



Canadian Agri-Food Trade Alliance | Alliance canadienne du commerce agroalimentaire

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Canada-Indonesia Trade Consultations
Global Affairs Canada
Trade Negotiations Division (TCD)
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Re: Consulting Canadians on a Possible Comprehensive Economic Partnership Agreement with Indonesia

Given the unprecedented and aggressive protectionism that has put the global trading system at risk, the need for Canada to intensify its trade diversification efforts has never been greater. The Canadian Agri-Food Trade Alliance (CAFTA) strongly supports the continued expansion of the trading relationship with Indonesia via a Comprehensive Economic Partnership Agreement (CEPA) as a gateway to the ASEAN. This submission reflects the views of CAFTA and its members.

About CAFTA

CAFTA represents the vast majority (90%) of farmers who depend on trade, as well as the producers, processors and agri-food exporters who want to grow the economy through better and more competitive access to international markets. CAFTA members include the beef, pork, canola, grains, pulses, as well as the malt, sugar, and food manufacturing sectors. Collectively, CAFTA members account for over 90 per cent of Canada's agri-food exports, which in 2020 exceeded \$67 billion¹. We also support about a million jobs in urban and rural communities across Canada. A significant portion of these sales and jobs would not exist without preferential access to world markets.

Over half of Canadian agri-food products are exported which is why competitive access to global markets through free trade agreements (FTAs) is our top priority. Our experience demonstrates the need for trade negotiations to strengthen the framework for trade with rules to increase cooperation and transparency on non-tariff barriers including sanitary and phytosanitary measures, biotechnology and plant health. At times, these issues are the most significant barriers facing our exporters and can even be more restrictive than tariffs themselves.

Canadian agri-food exporters seek improved access and stronger trading conditions, creating opportunities for diversification, supply chain expansion and export-led growth. Asia, South-East Asia, North America, the European Union, the UK and China are among CAFTA members' top priority markets. In Indonesia, prominent competitors have already established preferential treatment through bilateral agreements.

Strengthening the CPTPP

¹ Statistics Canada via AAFC's Trade Data – February 08, 2020

Canadian agri-food exporters see huge potential in the fast growing and dynamic Asia-Pacific region – home to 3.9 billion people where middle-class consumer spending is expected to more than double to nearly \$40 trillion in the next decade². CAFTA was an early and avid supporter of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP³) and continues to advocate for the expansion of the agreement to include new members that are able to meet its ambitious and high-standard commitments. Specifically, CAFTA identified countries that would provide value to Canadian agri-food exports as members of the CPTPP to include Thailand, South Korea, and Indonesia.

Launching FTA negotiations with the ASEAN

ASEAN⁴ is the sixth largest economy in the world and one of the largest drivers of growth in the Asia-Pacific region. As a bloc, ASEAN has FTAs, including with some of Canada's top global agri-food competitors: China, India, Japan, the Republic of Korea, Hong Kong and a joint FTA with Australia and New Zealand. In addition to negotiating with Canada, ASEAN is currently in talks with the European Union and Eurasian Economic Union. In recent years, agri-food imports have been growing across all ASEAN markets. Canada and four ASEAN member states (Brunei, Malaysia, Singapore, and Vietnam) are Parties to the CPTPP. An FTA with ASEAN would expand upon the access and gains of the CPTPP to include major markets as Indonesia, Singapore and the Philippines, all important major agri-food export markets where Canada does not have preferential access, while key rivals do through FTAs. Australia's strategy has focused its trade agenda on the Asia-Pacific, where it plays a leadership role geopolitically and has a comparative advantage with distance. In 2010, the ASEAN-Australia-New Zealand FTA (AANZFTA) went into effect cementing trade ties in the region.

In 2019, Canada concluded exploratory discussions on a potential FTA with the ASEAN. Canada must secure a preferential access to ASEAN countries. CAFTA continues to advocate for the formal launch of trade negotiations between Canada and ASEAN.

Canada-Indonesia agri-food trade

Indonesia is the 4th largest country globally, and an anchor economy in South East Asia.

Indonesia is the Southeast Asian nation with the largest and most populous economy in the region. It also represents about 35% of the region's GDP.

Bilateral free trade between Canada and Indonesia reached a total value of \$3.7 billion in 2019. Indonesia is a net exporter of agri-food products and also a large importer. Key supplying countries were the United States (U.S), China, Australia, Thailand and Argentina. Canada was Indonesia's 8th largest supplier of agri-food products in 2019 representing a 4.1% market share. For wheat, Canada's market share was 25% in 2019.

