A New Platform for Deepening Economic Ties:
The Indonesia-Australia Comprehensive Economic Partnership Agreement

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Executive Summary

• The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) is a major strategic effort to build a bilateral economic partnership. Australia and Indonesia signed the free trade agreement in March 2019 after eleven years of consultation and negotiation.

• IA-CEPA is more than a trade agreement, as it includes both economic and strategic instruments. It combines conventional economic liberalisation provisions (in the trade and investment domains) and institutional mechanisms to enhance the broader strategic partnership between Australia and Indonesia.

• IA-CEPA aims to establish the foundation for a new bilateral partnership. It is designed to bind Australia and Indonesia as an “economic powerhouse” in the Indo-Pacific region, leveraging their proximity and economic complementarity, competitiveness, and productivity to supply other countries in the region with high-quality agricultural products and manufactures.

• For Indonesia, one of the most significant outcomes is reduction of all Australian tariffs to zero percent. This will support the development of Indonesian processing sectors through deeper value-chain integration with a developed-country market.

• For Australia, it secures the country as Indonesia’s preferred agricultural export partner, contributing to Indonesia’s food security and lowering food prices through reliable supply. For the first time, Australian exporters have a known quantity Indonesia will allow to be imported for specific agricultural commodities.

• Chapter 14 on Investment and the Investor State Dispute Settlement (ISDS) mechanism will give investors more confidence to move capital between both countries.

• IA-CEPA also serves as a platform to improve economic relations through the establishment of a wide range of consultation mechanisms. These make IA-CEPA a “living agreement”. Both countries should make active use of these mechanisms to advance discussions on further regulatory matters needed to promote further economic integration.
IA-CEPA deliverables at a glance

A New Platform for Deepening Economic Ties

Indonesian tariffs and TRQs on Australian goods

- Live bovine animals [Live Cattle]
- Meat of bovine animals, frozen
- Milk and cream, concentrated or sweetened
- Whey, products consisting of natural milk constituents (nes)
- Wheat, Barley, Sorghum for animal feed
- Wheat or meslin flour
- Cheese and curd
- Fresh Oranges, Mandarins and Clementines, Lemons and limes
- Textiles, Carpets
- Polymers Ethylene

Australian tariffs on Indonesian goods

- Ethylene glycol, Furnitures
- Aged care facilities
- Operation of railways
- Highways, bridges, tunnel concessions and parking services

Source: Australian Department of Foreign Affairs and Trade

* Tariff will progressively reduce
* Commodity rank was assigned to each key export using data provided by the Australian Department of Foreign Affairs and Trade. This data available at: https://dfat.gov.au/about-us/publications/Pages/trade-statistical-pivot-tables.aspx
† Key point: Upon IA-CEPA’s entry into force, Australia will eliminate all tariffs on imports of goods from Indonesia
The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

- Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated; 81 0%
- Aluminium plates, sheets, etc thicker than 0.2mm; Articles of iron or steel (nes) 32 0%
- Machinery for sorting, screening, grinding, shaping, etc 52 0%
- Machinery parts suitable for use mainly in lifting, loading, grading, etc 36 0-6.75%
- Pumps for liquids, liquid elevators 19 0%
- Parts and accessories of motor vehicles 27 0%
- Refined copper and copper alloys, unwrought 21 0%
- Unwrought zinc 12 0%
- Waste and Scrap of paper or paperboard 18 0%
- Wastewater management 67%

TRQ 8

Mineral and Metal Processing: 100%
- Refined copper and copper alloys, unwrought
- Unwrought zinc
- Waste and Scrap of paper or paperboard

Mining Services 67%
- Mining Services

Other Accommodation, Restaurants, Cafes, Bars & Tour Operating Services 67%
- Other accommodation, restaurants, cafes, bars & tour operating services

3,4 and 5 star hotels 100%
- 3,4 and 5 star hotels

Marinas 51%
- Marinas

Architectural, urban planning and most engineering services 67%
- Architectural, urban planning and most engineering services

Oil pipelines 0%
- Oil pipelines
Introduction

The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) is a major effort by both governments to increase trade and investment between them. IA-CEPA is a comprehensive free trade agreement (FTA) with 21 chapters covering trade in goods and services, investment, and specific trade issues such as rules of origin, customs procedures, and technical barriers to trade, among many others. It addresses areas newly covered by FTAs such as a chapter on electronic commerce. Indonesian Minister for Trade Enggartiasto Lukita and Australian Minister for Trade Senator Simon Birmingham signed the agreement in Jakarta on 4 March 2019.

Despite their proximity and a broad base of bilateral cooperation mechanisms, the two countries have surprisingly low levels of trade and investment links. Indonesia’s share of Australian trade has remained far smaller than Australia’s trade with other nations in the Indo-Pacific region. It has consistently sat at around 2 percent of Australia’s trade, with no growth trends for the past ten years\(^1\). Not only does Australia trade far more with distant economies in the region than with its closest neighbour, Indonesia-Australia economic ties suffer from the lowest bilateral trade volumes of any contiguous pairing within the G20\(^2\).

The significance of bilateral investment is likewise relatively weak. Neither country counts as a significant investor in the other (see Table 1). Of the two-way total of $6.7 billion in 2018, $5.6 billion was Australia’s investment in Indonesia, and $1.1 billion was Indonesia’s investment in Australia\(^3\). Investment levels remain low and skewed towards Australia’s outward foreign direct investment (FDI). Investment is an important indicator of economic integration because it reflects a high degree of confidence in the receiving country’s regulatory environment and it requires a more significant commitment than more flexible trade flows. Research also shows that strong investment partners also have greater levels of bilateral trade\(^4\).

It is clear there is a mandate for IA-CEPA to rectify weak bilateral trade and investment relations. This report examines what IA-CEPA delivers on the traditional trade agenda for both countries in terms of tariff reductions, addressing non-tariff measures, and investment. It will look at IA-CEPA as a platform and outline what both sides can achieve through its institutional provisions. Finally, it will discuss ratification and conceivable barriers to its entry-into-force.

Table 1. Significance of Australia-Indonesia Bilateral Investment, 2018

<table>
<thead>
<tr>
<th>Bilateral Investment (AUD millions)</th>
<th>Australian Stocks in Indonesia</th>
<th>Indonesian stocks in Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4632</td>
<td>1076</td>
</tr>
<tr>
<td>FDI</td>
<td>2283</td>
<td>1</td>
</tr>
<tr>
<td>Portfolio</td>
<td>np</td>
<td>np</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreign Direct Investment (FDI) Shares</th>
<th>% Of sender outward</th>
<th>% of recipient inward</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.3%</td>
<td>1.5%*</td>
</tr>
</tbody>
</table>

np = not published; na = not available; *as of end of 2017

Source: ABS (2019), International Investment Position, Australia: Supplementary Statistics (Category No. 5352.0) and IMF Coordinated Direct Investment Database (2017).
The Path to an economic partnership

IA-CEPA has been more than ten years in the making. Indonesia and Australia launched a feasibility study in 2007 to scope the prospect of a bilateral free trade agreement. The study found significant industry support in both countries for an agreement and a report was published in 2009. It was at that time that the concept of an ‘economic partnership agreement’ rather than a traditional free trade agreement was canvassed. The rationale for an economic partnership agreement was to facilitate joint action to build the economies of both nations. The agreement is also future looking; centring on the expectation that cooperation is likely to expand as both countries grow in their importance as strategic and economic actors in the region.

