

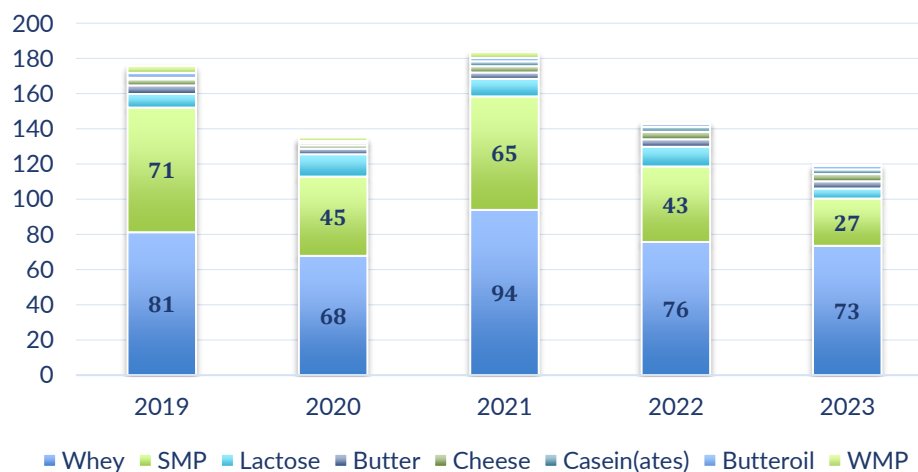
Updated position on EU-Indonesia free trade agreement negotiations

Eucolait warmly welcomes the news that after a protracted hiatus, significant progress has been made in negotiations between the EU and Indonesia for a free trade agreement. Bilateral talks were initially established following the indefinite freeze of region-to-region negotiations between the EU and ASEAN in 2009. Now, ambitions to seal a deal by the end of the year are strong. As a side point, this is a particularly fortuitous time for EU trade relations in the South-East Asia region, as talks with Thailand were re-launched last autumn and it has recently been announced that negotiations with the Philippines will recommence soon.

Current trade picture

Indonesia represents a major market for EU dairy products and is by far the largest market in South-East Asia, with close to 280 million consumers. While EU dairy export volumes to Indonesia were not as phenomenal in 2023 as they had been in recent years, over €300 million worth of product was shipped last year. The main product groups are whey powder and skimmed milk powder (SMP), followed by butter, cheese and lactose.

EU exports to Indonesia (in 1000 tonnes)

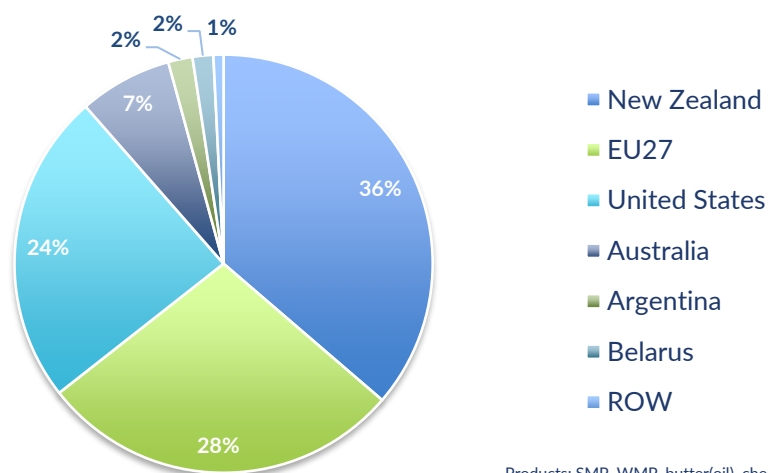


While milk production in Indonesia continues to increase (by approximately 3% per year), this is offset by the growing population and per capita consumption, resulting in a self-sufficiency rate of around 40%. It can therefore be anticipated that Indonesia will continue to be a leading import market for dairy in the coming years.

Tariffs

MFN tariffs are already relatively low for dairy entering Indonesia (5% across the board). However, as competitors New Zealand and Australia enjoy duty free access in the context of the ASEAN-Australia New Zealand FTA and the US and Indonesia have a Comprehensive Partnership, a successfully concluded agreement would level the playing field for EU operators on this important market.

Indonesia dairy imports - main suppliers



Products: SMP, WMP, butter(oil), cheese, casein(ates), whey powder, lactose

Non - tariff barriers

The main identified technical and sanitary barriers to trade are Indonesia's plant approval system, import permits and halal certification.

- **Approval of exporting establishments**

Plant registration is a two-step process, with a country needing veterinary approval before establishments can be visited and approved. The application of a food business operator submitted via the national authorities is first subject to a 'desk check' by the Indonesian ministry of agriculture before an on-site visit can be organized. The approval process is very slow and intransparent, reportedly one of the most challenging to work with. Visits from the Indonesian inspectors are difficult to arrange – some companies have been waiting for several years - and there are also long waits for an initial 'desk check'. There are also cases of physical inspections being announced and then no further feedback being provided to operators. Our understanding is that no new establishments have been authorized in recent years.

The lack of a transparent and predictable approval process is a major barrier to trade which should be addressed in the context of the negotiations.

- **Import licensing**

The future agreement should ensure that import licensing be administered in a transparent and equitable manner. There have been instances whereby Indonesia has delayed the issuance of import licences for EU dairy products or denying importers licences outright. This was particularly the case in 2019-2020 when, in response to EU's renewable energy policies, Indonesian importers were pushed to look for alternative sources of supply, resulting in a tremendous decline in imports from the EU. In addition to provisions on import licensing, the FTA should provide a forum for addressing concerns on either parties' agricultural, environmental and other policies, so as to avoid trade disputes.

- **Halal certification**

The recently issued instructions from the Indonesian Halal authority (BPJPH) on new Halal certification requirements represent a further hindrance to open trade.

From October 2024, Halal certification will only be accepted if it is issued from bodies recognised by BPJPH. A list of such halal agencies is currently being compiled, however currently there are no bodies listed based in the EU. The importer must register the Halal certificate of the exporter in a dedicated Halal Information System platform and must pay \$50 to BPJPH for each certificate registered. Foreign-issued Halal certificates will also require notarisation from an Indonesian embassy. Both the notarisation and the fee for each certificate appear excessive.

While increased regulation of Halal certification is in no way unique to Indonesia and has been an emerging trend in several large export markets in recent years (such as in Egypt and Algeria) we would hope that the discussions for a free trade agreement would open the channels of communication to find a more workable solution for Halal certification.

Addressing these non-tariff measures will help to create a more stable and predictable trade environment, allowing the benefits of the eventual agreement to be maximized.

Conclusion

Eucolait supports the objective of the negotiators to conclude negotiations in the autumn of 2024. A high-quality agreement would include tariff-free access for EU dairy products and address key non-tariff barriers.

Indonesia is world's third largest export market for dairy products and the largest country in the fast-growing ASEAN region. Given the low consumption levels and the deficit in dairy, the potential to further increase trade is very significant.