principally in Bali, including companies set up to solely import bulk wine. Grapes are harvested yearlong from ever green vines and can be produced in several vintages per year.

Local wines are marketed at much cheaper prices but this has generally not impacted on sales of imported wines. Indonesia produces significant quantities of herbal wines which are very popular amongst Indonesian consumers and dominate the alcohol wine market.

Indonesia can be a challenging place to sell wine; nevertheless, opportunities exist in the market for more premium wine sales. Indonesia is a moderate Muslim country and there is no ban on alcohol sales. The growing middle class, particularly in larger cities like Jakarta and Bali, combined with the strong tourist trade, is expected to see continued growth in wine consumption and should see opportunities continue to emerge for Australian wines.

<u>Australian wine exports</u>

In 2015 Australia exported 393,843 litres to Indonesia valued at $3.5 million. This was an almost 21 per cent increase in volume over 2014, while value remained steady. Export value peaked in 2011 when $4.75 million of wine was exported to Indonesia. The average price per litre declined from $8.93 to $7.44 and the average price for bottled wine decreased from $9.82 per litre to $7.55.

No bulk wine was exported to Indonesia in 2015; however, nearly 65,000 litres were exported in 2014, growing to represent 16 per cent of the total for that year. Wine packaged in glass bottles accounted for 98 per cent of exports to Indonesia in 2015.

Red wine increased from 47 per cent of the export mix to 65 per cent in 2015 as fortified wine experienced a decline to 130.5 litres. White wine represented almost 30 per cent of the export mix while sparkling wine decreased to just under 2 per cent in 2015. 53 per cent of all exports occurred below $4.99 per litre while the $10.00 and over price point accounted for 17.5 per cent of volume sales and 45 per cent of the total value.

Free Trade Agreements

Australia and New Zealand signed a Free Trade Agreement with ASEAN (AANZFTA) in February 2009. AANZFTA is the largest FTA Australia has concluded. ASEAN is worth about $89 million in average annual exports of Australian wine. Indonesia and Malaysia have excluded wine and spirits from tariff commitments citing religious concerns. Consequently, there will be no changes to Indonesia's tariff rates for wine. Indonesia was a founding member of ASEAN in 1967 and entered the ASEAN Economy Community in 2016. Indonesia is a member of the G20 group of nations.

On 2 November 2010, President of the Republic of Indonesia, Susilo Bambang Yudhoyono and the (then) Prime Minister of Australia, Julia Gillard agreed to commence negotiation of an Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). A comprehensive economic partnership covering economic cooperation, trade and investment issues would contribute to building a higher-level and mutually beneficial economic partnership between Indonesia and Australia and create new opportunities and markets for Australian exporters. The Minister for Trade, Tourism and Investment is seeking to conclude the agreement in 2017.

4. Issues

The IA-CEPA has the potentially to considerably improve the conditions for trade between our countries:

a) Tariffs: Under AANZFTA, Indonesia excluded all lines from tariff commitments. With very high tariffs in Indonesia (see Annex 1), the Australian wine sector will be seeking a considerable improvement on the current position:

- Wine: 6 tariff lines at 90%: 7 tariff lines at 140%;
- Spirits: 23 lines at 170%.

b) Non-tariff measures:

Indonesia notified changes to food product categories to the WTO TBT committee on 31 August 2015 (G/TBT/IND/101). This regulation regulates safety and quality standard, labelling and advertising of alcoholic beverages. Alcoholic beverages distributed in Indonesia both domestically or imported shall meet specified safety standard, quality standard, labelling and advertising in accordance with the provisions of this draft regulation.

Safety standard included:

1. Maximum level of the methanol content
2. Microbial contaminations
3. Chemical contaminations
4. Food additives

Maximum level of the methanol in alcohol beverages is not more than 0.01% v/v (calculated on the volume of products). The microbial contaminations, chemical contaminations and food additives must conform to the provisions of the legislation.

Quality standard of alcoholic beverages are specified in Annex.

The Alcoholic beverages labelling shall declare the information at least, as follow:

1. "Alcoholic beverages" and the type of Alcoholic beverages as defined in Regulation of the Chairman of NAFDC RI No. 1 Year 2015 on Food Category
2. Prohibited to consume for under 21 years old or the pregnant woman
3. Contained alcohol + ... % v/v

The information above shall be written in Bahasa

Alcoholic beverages are prohibited to be advertised in any mass media.

The main problem is the methanol limit - (1ml/ litre of ethanol).

Indonesia also notified changes to the Regulation of the Director General of Indonesian National Agency for Drug and Food Control (NADFC) No. 10 of 2016 concerning the Uses of Enzyme and Enzyme Immobilization Agents Categorized as Processing Aids on Food. The relevant international standards used in the notification are the Australian New Zealand food Standard code Standard 1.3.3 and the codex committee on food Additives Inventory of Processing Aids (G/SPS/N/IDN/110).