A number of bilateral mechanisms facilitated partnership and cooperation in areas like counter-terrorism, people smuggling, illegal fishing, humanitarian aid and disaster relief, illegal fishing, and others, but what was still missing was a custom-made mechanism to enhance bilateral economic cooperation.

THE INDONESIA-AUSTRALIA BUSINESS PARTNERSHIP GROUP (IA-BPG)

The IA-BPG was a working partnership made up of both Indonesian and Australia business institutions. Originally, the group was made up of the Australian Chamber of Commerce and Industry (ACCI), the Indonesian Chamber of Commerce and Industry (KADIN), Indonesia-Australia Business Council (IABC) and the Australia-Indonesia Business Council (AIBC). Upon the reactivation of the IA-BPG in 2016, both the Australian Industry Group (AiG) and the Employers’ Association of Indonesia (APINDO) became members also. The role of the group was to examine the current trade, investment and economic cooperation climate between the two countries, identify trade and investment opportunities, assess the impediments within the economic climate that were preventing increased bilateral trade and propose mechanisms to help remove impediments.

IA-BPG made recommendations on the content of IA-CEPA and attempts to strengthen the understanding between Australian and Indonesian business communities. The IA-BPG also aimed to help develop an effective private and public sector dialogue surrounding Indonesia-Australia economic cooperation. Members from each country held stakeholder consultations, allowing the group to hear from spokespersons from various industries, aiding in their examination of the bilateral economic climate and the ways in which IA-CEPA can assist in the growth of economic relations. The IA-BPG presented their initial recommendations and findings in a report, which was released in November 2012, and after the reactivation of the IA-BPG the group subsequently updated their findings and released their second report in August 2016.

The path to economic partnership:

A TIMELINE

2007
A feasibility study is launched to examine the prospect of an Indonesia-Australia bilateral trade agreement.

2009
A New Platform for Deepening Economic Ties

PM Julia Gillard and Indonesian President Susilo Bambang Yudhoyono announce the decision to commence negotiations on IA-CEPA.

November 2010
Third round of IA-CEPA negotiations occur in Yogyakarta. Discussions on approaches to goods, services and investment along with e-commerce and competition policies. Australian DFAT calls for submissions from stakeholders.

April 2011
Trade Minister Emerson visits Bali for ASEAN Business Summit and meets with senior Indonesian Ministers and business people to discuss the development of IA-CEPA.

November 2011
Australian Trade Minister Craig Emerson and his Indonesian counterpart Mari Elka Pangestu meet and discuss the agreement.

2-3 Aug 2016
Third round of IA-CEPA negotiations occur in Yogyakarta. Discussions on approaches to goods, services and investment along with e-commerce and competition policies. Australian DFAT calls for submissions from stakeholders.

October-November 2016
Sixth round of negotiations held in Canberra. Next negotiation round is schedule for May 2017 and the text of the agreement continues to be discussed. Revised goods market access offers are presented.

May 2017
Seventh round of negotiations take place in Jakarta. IA-BPG is briefed on the progress of the agreement and is given the opportunity to provide further input to negotiators. Discussion continues on all topics addressed by the agreement.

July-August 2017
Eighth round of negotiations occur in Canberra. Continued discussion on major parts of the agreement including investment and goods. Both parties reaffirm their desire to conclude negotiations before the end of the year.

October 2017
Ninth round of discussions held in Canberra. Discussion continues on all major facets of the agreement.
The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

Trade Ministers Craig Emerson and Gita Wirjawan meet in Jakarta to discuss how business and government can work together in the development of IA-CEPA.

March 2012

First round of Indonesia-Australia Comprehensive Economic Partnership Agreement negotiations occur in Jakarta. IA-BPG position paper is discussed and agreement is reached on the Guiding Principles, Objectives, and Organisation of Negotiations.

March 2013

Second round of Indonesia-Australia Comprehensive Economic Partnership Agreement negotiations occur in Jakarta. There is a focus on economic cooperation and stakeholder engagement. Further consideration made on the contents of the IA-BPG paper, the IA-BPG skills exchange pilot project and agricultural cooperation.

July 2013

March 2012

Kevin Rudd becomes Prime Minister of Australia after a leadership spill in the Australian Labor Party.

March 2013

Malcolm Turnbull becomes Prime Minister of Australia after a leadership spill in the Liberal Party of Australia.

September 2015

Joko Widodo is elected President of Indonesia.

April 2015

Andrew Chan and Myuran Sukumaran are executed in Indonesia for their role in the ‘Bali Nine’ drug smuggling ring. Australia recalls its Ambassador to Indonesia.

October 2014

IA-CEPA is signed by Australian minister for Trade, Tourism and Investment Simon Birmingham and the Indonesian Minister for Trade Enggartiasto Lukita.

31 August 2018

Conclusion of negotiations announced at Annual leaders meeting in Jakarta. The meeting is attended by the Australian Prime Minister and the Minister for Trade along with their Indonesian counterparts. This Scott Morrison’s first overseas visit as Prime Minister.

24 August 2018

November 2017

Eleventh round of negotiations held in Jakarta, final discussions occur on each issue covered by the agreement.

November 2017

Tenth round of negotiations occurs in Jakarta, with further discussion on various aspects of the agreement.

April 2015

Tony Abbott is elected Prime Minister of Australia.

November 2013

The Australian Broadcasting Corporation and The Guardian news organisations report that in 2009 Australian intelligence services attempted to listen in to phones of major Indonesian government officials including President Susilo Bambang Yudhoyono and Vice President Boediono. Indonesia recalls its Ambassador to Australia.

July 2013

Second round of Indonesia-Australia Comprehensive Economic Partnership Agreement negotiations occur in Jakarta. There is a focus on economic cooperation and stakeholder engagement. Further consideration made on the contents of the IA-BPG paper, the IA-BPG skills exchange pilot project and agricultural cooperation.

6 March 2019

Scott Morrison becomes Prime Minister of Australia after leadership spill in the Liberal Party of Australia.

April 2015

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31 August 2018

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Negotiations launched in 2012-13 with a “split round” in both countries and a second round was completed in July 2013. After the second round, no negotiations took place for almost three years. Through this period, Australia and Indonesia suffered through strained relations and underwent significant political changes (see Timeline). While none of these events directly stalled IA-CEPA, they created a challenging political context within which to conduct trade negotiations. The governments reactivated negotiations in 2016 and from here, negotiations progressed regularly before IA-CEPA was concluded in August 2018. Some analysts predicted neither government would sign the agreement pending elections in Indonesia and Australia. Nonetheless, it was signed on 4 March 2019, only weeks before general elections in both countries.

