The Australia Indonesia Agricultural Relationship

Introduction

In many ways the Australia Indonesia agricultural relationship is emblematic of the broader bilateral relationship in its entirety. It is big, complex, incident prone, involves and reflects a wide range of interests and is characterised by high levels of commitment and mutual knowledge by key players, but also profound cultural and ideological differences in the background.

This note reviews the various dimensions of the agricultural relationship and offers some thoughts on where it might be heading. The views expressed are mine and do not pretend to represent official opinion in either Australia or Indonesia.

Trade and Investment

Indonesia consistently ranks among Australia's top five agricultural trading partners. It is, however, a highly asymmetric relationship. In 2015 the value of Australia's agricultural exports to Indonesia was $A3.3 billion. On the other hand Indonesia's exports to Australia were less than $A0.5 billion.

Australia's major export items to Indonesia were wheat ($1,373m), live animals and meat ($793 m), sugar ($469 m), dairy ($164m), cotton ($96m) and horticulture ($57m). Indonesia's leading agricultural export items to Australia were wood, paper and cocoa.[1]

Agriculture accounts for over 50% of Australia's merchandise export revenue earned in Indonesia and hence it is a major trade and foreign policy focus.

The bulk of the export trade is conducted by large, established exporters, particularly for wheat, cattle, sugar, cotton and dairy products. The customer base varies according to the product involved, but for most trades large, family owned businesses play a prominent role.

Both Indonesian and Australian statistics register two-way investment in agriculture as negligible. There is, however, more ballast to this aspect of the relationship than suggested by these numbers. Well recognised Australian businesses run substantial operations in Indonesia in cattle breeding, feed-

[1] Department of Foreign Affairs and Trade (2016). Composition of Trade 2015

lotting, meat processing, flour milling and food processing. There has been recent investment in new fields such as production of stockfeed.

Turning to Indonesian investment in Australia, beef production has attracted the most attention with several private investors maintaining an ongoing stake in cattle stations. In recent years several state owned enterprises have considered entry to this sector but to date no investments have been concluded.

Outlook

There are grounds for considerable optimism for the future of the agriculture relationship. If market forces dominate, it is hard to imagine a medium term future within which Indonesian demand for protein and carbohydrate do other than grow at a rate considerably higher than GDP growth.

The reasons for this are obvious. Firstly, the starting points are low. In the case of protein, per capita consumption sits at around 30kg, the second lowest in Asia Pacific, with beef consumption contributing 2.5kg, literally an order of magnitude less than developed markets.[2] Secondly, Indonesia is now at a stage of development where rapid changes to consumption patterns and consumer behaviour can be expected.

Essentially this involves a shift from traditional, farinaceous cuisine towards meat, dairy and bakery items. This is a trend that has played out in societies such as Japan, Korea, increasingly in China and in the developed ASEANs. There is clear evidence that it is underway already in Indonesia, involving an emerging preference for supermarket shopping, decreasing relevance of wet markets, the growth of western food service concepts and marked changes in the average shopping basket.

A recent Australian Bureau of Agricultural and Resource Economics (ABARES) report projects a fourfold increase in the value of agrifood consumption in Indonesia between 2009 and 2050.[3] According to that report beef consumption could rise 14 times, dairy 10 times and fruit and vegetables 3 times. Persistent urbanisation and strong growth in urban incomes will skew the increase in consumption to urban households.

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[2] Meat and Livestock Australia (2016). Market Snapshot: Indonesia. Also Euromonitor (2015). Meat Consumption Trends in Asia Pacific and What They Mean for Foodservice Strategy

[3] Australian Bureau of Agricultural and Resource Economics (2015). What Indonesia Wants

ABARES predicts that imports will satisfy an increasing proportion of Indonesia's incremental demand, rising more than 20 times over the 2009 – 2050 period. Beef and dairy imports are projected to increase 50 fold and 20 fold respectively.

If those growth trends do eventuate it is equally hard to envisage a future in which Australia is other than a significant supplier of the incremental product that the market will require. We have unique advantages of proximity, comparative and competitive advantage and goodness of fit between what will be in demand and what we can supply. In addition to that, there are well established people to people links and institutional support which create more favourable conditions for growth in trade and investment. There will be strong competition from other suppliers, but that is a factor in all international markets in which Australia successfully competes.

So, proximity, Indonesia's growth trajectory and Australia's supply capability suggest a bright future for bilateral trade in agricultural commodities. There is, however, another dimension to the opportunity frontier in agriculture, that of value chain extension and integration.

Over the past five years, much has been written about the increasing importance of Global and Regional Value Chains (G/RVCs) as a component of global trade. World trade is no longer dominated by produce, products or goods, but by the bundled tasks, services and components that are engaged in transforming basic inputs to finished items. According to UNCTAD, 60% of world trade is now in intermediate goods and services.[4] Moreover there is evidence of a positive correlation between participation in G/RVCs and GDP growth.