Indonesia is Canada's 7th largest export market for agri-food and Canada largest agriculture and agri-food export market in ASEAN.

- Canada's agri-food and seafood exports to Indonesia were valued at \$893.4 million in 2019. Top exports in 2019 were wheat (79.5% of total export share), soy beans and barley seed.
- Two-way agri-food and seafood trade between Canada and Indonesia has increased by 33% during 2015-2019, and reached \$1.2 billion in 2019.
- In 2019, Canada registered an agri-food and seafood trade export surplus of \$612.0 million with Indonesia.

² Kharas, Homi. The unprecedented expansion of the global middle class: An update. Brookings Institution. 2017.

³ The CPTPP is a free trade agreement between Canada and 10 other countries in the Asia-Pacific: Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

⁴ The Association of Southeast Asian Nations (ASEAN) is comprised of Indonesia, Malaysia, the Philippines, Singapore and Thailand, Brunei, Cambodia, Lao People's Democratic Republic, Myanmar and Vietnam.

- Exports of agri-food products to Indonesia are dominated by primary agricultural products, notably oilseed and grain farming which represent 95% of Canada's agri-food exports to Indonesia. Other primary products, notably animal products, face non-tariff barriers including trade-restrictive licensing regimes.
- Much lower Canadian exports of value-added processed foods to Indonesia likely reflect higher tariffs on many food products (in the agricultural sector, tariffs on more than 1,300 products have bindings at or above 35.5%). Also, most processed foods are traded freely in the ASEAN region as well as with other FTA partners, providing a competitive advantage for those FTA trading partners.

A Canada-Indonesia CEPA would enhance Canada's role in South-East Asia and create new opportunities for Canadian agri-food. While Indonesia is currently not a large market for a number of Canadian agri-food products, an agreement would be an important building block to efforts to diversify our exports and strengthen trade worldwide. Tariff elimination, liberal rules of origin and rules-based trade could generate new opportunities and could create a more competitive environment in Indonesia.

Opportunities and Barriers to Agri-Food Trade with Indonesia

Opportunities:

- Indonesia is the largest economy in Southeast Asia with a GDP of US\$1,133.8 billion in 2019. Indonesia is the fourth most populous country in the world at 266.9 million people in 2019, and is expected to reach 277.4 million by 2023.
- Indonesia is a net agri-food exporter with an increasing share of total exports coming from the sector (18.8% in 2018). However, the country is also a large importer.
- About 75% of Indonesia's agri-food exports are processed products while 37% of imports are primary products for further processing in Indonesia.
- An FTA with Indonesia could expand Canada's agri-food trade opportunities if tariff elimination in many agri-food products is achieved similar to ASEAN FTAs.
- Preferential market access for Canadian exports of value-added products into Indonesia could offer an important potential source of diversification.
- An FTA with Indonesia would enhance Canada's role in Asia, expand Canada's network of free trade agreements and help keep pace in a region where our competitors in the U.S., Australia and Europe are moving aggressively to maintain an edge.

Barriers⁵:

- Interventionist agricultural policies focussed on food sovereignty and self-reliance for a number of staple products such as corn, soybeans, beef and sugar, may limit export opportunities for Canadian agri-food exports (Indonesia restricts the imports of strategic commodities associated with self-sufficiency)
- Quantitative import restrictions and licensing continue for sugar and beef. Indonesian producers benefit from a wide range of input subsidies on fertilisers, seeds and credit.
- Non-tariff barriers in the form of administrative requirements on agri-food imports related to food safety, quarantine, product standards and labelling and uneven enforcement and lack of transparency;
- Import requirements imposed for food safety, SPS and cultural reasons are becoming more stringent.
- Since 2008, companies must be approved by the Ministry of Trade as registered importers to import many processed products manufactured from meat, cereal, sugar and cocoa and similar restrictions were placed on animals and animal products in 2011; imports of these products can only be done by a

⁵ OECD Agricultural Policy Monitoring and Evaluation 2020; WTO Trade Policy Review, November 2020; <https://www.trade.gov/knowledge-product/indonesia-trade-barriers>

registered importer and can only be carried out if the domestic production and supply are not sufficient to meet consumer demand at an affordable price level; the state-trading entity (Perum BULOG) imports staple goods when instructed by the Government.