IA-CEPA had to overcome a number of political challenges to make it to this point. Its endurance is a testament to the importance of Australia-Indonesia economic relations. The next step for IA-CEPA is its ratification through the domestic processes of both countries. According to the agreement’s provisions, it will enter into force sixty days after which both parties notify that they have completed their respective domestic processes.

**IA-CEPA as a platform for institutional cooperation**

IA-CEPA does not only function as a legal mechanism to liberalise trade and investment. Equally important, but less often discussed, is that it also serves as a platform for further development of trade and investment ties by establishing new cooperation mechanisms. The platform mechanisms it establishes include institutional provisions like the establishment of committees, sub-committees, and working groups, and other mechanisms like Memoranda of Understanding (MoUs) and pilot projects. The preeminent body in IA-CEPA is the Joint Committee and its membership is intended to be ministerial-level. These mechanisms will be important as Indonesia’s economy advances and the contours of bilateral economic relations continue to take shape. If activated and used in an enterprising fashion, these mechanisms can be used to table new ideas and update IA-CEPA’s provisions to meet the needs of an ever-changing bilateral relationship. This would give the agreement a great degree of flexibility and help create a more resilient trade and investment relationship.

Consultation mechanisms like these are common in free trade agreements (see Table 2). For example, Australia’s agreements with China and Japan each establish seven different committees examining similar issues to those in IA-CEPA. In fact, the IA-CEPA establishes a similar number of consultation mechanisms and institutional provisions as its agreements with its major trading partners like China, Japan, and the United States.

Indonesia and Australia should make full use of the range of consultation mechanisms IA-CEPA establishes to examine the issues that constrain bilateral economic ties.
These committees are often under-utilised. For example, there have been only five meetings of three out of the seven committees established under the Japan-Australia Economic Partnership Agreement (JAEPA) in the five years since the agreement entered into force. In many cases, consultation mechanisms might lack an agenda because bilateral trade relations are already well developed and absent any disputes. IA-CEPA constitutes a strategic effort not only to establish the foundation for a new economic partnership, but also to complement the objectives of the bilateral "Joint Declaration on a Comprehensive Strategic Partnership" signed in August 2018. Implementation of IA-CEPA will augment the first pillar of the strategic partnership: enhancing the economic and development partnership with a view towards promoting regional economic integration through

### Table 2. Committees Set up Under IA-CEPA

<table>
<thead>
<tr>
<th>Joint Committee (Ministerial-Level)</th>
<th>Committee on Trade in Goods</th>
<th>Committee on Trade in Services</th>
<th>Committee on Investment</th>
<th>Committee on Economic Cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOPIC FOCUS</strong></td>
<td>The implementation and operation of IA-CEPA</td>
<td>Trade in Goods between Australia and Indonesia</td>
<td>Trade in Services between Australia and Indonesia</td>
<td>Foreign Investment between Australia and Indonesia</td>
</tr>
<tr>
<td><strong>OBJECTIVES</strong></td>
<td>To enhance trade and investment between Indonesia and Australia</td>
<td>To promote Trade in Goods between Australia and Indonesia, the identification of any barriers to trade, and the reduction or elimination of these barriers as they are identified. The committee also must hold consultations on accelerating or improving tariff commitments.</td>
<td>Monitor the implementation and review of Chapter 9. The chapter must continue to be reviewed in order to reduce or eliminate remaining discrimination and enhance market access between the two countries.</td>
<td>To recommend amendments to the Joint Committee surrounding Chapter 14, and monitor and review the implementation of Chapter 14.</td>
</tr>
<tr>
<td><strong>FREQUENCY OF MEETINGS</strong></td>
<td>Within one year of IA-CEPA coming into force, then annually after that</td>
<td>Minimum once a year</td>
<td>Within two years of IA-CEPA coming into force and thereafter as mutually agreed by the parties</td>
<td>Within two years of IA-CEPA coming into force and thereafter as mutually agreed by the parties</td>
</tr>
</tbody>
</table>
A New Platform for Deepening Economic Ties

initiatives like the Regional Comprehensive Economic Partnership (RCEP). It supports the second pillar, enhancing people-to-people ties, with two skills and training programs (see Table 5). Through facilitating bilateral economic cooperation, IA-CEPA positions Australia and Indonesia to achieve the fifth pillar, contributing to Indo-Pacific stability and prosperity.

Beyond transactional trade: Indonesia's perspective on IA-CEPA outcomes

The Indonesian government sees IA-CEPA as not simply a regular FTA but a comprehensive partnership, which not only covers an agreement on trade in goods, services, and investment but also broader economic relations. The Agreement adopts a specific chapter on Economic Cooperation (Chapter 15) which specifies how to utilise the Agreement efficiently and effectively through the establishment of a Committee on Economic Cooperation, chaired jointly by both countries. The side letter on Economic Cooperation and its attachment outlines a medium-term agenda for ongoing capacity building in trade-related areas (see Table 6).

The IA-CEPA is also considered one of the most comprehensive agreements signed by Indonesia, covering cooperation in vocational education training, higher education, and the

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Table 3. Consultation Mechanisms in selected Australian bilateral FTAs

<table>
<thead>
<tr>
<th>Committees and Commissions Established</th>
<th>IA-CEPA</th>
<th>ChAFTA</th>
<th>JAEPA</th>
<th>KAFTA</th>
<th>AUSFTA</th>
<th>MAFTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Committee/ Commission</td>
<td>•</td>
<td>•</td>
<td></td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Committee on Trade in Goods</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Committee on Trade in Services</td>
<td>•</td>
<td></td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Committee on Investment</td>
<td>•</td>
<td>•</td>
<td></td>
<td>•</td>
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<td>•</td>
</tr>
<tr>
<td>Financial Services Committee</td>
<td>•</td>
<td>•</td>
<td></td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Committee on Intellectual Property</td>
<td>•</td>
<td>•</td>
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<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Committee on Agriculture/Agricultural Cooperation</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Committee/ Sub-Committee on Sanitary and Phytosanitary Matters</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Ad-Hoc Committee on Environment/Environmental Affairs</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>11</td>
<td>7</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: DFAT Website (2019), texts of relevant trade agreements, chapters on “Institutional Provisions”.

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Indonesian Minister for Trade Enggartiasto Lukita and Australian Minister for Trade Senator Simon Birmingham shake hands after signing IA-CEPA. Credit: IBirmo
health sector. Through the implementation of IA-CEPA, it is expected that the partnership between the two countries will create an economic “powerhouse” in the region, which allows two countries to exploit each other’s economic power to improve their contribution to global value chains.