Both Indonesia and Australia are cellar dwellers when it comes to G/RVC participation. That is not surprising because both of our export profiles are dominated by commodities. But nor does it gainsay the relevance of seeking an increase in participation in these value chains and by definition tighter integration with our trade and investment partners. Such an increase is a well-established pillar of Australia's industry and trade policy agenda. It is also an emerging area of focus for policy makers in Jakarta.

[4] UNCTAD (2013). World Investment Report. Global Value Chains: Investment and Trade for Development

Agribusiness broadly defined is a sector in which Indonesia and Australia might jointly make progress on this objective. Some of the attractive possibilities here include:

- Indonesian investment in production in Australia to lock-in supply, consonant with Indonesia's concerns on food security
- Australian investment in processing and logistics in Indonesia to assure market access and target third markets
- Trade in services, technology and knowhow, capitalising on the impressive growth in prospect for the Indonesian food processing sector

This potential was a pervasive sub-theme in the Australia Indonesia Centre report, "Succeeding Together".[5] It identified three sectors in the agribusiness domain which would reward bilateral collaboration to entwine supply chains:

- Textiles and fashion, specifically Australian investment to upgrade production technology in Indonesia, product diversification in Indonesia including the introduction of wool and a sharper focus on Australian market opportunities
- Food processing, specifically introduction of Australian food processing technology particularly mechanisation and cold storage; and the sharing of information and knowledge on third country markets
- Livestock logistics, specifically transfer of knowledge on road and rail transport and joint ventures and co-operation to penetrate third country markets

The Indonesia Australia Partnership on Food Security in the Red Meat and Cattle Sector (RMCP) is an interesting example of an initiative designed to join at the hip Australian and Indonesian production chains in the meat sector. Its title says it all – it ticks all of the boxes. Launched by the Australian Government in 2013 with a budget of $60m through to 2024, this program focusses on bilateral collaboration in skills development, breeding, processing and logistics.

Projects supported to date under the Partnership include:

- Development of Standard Operating Procedures (SOP) in Indonesian abattoirs;

[5] Australia Indonesia Centre (2015). Succeeding Together: maximising the potential for joint opportunities between Australia and Indonesia

- Promoting sustainable commercial scale cattle breeding in Indonesia;
- Cattle breeder support activities for East Kalimantan small holders;
- Development of best practice guidelines for cattle handling from port to feedlot;
- Skills development program short courses; and
- Northern Territory Cattlemen's Association Pastoral Student Program 2016

The RCMP is a unique program, conceived to assist in realising the vast potential in the meat sector. It does this by responding in a constructive way to, and contributing to the shaping of, Indonesia's ambitions for the development of its beef industry. Funding and financial assistance are perhaps the most visible deliverable under the program, but the real key to its progress and success to date has been the investment of Australian and Indonesian expertise in the solution of problems and challenges in which both countries have a stake. This philosophy and model might well find application in other sectors such as grains, dairy, fibres, horticulture and sugar. The critical enabler here is commitment by relevant industry bodies and leading market participants.

To summarise on the outlook, prospects are bright both for the growth of traditional, arms-length commodity trade and also new frontiers for expansion through two way investment and the provision of technology, knowhow and services.

Are there any threats on the horizon to these positive outcomes? There might be a few and these centre mainly on cultural and ideological difference.

Culture and Ideological Difference

Australia is a country with a strong commitment to market forces, international trade and investment and consumer welfare. This is especially the case on the export side of the agriculture sector.

In Indonesia, these commitments are in much softer focus. Indonesian cultural identity is considerably more collective. This manifests in an aversion to imports and foreign investment, enthusiasm for state owned enterprises and an expectation that government will be interventionist and responsible for control. Notions of consumer welfare are at a very nascent stage in Indonesia.

In short, "Indonesia for Indonesians" is a catch cry which enjoys widespread support across the archipelago.

One highly significant factor here is the critical role played by farmers in Indonesian society. While shrinking as an inevitable process of economic development, Indonesia is still fundamentally an agrarian society. Agriculture accounts for 50% of employment, but only 14% of GDP.[6] The vast majority of Indonesian farmers are poor. Keeping them content has been and will remain an ongoing preoccupation for successive Indonesian Governments.

Within the Indonesian bureaucracy, the Ministries of Agriculture and Trade are jointly responsible for securing this outcome. As recent history has demonstrated, these Ministries see it as their responsibility to intervene in the market to control prices and protect the lot of Indonesian farmers. The conventions and obligations of the international trading system account for little in the face of these domestic imperatives.