Sulphur dioxide

Indonesia also has a regulation on alcoholic beverages i.e. Regulation of the Chairman of National Agency for Drugs and Food Control Number 36 Year 2013 on Maximum Limit of Food Additives Preservatives. The maximum limits of sulphur dioxide (SO2) for alcoholic beverages ***-including alcohol free or low alcohol content*** is 50 mg/kg. According to the Indonesian authorities this maximum limit is set by considering the exposure to Acceptable Daily Intake (ADI) which is 60% ADI (adult) for maximum limit of 50 mg/kg, and they cannot go beyond that limit.

Tariffs

On July 23, 2015, the Ministry of Finance revised import duties on alcoholic beverages containing ethyl alcohol. This regulation set the import duty at the ad valorem tariff rate of 90 percent for wine, cider, perry, and mead and 150 percent for spirit and liqueurs. (Previously, a tariff was charged at the rate of IDR. 14,000/litres for beer, IDR 55,000/litre for wine, and IDR 125,000/litre for whisky, rum, and other distilled spirits).

<u>Taxes</u>

Alcoholic Beverages are defined as “goods under supervision,” whether they are imported or produced locally. As per Presidential Decree No. 74/2013, distribution and sales of these goods are controlled by the GOI. There are three categories of alcoholic beverages: ‘Category A’ containing zero to five percent alcohol; ‘Category B’ containing greater than 5 percent and less than 20 percent alcohol; and ‘Category C” containing 21 - 55 percent alcohol.

BPOM Regulation No 14/2016 states that alcoholic beverages distributed in Indonesia must comply with food safety standards on methanol content, microbe and chemical contamination, and also food additives. Maximum methanol content is less than 0.01% v/v (calculated based on product volume). Alcoholic beverages are not allowed to be advertised in the media.

Per January 2010, the MOT regulation allowed registered importers of alcoholic beverages to import duty-paid alcoholic beverage products. Previously, duty-paid and duty-free alcoholic beverages were imported only through a state owned company, as was directed by the MOT. The regulation states that the companies that import duty paid alcoholic beverages must apply for an imported-alcoholic beverages permit (IT-MB) through the Directorate General of Foreign Trade. The main requirement for the IT-MB application is that an assignment letter authorized in the country of origin Public Notary and an Indonesian Commercial Attaché at one of the consulates.

The application must indicate 20 foreign brands/manufacturers from at least 5 countries and be able to purchase minimum 3,000 carton /brand/year and also have distributor at least in six provinces (MOT Regulation No. 53/2010, which was replaced by MOT Regulation 20/2014). The ITMB is valid for three years and can be extended. The type and amount of the imported alcoholic beverage products allocated to fulfil national demand is determined by the MOT and issued in April 1 annually.

The ports of entry for imported duty paid alcoholic beverages include the Belawan sea port, Medan; Tanjung Priok Seaport, Jakarta; Tanjung Emas Seaport, Semarang; Tanjung Perak Seaport, Surabaya; Bitung Seaport, Manado; and Soekarno Hatta Seaport, Makassar. They can also enter via all Indonesian international airports. Distribution and sale of alcoholic beverages category B and C fall’s under the GOI’s control. Direct sales are only allowed for duty paid alcoholic beverages, including categories A, B, and C, for on-site consumption at hotels, restaurants, bars, pubs and night clubs. Duty free shops are allowed to sell duty free alcoholic beverages, including categories A, B, and C in certain locations.

New MOT Regulation No. 6/2015 prohibits sales of Category A alcoholic beverages in minimarkets and other retail shops. Supermarket and hypermarket retail sales of alcohol are still allowed. Direct selling and/or retail of alcoholic beverages and alcoholic beverage products to people under the age of 21 year are prohibited in Indonesia.

On December 31, 2013 the Ministry of Finance (MOF) issued regulation No. 207/2013 to replace MOF regulation No. 62/2010. The regulation imposed a new excise tax on ethyl alcohol, beverages, and concentrates containing ethyl alcohol. The regulation was implemented on January 1, 2014.

Import Duty and Excise Taxes

The Custom Office establishes the import duty rates, while the Ministry of Finance establishes the excise tax rates to be applied to all imported alcoholic beverages.

Registration

The registration of imported food and/or beverage products has been regulated and enforced in by BPOM. The following documentations are required for imported item:

- Letter of appointment (sole agent/distributor) from the company of origin country (original letter).
- Health Certificate from the authorities of the country of origin (original letter).
- Certificate of Analysis (CoA) from origin country.