Establishing a comprehensive economic partnership with Australia is expected to have a positive impact on Indonesia’s economic capacity, including improving the quality of human resources through investment, technical assistance, capacity building and development of knowledge and technology. IA-CEPA is also expected to enhance Indonesia’s position in the global value chain. This can be achieved through the access to Australia’s affordable and high-quality raw materials that are needed by Indonesian producers, which then can be processed, manufactured, and re-exported to other countries.

The Indonesian Ministry of Trade (MoT) identifies, in general, at least four benefits for Indonesia that can be achieved through IA-CEPA:\footnote{IA-CEPA increases the market access and competitiveness of Indonesian products particularly agriculture, fishery, manufactures and forestry.}

The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) increases investment from both sides and Indonesia is expected to become a destination for Australian investment. On the other hand, IA-CEPA will open opportunities for Indonesian investors to invest in Australia.

IA-CEPA increases investment from both sides and Indonesia is expected to become a destination for Australian investment. On the other hand, IA-CEPA will open opportunities for Indonesian investors to invest in Australia.

IA-CEPA increases the market access and competitiveness of Indonesian workers. IA-CEPA will allow Indonesian workers to improve their skills and be able to meet international standards.

Fourth, it provides an opportunity to establish broader cooperation through the consultation mechanisms discussed earlier. In this regard, IA-CEPA establishes a platform to achieve more sustainable bilateral economic cooperation.

If Indonesia can establish a manufacturing base for electric and hybrid cars, Australia’s reserves of lithium, copper, cobalt, and other minerals are a potential complement to Indonesia’s economic goals.
The Indonesian government will benefit from several commitments from the Australian government. The following will increase Indonesia’s competitive advantage compared with other Australian trading partners:

- Access to the automotive market, particularly electric and hybrid cars. All hybrid and electric cars manufactured in Indonesia will be granted a 0 percent tariff in the Australian market. In some instances, if certain conditions are met, the tariff can be applied regardless of the value of local content and country of origin of raw materials.

- Increased quota on work and holiday visa (subclass 462), 5 percent increase per year up to a total of 5,000 visas for Indonesian citizens.

- Australia’s investment in higher education and vocational study to ensure skills transfer and that Indonesian graduates are able to meet international standards.

- Training opportunities with Australian companies for up to 200 persons per year in the following sectors: education, tourism, telecommunication, infrastructure, health, energy, mining, financial, and Information and Communication Technology (ICT) (MoU on a Pilot Workplace-based Training Visa Arrangement).

- Skilled labour exchange programs with Australia to improve Indonesian workers’ skills.

- Agree to achieve Mutual Recognition Agreement on Engineering to increase Indonesian workers’ quality and ability to compete in the global market.

- Sustainable and long-term economic cooperation on food products (including grain partnership, red meat partnership, and food innovation centre).

One of the most significant outcomes of IA-CEPA for Indonesia is reduction of tariffs for all Indonesian commodities (6,474 product lines) to 0 percent.

Tariff elimination is anticipated to boost Indonesian exports to Australia. Tariff elimination will benefit Indonesian major export commodities and products such as automotive, especially electric and hybrid cars, timber (including furniture), textiles, machinery, agriculture, fisheries, manufactures, forestry, and electronics products. Indonesia will also gain from having access to raw materials which will be used to support Indonesia’s exports into third countries. President Joko Widodo is pursuing policies for Indonesia to boost its production of electric vehicles and to this end he has signed the Presidential Regulation (Perpres) No. 55 of 2019 establishing the Battery Electric Vehicle Program. IA-CEPA therefore will facilitate Indonesia in realising its objective to accelerate electric vehicles industry through the access to large Australian lithium, nickel, and rare earth element mining projects to support production of electric vehicles.

Through IA-CEPA, it is envisaged both countries will create an economic “powerhouse” in the Indo-Pacific region.

An economic “powerhouse” is a collaboration between two economic powers that utilise each other’s economic complementarity, competitiveness and productivity in order to targeting market access in third countries. In the context of IA-CEPA, an economic powerhouse is a partnership which reinforces the productivity of manufacturing and agricultural products and increases exports of those products to third countries. Through this approach, both countries are expected to improve their contribution to global value chains to satisfy global demands. Indonesia is projected to become a manufacturing powerhouse, supported by Australia through the access to affordable and good quality raw materials.
materials. For example, through the grain partnership, Australia will become a preferred supplier of wheat for Indonesia’s manufactured food products.

In addition to the reduction of tariffs, Indonesia will also benefit from the following capacity-building programs, which serve as a platform to improve the skills and capacity of Indonesian workers (see Table 5). This is mainly done through apprentice opportunities that are closely related to Australian investment in Indonesia. Capacity building is also facilitated through worker’s exchange programs between Indonesian and Australian companies to ensure transfer of knowledge and skills. These programs are intended to improve the Indonesian workers’ qualifications which can be acceptable for Australian standards.

<table>
<thead>
<tr>
<th>Product</th>
<th>Value of Indonesia’s exports to Australia 2018 (in million USD)</th>
<th>Tariff before IA-CEPA</th>
<th>Tariff by entry into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>306.4</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Carpets</td>
<td>4.5</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Ethylene glycol</td>
<td>2.5</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Polymers Ethylene</td>
<td>1.8</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Oil pipelines</td>
<td>0.7</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Furniture</td>
<td>0.8</td>
<td>5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: The Indonesian Ministry of Trade, 2019.
The main objective of these programs is to facilitate better people-to-people exchanges, a key part of Australia-Indonesia relations.