There is present in these Ministries and more generally in government a scepticism about the benefits of free trade and a subliminal view that Indonesia is frequently done down by its trading partners. One encounters this most commonly in discussion of the impact of the FTA concluded with China in 2010. But it also surfaces in the context of perceived asymmetries in our bilateral trading relationship, as referred to at the outset. This sentiment was in evidence in a recent interview with Thomas Lembong, the Chairman of Indonesia's Investment Co-ordinating Board (BKPM) where he reflected on the lack of success of Indonesian palm oil, wood, pulp and paper in the Australian market, saying that Indonesia wanted to make sure that there were not artificial barriers or constraints to the export of these commodities:

"In a way it is a bit of a test, right? Why isn't that trade happening? We can talk goodwill all we want but ultimately we have to see concrete proof of unfettered and natural trade. If even the commodities in which we have the lowest cost, the strongest comparative advantage are not entering the Australian market, it feels like something might be wrong."[7]

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[6] Austrade (2016). Agribusiness to Indonesia

[7] Sydney Morning Herald (March 5 2017). Indonesia Pushes for Australia to Import More Palm Oil and Paper (Jewel Topsfield)

Perceptions of Australia

While Indonesian perceptions of Australia are generally positive, there are views held in particular quarters across a range of sensitivities which can affect the tenor of the relationship. Without being exhaustive such tender points include:

- Concerns about the Australia/ US alliance
- Lingering bitterness over East Timor
- Memories of the live cattle export ban
- Concerns over sovereignty including suspicion of our attitude on Papuan independence and a raft of issues around boat people
- Perceptions that anti-Islamic sentiment is on the rise in Australia

Such views are held in influential quarters and can and have produced disadvantageous outcomes for Australian interests.

Conclusion

Developments in prospect in Indonesia bode well for the agricultural relationship. That said, it would be folly to expect emerging market trends to roll out unfettered and with surety. First, it is a fact that relevant markers such as per capita consumption of beef have remained obdurately low over the past two decades. How bankable is a turning point? Second, if that turning point does eventuate, it will court interference from a range of quarters and vested interests.

Realising the full potential of the agricultural relationship will continue to require active handling and the ongoing engagement of "market champions" and government agencies. Relationships rule in Indonesia. Australia's private and public sectors have invested heavily in the development of relationships with their Indonesian counterparts. That investment will need to be sustained to nurture existing connections and forge new ones with the young Indonesians who are going to count in the future.

Appendix 1

Useful Contacts

Australian

Federal Government

The Australian Embassy in Jakarta is the Government's largest point of presence internationally and a wide range of staff are in involved in various aspects of the agricultural relationship. Prime contacts are:

- Department of Agriculture and Water Resources
  Contact: Dean Merrillees Dean.Merrillees@dfat.gov.au
- Austrade
  Contact: Sally-Ann Watts Sally.Ann.Watts@austrade.gov.au

Information on the Indonesia Australia Partnership on Food Security in the Red Meat and Cattle Sector is available at the Department of Agriculture and Water Resources website (http://www.agriculture.gov.au/). The email contact address is IA-RMCP.Secretariat@agriculture.gov.au

State Government

Six Australian States and Territories have dedicated representation in Jakarta. The points of contact are:

- Queensland: Oka Simanjuntak Oka.Simanjuntak@tiq.qld.gov.au
- New South Wales: Mercy Simorangkir Mercy.Simorangkir@austrade.gov.au
- Victoria: Brett Stevens Brett.Stevens@dsdbi.vic.gov.au
- South Australia: Lazuardi Lazuardi@austrade.gov.au
- Western Australia: Chris Barnes Chris.Barnes@dsd.wa.gov.au
- Northern Territory: Vacant (TBA)

Industry

The Australia Indonesia Business Council is the peak bilateral body representing business interest in the relationship. The point of contact is:

- Sharon Enriquez executiveofficer@aibc.com.au

Meat and Livestock Australia has a representative office in Jakarta. The point of contact is:

- Andrew Simpson Andrew.Simpson@mla.com.au

Other industry bodies with coverage relevant to the Indonesian market include:

- Livecorp (www.livecorp.com.au)
  Contact: Sam Brown livecorp@livecorp.com.au
- Dairy Australia (www.dairyaustralia.com.au)
  Contact: Peter Myers pmyers@dairyaustralia.com.au
- Horticulture Innovation Australia *(*http://horticulture.com.au/*)*
  Contact: Michael Rogers Michael.Rogers@horticulture.com.au
- Australian Cotton Shippers Association*:(*http://austcottonshippers.com.au/*)*
  Contact: Tracey Byrne-Morrison cottonshippers@bigpond.com

Indonesian

Government

- Ministry of Agriculture: (http://www.pertanian.go.id/)
- Ministry of Trade (www.kemendag.go.id/en)
- Investment Coordinating Board (BKPM) (www.bkpm.go.id/en)
- Indonesian Embassy: (www.kemlu.go.id/canberra)

Industry

- Indonesia Australia Business Council: (www.iabc.or.id)
  Contact: Vic Halim, Executive Director secretariat@iabc.or.id
- Indonesian Chamber of Commerce and Industry (KADIN) (www.kadin-indonesia.or.id)
  Contact: Rosan P Roeslani, Chairman info@bsd-kadin.org
- Indonesian Employers Association (APINDO) (http://apindo.or.id)
  Contact: Hariyadi B Sukamdani, Chairman sekretariat@apindo.or.id