- The average applied MFN tariff on agri-food imports is just over 5%; however, some products such as sugar have higher specific tariffs and many processed food products including meat, processed grains and sugar-containing products skew to higher tariffs up to 30%; a number of tariffs increased from 2012 to 2020 such as for preparations of meat and sugar confectionary.
- Rigorous import documentation requirements: packaged processed foods must be registered with the Indonesia Food and Drug authority, BPOM, to ensure they comply with labelling, safety quality and nutrition regulations and a distribution license is also required. Registration involves submission of product information and samples for testing and approval from the head of the BPOM is required for each imported shipment of processed food, raw food materials, food additives, processing aids, and food ingredients.

Sample of Potential Benefits arising from a Canada-Indonesia CEPA for some CAFTA members include:

Canola

- Canola growers, processors and exporters would benefit from the elimination of applied and bound tariffs on canola seed, oil and meal. Canola seed is processed into oil for human consumption or renewable fuels, and meal (feed) for animal and aquaculture. Tariffs increase the cost of canola exports to Indonesia vis-à-vis other countries and substitutable oilseeds such as soybeans. Canadian canola producers faces higher tariffs than their Australian counterparts.
- Canadian canola competes with canola from Australia, the Black Sea region and the United States as well as other oilseeds for global markets. Achieving parity in access fosters a level-playing field with Australian and U.S. soybean producers.
- In addition, the canola sector supports the inclusion of language in the Agreement that recognizes the importance of agricultural biotechnology and the need to facilitate trade of these products among parties to the Agreement. Specifically, the aim is to increase cooperation and transparency, to move towards regulatory alignment, and to provide a common approach for instances of low-level presence.
- Rules are required to ensure that the elements of modern agriculture are not treated as trade barriers and are required to create an enabling environment for the canola sector to capitalize on.

Beef

- While not currently a large market for beef Indonesia is however a strong market for Canadian meat and bone meal (MBM) which is important for the overall value of a beef animal. The ability to sell each piece of a beef animal to the market willing to pay the most for it is a key aspect of competitiveness. Maximizing total carcass value includes optimization of animal byproducts from meat processing. Incremental gains are still valuable to producers as they add dollars to every animal sold.
- There is opportunity to gain market share within this growing market. Indonesian imports of MBM products have grown from a ten-year average (2008-17) of 66,000 tonnes valued at \$50 million per year to 539,000 tonnes valued at \$340 million per year in 2018-20. In 2020, Canada represented 4% of imports and was the fourth-largest supplier behind the U.S, New-Zealand and Italy.
- The sector would support the creation of an avenue such as a formalized SPS consultation mechanism that would enable quick resolution of trade interruptions or potential avoidance of such interruptions.

Pork

- South East Asia is an important expansion market as the Canadian pork industry seeks to diversify its markets. There are significant numbers of non-Muslim communities in several parts of Indonesia, who consume commonly pork. Indonesia's hog population is relatively small compared with neighboring Vietnam and the Philippines.

- Although Indonesia pig meat imports quantity fluctuated substantially in the past, it has steadily increased in recent years. Current opportunities for pork may be somewhat limited in Indonesia, although reports point to growing interest in food service items, including ribs.
- The U.S. is Indonesia's largest pork supplier. There are currently no Canadian pork exports to Indonesia.
- In addition to competitive access, a CEPA with Indonesia would allow the establishing of a bilateral zoning agreement with both countries which would help ensure trade can continue during a foreign animal disease (FAD) outbreak, similarly to other FTA's with the United States and European Union (through CETA).

Grains / Wheat

- Indonesia represents the top export destination for Canadian wheat and is a significant source of value for Canadian farmers and exporters. With no domestic wheat production, Indonesia is fully dependent on imports to meet its needs. Nevertheless, the country is a large agri-food producer.
- The overall market, including supply of competing domestically produced commodities such as corn, is highly influenced by significant government involvement tied to food self-sufficiency objectives.
- In 2020-21, Indonesia's world wheat imports are forecasted at 10.95 million tonnes, of which feed wheat accounts for roughly 2 million tonnes. This volume of global wheat imports puts Indonesia as the world's second largest global wheat importer, after Egypt.
- Efforts to strengthen the trade environment by expanding on the already low tariffs for Canadian wheat can support continued growth in this market. With respect to import requirements for agri-food products, Indonesia is increasingly seen to be applying measures related to food safety, quarantine, product standards and labelling.
- A CEPA agreement must seek to minimize these types of technical trade risks by ensuring that science-based policy is adhered to and establishing clear commitments that improve the predictability and transparency of regulatory decisions.
- Indonesia is also an important anchor for trade and access within the Asia-Pacific region more broadly. Beyond its significant domestic consumption, Indonesia is also a leading supplier of flour and food products across South East Asia. Given the market's position as a key processor and exporter of flour and food goods, improving access and stability to the Indonesian market translates into broader footprint for the consumption of Canadian wheat across the region.