Table 5. Selected Capacity-Building Programs Established under IA-CEPA

<table>
<thead>
<tr>
<th>PROGRAM NAME</th>
<th>AIM</th>
<th>METHODS EMPLOYED TO ACHIEVE AIM</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>The MoU on Mutual Recognition of Professional Engineers</td>
<td>Aims to increase the flow of professional engineers and expand trade in services between the two countries.</td>
<td>Australia will work with its Indonesian counterpart to assist them to reach Washington Accord provisional status in June 2019. Within 12 months, both countries will encourage their relevant bodies to enter into negotiations on the establishment of a framework to enable engineers to engage in independent practice and achieve mutually beneficial outcome.</td>
<td>By facilitating bilateral cooperation on engineering, this MoU serves as a platform to support the closure of Indonesia’s “infrastructure gap”. This refers to a shortfall of USD500 billion of investments needed in infrastructure between 2017-22 to sustain economic growth and increase efficiency enough for Indonesia to avoid the middle-income trap. A strong consideration for Indonesia as it seeks to close this gap is developing its capacity and a strong skills base for its workforce.</td>
</tr>
<tr>
<td>The MoU on Indonesia-Australia Skills Development Exchanges Pilot Project</td>
<td>Aims to strengthen the understanding of business, government and cultural practices in Indonesia, strengthen cooperation between Indonesian and Australian government agencies on collaborative skills development and to enable business to provide targeted workplace-based training to employees in both Indonesia and Australia</td>
<td>Establishment of a five-year project that enables skilled individuals to participate in a bilateral short-term workplace exchange. The program is limited to the following sectors: financial and insurance sectors, mining, engineering and related technical services and information, media and telecommunication services.</td>
<td>The project operates on the principles of delivering mutually advantageous outcomes to strengthen skills and experiences in both Indonesia and Australia. The exchange program runs for approximately six months and is capped at 1500 participants over the five years.</td>
</tr>
<tr>
<td>Professional Services Working Group</td>
<td>Aims to facilitate mutually acceptable standards and criteria for certification and licensing for professional services.</td>
<td>Establishment of the Professional Services Working Group. The Working Group considers the procedures for fostering the development of mutual recognition arrangements between bodies, and examines what can be achieved in developing model procedures for the licensing and certification of professional services suppliers.</td>
<td>The relevant professional bodies within each country are to provide recommendations to this Working Group. These standards and criteria deal with a range of matters, including education, experience, examination, conduct and ethics, and scope of practice.</td>
</tr>
</tbody>
</table>
Regarding investment, the data from Indonesia’s Investment Coordinating Board shows that Australian Foreign Direct Investment to Indonesia in 2018 achieved the value of USD 597 million with around 635 projects involving more than 400 Australian companies. The main areas of Australia’s FDI are mining, food plantation, restaurants and hotels, and financial services. The IA-CEPA provides not only new opportunities but also a more conducive investment environment. Several sectors will be prioritised for opening for Australia’s FDI under IA-CEPA include vocational and higher education, tourism, construction, mining, energy, hospitals, transportation, telecommunications, professional services, waste treatment, etc. However, the Indonesian government will continue to protect several sectors such as land ownership, small and medium enterprises, electrical distribution, and so on.

The following tables shows areas targeted by both governments for Economic Cooperation under IA-CEPA:

Table 6. Priority areas for Economic Cooperation under IA-CEPA

<table>
<thead>
<tr>
<th>Priority Area</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening technical capacity of human resources to improve productivity</td>
<td>Advanced manufacturing, grains partnership, cattle, horticulture (fresh</td>
</tr>
<tr>
<td></td>
<td>sugar cane, food and beverage products</td>
</tr>
<tr>
<td>Improving competitiveness through promotion and innovation</td>
<td>Food products, medicines and herbal, creative industries (fashion and</td>
</tr>
<tr>
<td></td>
<td>jewellery), tourism, horticulture</td>
</tr>
<tr>
<td>Sanitary and Phyto-Sanitary (improving quarantine and bio-security)</td>
<td>Cattle and horticulture</td>
</tr>
<tr>
<td>Technical Barriers to Trade (harmonising standards and compliance)</td>
<td>Pharmaceutical products, traditional medicines, textiles, footwear,</td>
</tr>
<tr>
<td></td>
<td>advanced manufacturing, medical equipment, e-commerce</td>
</tr>
<tr>
<td>Improving small and medium enterprises</td>
<td>Food and beverages, pharmaceutical products, herbal, traditional</td>
</tr>
<tr>
<td></td>
<td>medicines, creative industry (handicrafts, fashion, and jewellery)</td>
</tr>
<tr>
<td>Communication and coordination</td>
<td>Dissemination related to trade facilitation</td>
</tr>
<tr>
<td>Tourism development</td>
<td>Human resource capacity to promote tourism, expanding new tourism</td>
</tr>
<tr>
<td>Increase the capacity of vocational education (technical and vocational</td>
<td>Scholarship, training for teachers and instructors of vocational</td>
</tr>
<tr>
<td>education and training)</td>
<td>education to improve workers’ capacity to meet international standards</td>
</tr>
<tr>
<td>Increase the quality of professional health workers</td>
<td>qualifications</td>
</tr>
<tr>
<td>Source: Attachment to Side Letter of Economic Cooperation, Indonesian Ministry of Trade, 2019</td>
<td></td>
</tr>
</tbody>
</table>
Australia: a food security partner for a growing Indonesia

The first clear achievement of IA-CEPA is its elimination or reduction of tariffs and locking in progressive tariff-rate quota (TRQ) increases for major Australian exports to Indonesia (see Appendix 1 and 2). Among Australia’s top exports are agricultural and natural resource commodities that are likely to increase in demand as Indonesia continues to industrialise and its middle class grows. IA-CEPA facilitates the competitiveness of these products through eliminating tariffs and creating certainty with agreed-upon import quotas.

IA-CEPA establishes Australia as a preferred agricultural export partner for Indonesia, contributing to Indonesia’s food security through reliable supply.

Indonesia has no other bilateral agreement with a major agricultural exporter capable of supplying the same quantities as Australia. Australia’s increased tariff-free access to Indonesia’s food market through IA-CEPA is a significant outcome. Indonesia’s economic growth is projected to result in a quadrupling of the value of agricultural food consumption over the next three decades. Although Indonesian policy is designed to promote food self-sufficiency, its own agricultural sector faces a number of constraints to satisfy growing demand, such as land supply. Food prices in Indonesia remain some of the highest in the region. For example, the average price of beef is approximately USD8.05/kg, whereas the World Bank reference price is about USD4.00/kg. To meet demand and keep food prices low, Indonesia will have to increase its own agricultural productivity. It will also need to secure supply by maintaining trade partnerships with reliable agriculture exporters like Australia. IA-CEPA is a step in the right direction.

For the first time, Australian exporters have a known quantity Indonesia will allow to be imported.

This is true for live animals, in particular cattle, which is Australia’s second-largest agricultural export to Indonesia. Prior to IA-CEPA, Indonesia’s import quotas on live cattle often fluctuated. For example, in July 2015, the Indonesian government abruptly dropped the quota limit on live cattle to 50,000, down from 250,000 the previous quarter. The decision frightened the Australian meat and livestock industry for whom Indonesia is their largest market. Stability of such volumes are important for businesses so they have reliable targets for planning and investment purposes. In 2016 the Indonesian government said it had ended the quota system, but on the condition that one out of every 5 head of cattle imported must be of breeding stock.

The drawback to TRQs is the question of how they will be allocated to Australian exporters in a competitive, transparent, and efficient manner.
Under IA-CEPA, fluctuating quotas are eliminated and Australian livestock producers have a guarantee of zero tariffs within a 575,000 quota each year for male live cattle. It will rise to 700,000 in the sixth year after the agreement goes into force (see Figure 1 above). In support of Indonesia’s breeding program, a five percent tariff on live breeder cattle is eliminated and unlimited tariff-free access is guaranteed. In the sixth year after the agreement goes into force, Indonesia and Australia can review the quota and consider further increases. The 4% year-on-year increase of the quota anticipates growth and the elimination of the tariff within the quota is set to save exporters approximately AUD29.8 million.

The live cattle TRQ is a significant deliverable from IA-CEPA as beef consumption in Indonesia is projected to grow 1,300 percent by the year 2050.