In the past alcoholic beverage were categorized as a highly controlled product, and were therefore exempt from the ML registration process. However, as of April 2010, BPOM changed these requirements. The registration requirements are basically the same as any other imported beverage, although some ambiguity remains due to lack product knowledge of BPOM staff. The official registration fee for each SKU of alcoholic beverage under categories A, B, and C is $112.00 (IDR 1,000,000) as stated in BPOM Tariff Guide for Non-Tax Fee of Food Safety Assessment 2003. The importers take Proses Registrasi Jalur Khusus (rapid assessment registration process) which takes about a month to get the ML number with the fee of $337.00 (IDR 3,000,000) per SKU.

However, the CoA can be obtained from government owned and/or accredited laboratories locally. The laboratory must be accredited by any Accreditation Agency that is appointed by the National Accreditation Committee (KAN). The test takes between 7 to 10 working days. The costs of laboratory test ranges between $112.00 (IDR 1,000,000) and $270.00 (IDR 2,400,000) per item.

In the meantime only about 16 to 20 per cent of total SKUs have been registered. It may take a few years to register the entire wine selections and other alcoholic beverages currently imported.

5. What can the government do?

WFA is a strong supporter of the Indonesia-Australia Comprehensive Economic Partnership Agreement. A successful conclusion of these negotiations has the capacity to substantial improve Australia's wine trade with Indonesia. Although tariff reduction are vital to improving economic performance on the Indonesian market, technical market access issues remain the key impediment to Australia's competitiveness and profitability on export markets.

APEC initiatives in the Standards and Conformance Sub Committee, Food Safety Cooperation Forum and Wine Regulatory Forum show tremendous promise and require adequate government support. These have demonstrated successes in reducing certification requirements, harmonising Maximum Residue Limits for agri-chemicals and improving regulatory coherence. We would encourage the Australian government to build on these initiatives and develop technical cooperation forum that include both industry and government.

6. Conclusions

Indonesia is potentially a valuable export market for Australian wine. Already it is a major tourist destination for Australians and demand is forecast to increase. The main concerns with the Indonesian market currently are the high tariff regime and cumbersome certification procedures. We are happy to expand on this submission as required.

/ENDS

ANNEX 1: Tariff Rates in Indonesia		
22.04	**Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09.**	
2204.10.00.00	-Sparkling wine	150.00%
	-Other wine; grape must with fermentation prevented or arrested by the addition of alcohol	
2204.21	--In containers holding 2 l or less :	
	---Wine :	
2204.21.11.00	----Of an alcoholic strength by volume not exceeding 15% vol	150.00%
2204.21.12.00	----Of an alcoholic strength by volume exceeding 15% vol	150.00%
	---Grape must with fermentation prevented or arrested by the addition of alcohol :	
2204.21.21.00	----Of an alcoholic strength by volume not exceeding 15% vol	90.00%
2204.21.22.00	----Of an alcoholic strength by volume exceeding 15% vol	90.00%
2204.29	--Other :	
	---Wine :	
2204.29.11.00	----Of an alcoholic strength by volume not exceeding 15% vol	150.00%
2204.29.12.00	----Of an alcoholic strength by volume exceeding 15% vol	150.00%
	---Grape must with fermentation prevented or arrested by the addition of alcohol :	
2204.29.21.00	----Of an alcoholic strength by volume not exceeding 15% vol	90.00%
2204.29.22.00	----Of an alcoholic strength by volume exceeding 15% vol	90.00%
2204.30	-Other grape must :	
2204.30.10.00	--Of an alcoholic strength by volume not exceeding 15% vol	150.00%
2204.30.20.00	--Of an alcoholic strength by volume exceeding 15% vol	150.00%
22.05	**Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances.**	
2205.10	-In containers holding 2 l or less :	
2205.10.10.00	--Of an alcoholic strength by volume not exceeding 15% vol	150.00%
2205.10.20.00	--Of an alcoholic strength by volume exceeding 15% vol	150.00%
2205.90	-Other :	
2205.90.10.00	--Of an alcoholic strength by volume not exceeding 15% vol	150.00%
2205.90.20.00	--Of an alcoholic strength by volume exceeding 15% vol	150.00%
	exceeding 99% vol	
22.08	**Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol; spirits, liqueurs and other spirituous beverages.**	
2208.20	-Spirits obtained by distilling grape wine or grape marc:	
2208.20.10.00	--Brandy of an alcoholic strength by volume not exceeding 46% vol	150.00%
2208.20.20.00	--Brandy of an alcoholic strength by volume exceeding 46% vol	150.00%
2208.20.30.00	--Other, of an alcoholic strength by volume not exceeding 46% vol	150.00%