Sugar

- Market access prospects in Indonesia may be limited for Canadian refined sugar and sugar-containing products given that Indonesia's sugar sector is highly regulated, with the government controlling imports and domestic market prices and supply chains.
- The Government of Indonesia (GOI) goal is to be self-sufficient in sugar and as such supports domestic production and sugar refining. The GOI also expects the food and beverage industry to consume domestically produced refined sugar, although it does permit some refined sugar imports through import allocations.
- Surplus production and exports from Thailand, the world's second largest exporter of white sugar, and its geographic proximity as well as tariff free trade in the ASEAN region would likely limit Canada's refined sugar competitiveness in Indonesia. However, removal of tariff and non-tariff barriers could provide long term opportunity for high value specialty sugar and sugar-containing products.
- The Indonesia refined sugar tariff is prohibitive at approximately 95%, therefore market access negotiations should focus on achieving tariff elimination and a liberal rule of origin that confers origin to the refining of raw sugar. In the absence of a liberal rule of origin and substantial market access gains, Canada's refined sugar tariff, while small by international standards, should be maintained. Any negotiation of Canada's tariff should consider the precedent that would be set for future negotiations with the ASEAN given the threat of imports of refined sugar from Thailand.

- Indonesia applied tariffs on sugar-containing food products such as sugar and chocolate confectionery, prepared cereals and baked goods average about 15 to 20% and for some miscellaneous preparations are as high as 44%. These tariffs should be the target for tariff elimination along with a liberal rule of origin for ingredients including sugar.

Beyond tariffs

- A Canada CEPA with Indonesia provides an opportunity to deliver a comprehensive and consistent framework for trade in Asia Pacific with rules based on science to increase cooperation and transparency on non-tariff barriers related to sanitary and phytosanitary measures, biotechnology and plant health.

Negotiating a Canada-Indonesia CEPA

With significant overlap, CAFTA supports continued government efforts towards the launch of free trade negotiations with the ASEAN and support the launch of a Canada - Indonesia CEPA as a gateway to a larger agreement.

As a starting point, a Canada-Indonesia CEPA trade agreement should include the following priorities:

- **Priority #1:** tariff liberalization for Canada's agri-food exports to the region
- **Priority #2:** forward-looking cumulation of rules of origin provisions to support Canadian usage of supply chains
- **Priority #3:** commitments towards a more transparent, predictable and enforceable trading system
- **Priority #4:** precedent setting for future negotiations with ASEAN

The CEPA negotiations should focus on tariff elimination given the high applied tariffs on a large number of agri-food products imported and seek secure flexible rules of origin for ingredient inputs to processed foods reflecting Canada's supply chains. Negotiations should also seek to address non-tariff barriers and ensure transparent import administration and customs procedures. Given the ASEAN context, negotiations should consider the precedent that would be set for future negotiations with the ASEAN.

A CEPA would improve competitiveness via preferential market access for Canadian exports and could offer an important potential source of diversification. A CEPA could also provide greater transparency when doing business in Indonesia. A clear understanding of the business and regulatory environment increases predictability and mitigates risk when building a new market. An agreement could enhance cooperation between Canada and Indonesia and could be leveraged to promote trade facilitative approaches bilaterally or through regional and multilateral associations, such as APEC or the World Trade Organization.

CAFTA wishes to continue to work with the government and the team of negotiators to provide more detailed advice on a broad list of agri-food products and issues as the negotiation process moves forward.

Thank you for the opportunity to participate in this consultation. Please contact us if you have any questions or if we can assist in any other way.

Respectfully,



Claire Citeau

Executive Director / Directrice générale

Canadian Agri-Food Trade Alliance (CAFTA) / Alliance canadienne du commerce agroalimentaire (ACCA)