Australia’s livestock industry and its agricultural sector in general, is well poised to supply to Indonesia. It enjoys an advantage of proximity. Voyage times between Australian and Indonesian ports are relatively short, only a matter of days. However, the advantages of proximity can be improved through infrastructure upgrades on both sides of the straits.

Agriculture is a protected sector in Indonesia. The government uses a number of policy tools to keep food prices stable and to shield domestic producers from more competitive imports. The tools that affect imports from Australia are tariffs, reference prices, and import restrictions (or ‘import quotas’). The fact that Indonesia was willing to give concessions in its agricultural sector is significant.
Other policy instruments restricting access to the market for imports remain intact, indicating that agricultural protectionism is still strong in Indonesia. However, the deliverables from IA-CEPA is evidence that there is recognition that trade partners like Australia can help meet demand and push food prices lower. Through the institutional provisions discussed on previous page, IA-CEPA keeps the door open for Australia and Indonesia to negotiate further increases in quotas or to abolish them completely in the future.

Investment is another area that IA-CEPA seeks to improve. Addressing trade in goods and services alone is no longer enough to integrate two countries in the contemporary Indo-Pacific economy, investment is therefore increasingly important. The primary mechanism in Chapter 14 on Investment that gives investors the confidence to move capital into each other’s economies is Investor State Dispute Settlement (ISDS). ISDS gives the investment chapter of IA-CEPA the authority to enforce the protections it affords investors. The provisions in IA-CEPA are similar to other bilateral investment treaties and the ISDS provision in AANZFTA. However, it is updated with important safeguards protecting government’s right to regulate in the public interest.\(^\text{20}\)

IA-CEPA’s ISDS chapter includes the following protections:

- Host state treats investors and covered investments no less favourably than its own investors and investments (in like circumstances)
- Each host state shall treat investors and covered investments of the other host state as favourably as investors and investments from other states
- Minimum standard of treatment: Host state shall treat covered investments fairly and equitably with full protection and security, including the right to legal and administrative action
- Prohibition of performance requirements
- Free transfers of investments
- Compensation for expropriation

Investment will still be subject to review by the Australian Foreign Investment Review Board (FIRB) under IA-CEPA. Unlike other Australian FTAs, the agreement does not include any increase in the monetary threshold for Indonesian investment in Australia. The default FIRB thresholds to trigger a review remain the same, AUD266 million for most businesses and AUD58 million for agribusiness. Given Indonesian investment in Australia is so low (see Table 1), FIRB review processes are unlikely to interfere with Indonesian investment apart from those from a state-owned enterprise, which would trigger FIRB review no matter what the value. However, Indonesian state-owned enterprises (SOEs) do not usually invest abroad.

Through IA-CEPA Australian businesses can now invest in certain services sectors with less restriction, particularly those working in mining services, architectural, urban planning, most engineering services, and transport (see Appendix 3). IA-CEPA Annex II is the schedule of permitted ownership levels in identified sectors in Indonesia. The negative investment list (Daftar Negatif Investasi or DNI) is a regulation that identifies which business sectors in Indonesia are closed or restricted to foreign investment. The existing DNI, established by Presidential Regulation 44/2016, includes some of the sectors listed in IA-CEPA (see Appendix 3). It was widely reported that in late 2018 the Indonesian government was going to unveil a new DNI list with 54 sectors excluded, but it has yet to be released.\(^\text{21}\) Some of the sectors opened up under IA-CEPA, however, are anticipated to be excluded from the new DNI when it is released.\(^\text{22}\)

An area that distinguishes IA-CEPA from Australia’s previous FTAs is the chapter on electronic or “e-commerce”. This is an emerging area which goes beyond the traditional trade agenda and will have to be addressed in future agreements as e-commerce continues to grow. The chapter includes a measure precluding either country from requiring data centres or other computing facilities to be located within their territory beyond existing measures. This is a new provision in chapters on e-commerce and
is also found in Australia’s signed agreements with Peru and Hong Kong. The e-commerce chapter also includes a commitment to not deny legal validity of electronic signatures and documents except where provided for under law.

Ratification of IA-CEPA: the final step towards economic partnership

The next step for the agreement is ratification. Ratification in Indonesia can be achieved through two processes, via Presidential decree or Parliamentary approval. Under Law No. 7/2014 on Trade (Article 84), Parliament must be notified about an international trade agreement within 90 days after it is signed. International agreements are then assessed by Parliament for a period of 60 days to determine if the agreement should be ratified by passing a law through parliament, or by a Presidential regulation. IA-CEPA could classify as an agreement that has far-reaching implications for broader Indonesian society as defined by subsection 3(a) under Article 84. If IA-CEPA meets this definition, then it will require approval by Parliament (international trade is covered by Parliamentary Committee VI).

Steps toward Parliamentary approval include consultation between the Ministries that negotiated the agreement, the Ministry of Foreign Affairs, and the Ministry of Law and Human Rights. After consultations, a proposal to table the agreement to Parliament needs the President’s approval. The Parliament will review the bill to ratify the agreement and the Parliament will conduct public consultation before the bill is approved. Alternatively, Presidential decree offers another pathway to ratification, which can have a shorter timeframe compared to Parliamentary approval. President Joko Widodo used this presidential prerogative to pass seven such agreements in November 2018.

Immediately after the conclusion of negotiations, the Indonesian Minister of Trade Enggariasto Lukita was quite confident it could be done within months. However, it has taken longer than expected. A reason for this is that Indonesia’s domestic political affairs are still settling after the general election in April and newly elected officials do not take their seats until October 2019.

In Australia, the Joint Standing Committee on Treaties (JSCOT), which is composed of Members of Parliament, reviews and reports on all treaties, including trade agreements, before the legislature ratifies them through “enabling legislation”. Initial steps include the review of the National Interest Analysis (NIA) document, which
DFAT prepares, and sets out the advantages and disadvantages of becoming a party to the treaty. JSCOT holds public hearings and considers evidence from government agencies. It debates elements of the treaty and can call in experts who have made written submissions to give advice. JSCOT then submits a concluding report to the rest of Parliament on whether or not Australia should enact the treaty and identifies any issues with its content. If JSCOT approves of the treaty then Parliament prepares to pass the enabling legislation.

**Investor State Dispute Settlement (ISDS) has emerged as a controversial mechanism in Australia’s free trade agreements, including IA-CEPA.**

Domestic political challenges to the ratification of IA-CEPA exist in Australia even though the current coalition government is supportive of IA-CEPA. The opposition Australian Labor Party (ALP) states in its national platform that it would oppose the inclusion of ISDS in Australia’s trade agreements. If elected, the ALP platform states it would review ISDS in existing agreements and work with trading partners to remove its inclusion. Meanwhile, the Liberal Party of Australia, leading the current Coalition government, is supportive of ISDS in existing and future trade agreements. The Liberal Party has promised to implement IA-CEPA and other recently signed trade agreements.

The case commonly cited by opponents to ISDS is the 2012 Phillip Morris Asia lawsuit against the Australian government over tobacco plain packaging laws. Using ISDS through the 1993 Hong Kong-Australia investment treaty, Phillip Morris Asia claimed Australia did not afford them fair and equitable treatment and that plain packaging laws expropriates its intellectual property. Australia ultimately won the case and although the legal costs to fight the lawsuit was almost AUD39 million, Phillip Morris was ordered to compensate Australia for the costs incurred. All aspects of this case considered, it seems ISDS more often protects Australia’s interests than it impinges upon them.

**ISDS applies only to the investment chapter of IA-CEPA.**

In IA-CEPA, ISDS is limited in its scope. ISDS cannot be used to challenge Australia’s foreign investment frameworks, including decisions made by the Foreign Investment Review Board (FIRB). Under the agreement, Australia reserves the right to maintain existing and implement new measures on key policy areas such as education, public health, and public utilities. ISDS has additional provisions that establish procedural safeguards that better balance the right of an investor to bring a claim with the right of governments to regulate in the public interest.

Another area of partisan difference is “labour market testing.” This means Australian employers must show they could not find a suitable Australian worker before the Department of Home Affairs will grant a visa to an overseas worker. The Australian government has waived labour market testing for Indonesian business visitors, intra-corporate transferees, and independent executives only. It also has existing waivers for Indonesians in place under the World Trade Organization and AANZFTA.

The ALP said it would not allow free trade agreements to limit the Australian government’s capacity to determine immigration policy and reinstate labour market testing where it has been waived in these agreements. The Pilot Workplace-based Training Visa Arrangement is one such mechanism in IA-CEPA that could be subject to labour market testing if reinstated. It allows up to 200 temporary workplace-training visas per year for Indonesians. Another is the Skills Development Exchange Pilot Project discussed above. It establishes 6-month internships with a cap of 1500 temporary visas over the five-year life of the program. These are not significant enough numbers of temporary workers to affect Australia’s labour market negatively.
A New Platform for Deepening Economic Ties
**Conclusion and Recommendations**

The low-level of trade and investment between Australia and Indonesia means IA-CEPA is a strategic tool to build an economic relationship, rather than an agreement designed to solidify an existing one. For Indonesia, this is the second bilateral trade agreement it has ever signed, establishing a template for Indonesia’s future trade diplomacy. The consultation mechanisms the agreement establishes are similar to those established in Australia’s agreements with its major trading partners. IA-CEPA also locks in Australia as Indonesia’s preferred agricultural partner at a time when Indonesia’s middle-class is growing and likewise demand for high-quality produce. The negotiations weathered eleven years of uncertainty and significant political changes in both countries, attesting to the strength of commitment for both sides.

Once ratification is complete, IA-CEPA serves as a prelude to other bilateral and multilateral economic architectures in which the governments may also participate. This might include the two ‘mega-regional’ FTAs in Asia: RCEP, and potentially the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP). These regional frameworks advance core pillars of the Australia-Indonesia strategic partnership, contributing to the stability and prosperity of the Indo-Pacific region. Nonetheless, new developments in the regional trade architecture will by no means make IA-CEPA redundant. This is because there are a number of ways Australia and Indonesia can use IA-CEPA as a platform to enhance bilateral economic relations, and as a template for contributing to the economic integration of the region as a whole.

**Recommendations:**

- Once IA-CEPA enters into force, Australia and Indonesia should activate and utilise its consultative committees to examine further regulatory issues that can improve trade and investment relations.
- The committees established under IA-CEPA will only be as successful as the ideas provided to them. Both countries should establish a business advisory group, which performs a consultation function in a similar manner to the Indonesia-Australia Business Partnership Group (IA-BPG), to generate recommendations and submissions to the Joint Committee. The advisory group should have broad membership and representation from a range of industries and peak industry bodies.
- To make Australia and Indonesia a joint “powerhouse” in the region, the business advisory group should examine where economic complementarity exists and make recommendations for how IA-CEPA can unlock its benefits.
- Indonesia should examine how Australia can best contribute to its food security, and incorporate Australia into its food security strategies and economic policymaking to reduce food prices.
- The Committee on Trade in Goods should look ahead to the sixth year of the agreement and begin discussions on what needs to be achieved to reform Tariff Rate Quotas (TRQs) in a manner that will benefit the food security of both economies.
- Indonesia should explore ways of encouraging its businesses to use the tariff commitments and favourable investment provisions IA-CEPA.
## APPENDIX 1
Tariff Rate Quotas for Australian Exports in IA-CEPA

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>MFN 2008</th>
<th>2019 Tariff under IA-CEPA</th>
<th>Notes</th>
<th>Commodity Rank as an Export to Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>0102</td>
<td>Live bovine animals (Live Cattle)</td>
<td>0-5%</td>
<td>TRQ 1</td>
<td>0% Tariff within a 575,000 quota, quota increasing 4% per year reaching 700,000 in year 6; tariff outside the quota is set at 2.5%</td>
<td>3</td>
</tr>
<tr>
<td>0805.10.10</td>
<td>Fresh Oranges</td>
<td>5%</td>
<td>TRQ 4</td>
<td>Duty free access for 10,000 tonnes in year one, 5% annual growth in volume thereafter</td>
<td>15</td>
</tr>
<tr>
<td>0805.21.00, .22, .29</td>
<td>Mandarins and Clementines</td>
<td>20%</td>
<td>TRQ 5</td>
<td>10% in-quota will reduce to 5% in year eleven before being eliminated in year 16. Out-of-quota tariff is 18.75%, quota rate will be reduced to 10% in the year 11 and further reduced to 5% in year 16.</td>
<td>15</td>
</tr>
<tr>
<td>0805.50.10-.20</td>
<td>Lemons and limes</td>
<td>5%</td>
<td>TRQ 6</td>
<td>Duty free access for 5,000 tonnes in year one; 2.5% annual growth in volume thereafter</td>
<td>15</td>
</tr>
<tr>
<td>1001; 1003; 1007</td>
<td>Wheat, Barley, Sorghum for animal feed</td>
<td>0%</td>
<td>TRQ 7</td>
<td>500,000 tonnes may be imported in year 1; increased to 775,664 tonnes by year 10 after entry into force</td>
<td>16</td>
</tr>
<tr>
<td>0701</td>
<td>Potatoes</td>
<td>20%</td>
<td>TRQ 2</td>
<td>10% tariff in-quota to reduce to 5% in year 6. Quota increases from 10,000 tonnes to 12,500 in 6th year of agreement and grows at 2.5% each year after.</td>
<td>33</td>
</tr>
<tr>
<td>0706.10</td>
<td>Carrots</td>
<td>20%</td>
<td>TRQ 3</td>
<td>12.5% tariff in-quota will reduce 10% in year 6 before being eliminated in year 11. Out-of-quota tariff is 12.5 percent and will reduce to 10 percent in year 6.</td>
<td>33</td>
</tr>
<tr>
<td>7208</td>
<td>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated</td>
<td>15%</td>
<td>TRQ 8</td>
<td>Duty-free access (2.5% to 11.25%) for 250,000 tonnes in year one; 5% annual growth in volume thereafter</td>
<td>81</td>
</tr>
</tbody>
</table>

## APPENDIX 2
Tariff Reductions on Australian Exports to Indonesia under IA-CEPA

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>MFN 2008</th>
<th>2019 Tariff under IA-CEPA</th>
<th>Notes</th>
<th>Commodity Rank as an Export to Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>0202</td>
<td>Meat of bovine animals, frozen</td>
<td>5%</td>
<td>2.5-5%</td>
<td>0% by 2023</td>
<td>6</td>
</tr>
<tr>
<td>0402</td>
<td>Milk and cream, concentrated or sweetened</td>
<td>5-10%</td>
<td>0%</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>0404</td>
<td>Whey; products consisting of natural milk constituents (nes)</td>
<td>5%</td>
<td>0%</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>7901</td>
<td>Unwrought zinc</td>
<td>0-5%</td>
<td>0%</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>4707</td>
<td>Waste and Scrap of paper or paperboard</td>
<td>0-15%</td>
<td>0%</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>8413</td>
<td>Pumps for liquids, liquid elevators</td>
<td>0-10%</td>
<td>0-6.75%</td>
<td>Tariff only applies to: 8413.60.32 -Not electrically operated</td>
<td>19</td>
</tr>
<tr>
<td>7403</td>
<td>Refined copper and copper alloys, unwrought</td>
<td>0-5%</td>
<td>0%</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>0406</td>
<td>Cheese and curd</td>
<td>5%</td>
<td>0%</td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>8708</td>
<td>Parts and accessories of motor vehicles</td>
<td>15%</td>
<td>0%</td>
<td></td>
<td>27</td>
</tr>
<tr>
<td>7326</td>
<td>Articles of iron or steel (nes)</td>
<td>5-15%</td>
<td>0%</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>8431</td>
<td>Machinery parts suitable for use mainly in lifting, loading, grading, etc</td>
<td>0-10%</td>
<td>0%</td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>8474</td>
<td>Machinery for sorting, screening, grinding, shaping, etc</td>
<td>0-5%</td>
<td>0%</td>
<td></td>
<td>52</td>
</tr>
<tr>
<td>7606</td>
<td>Aluminium plates, sheets, etc thicker than 0.2mm</td>
<td>5-15%</td>
<td>0%</td>
<td></td>
<td>119</td>
</tr>
<tr>
<td>1101</td>
<td>Wheat or meslin flour</td>
<td>5%</td>
<td>0%</td>
<td></td>
<td>229</td>
</tr>
</tbody>
</table>

Source: National Interest Analysis (2019) and Indonesia’s Tariff Schedule
## APPENDIX 3
Services and Investment Access for Australia under IA-CEPA

<table>
<thead>
<tr>
<th>Service</th>
<th>% of Australian Ownership allowed under IA-CEPA</th>
<th>% of foreign investment allowed as stated in DNI 2016</th>
<th>% of foreign investment allowed as per proposed DNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work Training</td>
<td>67%</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>Mining Services</td>
<td>67%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HEALTH</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospitals, medical, and dental clinics</td>
<td>67%</td>
<td>67% with some geographical limitations – Hospitals and specialised clinics 0% – Basic medical services</td>
<td></td>
</tr>
<tr>
<td>Aged care facilities</td>
<td>67%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOURISM</td>
<td>3,4 and 5 star hotels</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Other accommodation, restaurants, cafes, bars &amp; tour operating services</td>
<td>67%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marinas</td>
<td>51%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Architectural, urban planning and most engineering services</td>
<td>67%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>67%</td>
<td>0% unless the work is deemed high risk, using advanced technology and/or the work value is more than IDR 50,000,000,000 in that case 67%</td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>67%</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>ENERGY</td>
<td>Power Plants (&gt;10MW)</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>Oil and gas platform construction</td>
<td>75%</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>Electrical Power construction, installation, operation and maintenance</td>
<td>67%</td>
<td>95% - Power installation operation, installation and maintenance 49% - Construction and installation of high/extra high voltage electric power utilization 0% - Installation of low/medium voltage electric power utilisation.</td>
<td>100%</td>
</tr>
</tbody>
</table>
### APPENDIX 3
Continued

<table>
<thead>
<tr>
<th>Sector</th>
<th>Activity</th>
<th>55%</th>
<th>49%</th>
<th>95%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENERGY</td>
<td>Electrical power installation constructions</td>
<td>55%</td>
<td></td>
<td>95%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Geothermal power plants (≤10MW)</td>
<td>51%</td>
<td>49%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Geothermal surveying and drilling</td>
<td>51%</td>
<td>95%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Geothermal operations</td>
<td>51%</td>
<td>90%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Offshore oil and gas</td>
<td>51%</td>
<td>75%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Wastewater management</td>
<td>67%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Highways, bridges, tunnel concessions and parking services</td>
<td>67%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operation of railways</td>
<td>51%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Endnotes

2. Ibid.
6. Ibid.
9. Ibid.
10. Indonesia only has one other bilateral Free Trade Agreement (FTA) in force with Japan and a preferential trade agreement in place with Pakistan, which is limited in its scope.
11. Indonesia’s other bilateral Free Trade Agreements (FTA) include agreements in force with Japan and Chile and preferential trade agreements in place with Pakistan and Palestine, which are limited in their scope.
12. Ibid.
18. Ibid.
19. Ibid.
30. Ibid.
The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)
Dr Poppy S. Winanti is a Senior lecturer at the International Relations Department and Vice Dean for Research, Cooperation, Community Service and Alumni Affairs, Faculty of Social and Political Sciences, Universitas Gadjah Mada (UGM). Her research interests cover global and regional trade relations in global political economy; conflict and political economy of natural resources and extractive industries; Indonesia’s economic diplomacy, and South-South Cooperation. She holds a PhD in Politics from the University of Glasgow, two Masters degrees (an MSc in International Political Economy from the London School of Economics and Political Science (LSE) and Master of Public Policy (MPP) from Korea Development Institute (KDI) School of Public Policy), and a BA in International Relations from UGM.

Poppy is the author of a number of publications, including as one of the contributors for a book chapter published by Routledge and Springer, editors of books published by Gadjah Mada University Press, and some journal articles. Her PhD thesis focused on developing countries’ compliance and non-compliance with the TRIPs Agreement. Her recent publications include regulatory framework on IPR in Indonesia; Indonesia-Australia trade relations in the Indo-Pacific Era; the politics of ASEAN cooperation; extractive industry, policy innovations and civil society movement in Southeast Asia.

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A New Platform for Deepening Economic Ties
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