

## **Vision Group – conclusions of first meeting**

### **Objective**

*To inform about the positive developments (since Presidents' meeting) regarding the Vision Group to enhance trade and investment, main issues and concerns discussed and ambitions expressed by Minister of Trade, Pangestu. Both sides have a lot to gain from a strengthened relationship and seem to go for a positive advice (regarding benefits of potential agreement) by June 2011.*

### **Speakings**

- Even though EU is the second largest export partner for Indonesia and arguably the largest source of investments, the relative share of EU in terms of Indonesia's trade and investment is dropping from 18% to 14% and EU investments only represent 1.5% of EU investments to Asia.
- When our leaders met last year they saw the above as an opportunity: our trade is complementary and EU investors can provide valuable support to Indonesian economy, in terms of technology, value chain and jobs.
- A group of eminent persons was formed, with reputable co-chairs (Prof Djisman and Prof Pelkmans) and members from different line ministries, academics and private sector, tasked to have a discussion and analysis of how trade and investments could be enhanced and look at various options, including a Comprehensive Economic Partnership Agreement.
- Minister of Trade Pangestu welcomed and discussed with the VG, showing high ambition and expecting results by June 2011 arguing that:
  - EU and Indonesia trade is complementary and there are substantial opportunities by increasing our relationship through an agreement.
  - An agreement should be comprehensive and include trade liberalization, trade facilitation and capacity building.
  - IDN interest lies in helping SMEs trade and invest and deal with concerns such as fisheries, palm oil and green economy, but also benefits of increasing share of services to Indonesia.
- Potential benefits of an Agreement (arguably 1.8% welfare gain for IDN, as well as structural gains of economy). A recently completed study shows that IDN has great potential in sectors such as traditional cosmetics (jamu) and furniture and could be supported under the EU's cooperation programme.

- Some members brought forward IDN concerns with EU, mostly in terms of difficulties applying to standards, but also highlighted good examples such as fisheries where EU supports IDN to fulfill those standards.
- In terms of comprehensiveness, some members argued that services and investment should be included and trade facilitation considered more important than liberalization, also in view of helping Indonesian produce increase value chain. Challenges and opportunities of current infrastructure and land access and ways EU could contribute to be considered, through economic cooperation. The FTA with Japan can be an example, while arguing Indonesia should not depend too heavily on China and Japan alone.
- Members discussed that there would be sectors or groups that would lose out on a trade deal and argued for ways to identify these and possibly compensate. After the political debate regarding the ASEAN China FTA, the impact of any agreement should be considered carefully.
- Deliverables, tasked to members, and agenda for February, include:
  - Recommendations for IDN-EU in terms of current FTA examples
  - Concept of a “comprehensive” CEPA and how to structure an effective dialogue mechanism between government and KADIN,
  - Provide a paper regarding measures to attract EU investors
  - Ways of identifying and dealing with losers, and losing sectors.
  - Communication strategies and consultations with stakeholders to mobilize support for new trade and cooperation arrangements
  - Possible pilot projects in trade & investment regulatory reform.
- The next meeting will include some of these technical issues; identification of flanking measures and options to be considered, such as PCA only, PCA+ and / or a more comprehensive agreement.
- It is to be expected – with the positive attitude and dynamics of this group – that the deadline of June is feasible and that constructive recommendations will be delivered.

### *Background Vision Group*

Vision Group to enhance trade and investment between Indonesia and EU was initiated in December 2009 when President Yudhoyono met President Barroso. Minister of Trade Pangestu appointed 11 members for the Indonesian part coming from different line ministries, private sector (chamber of commerce Kadin) and academics. A first meeting on modalities specified the Terms of Reference, as well as the way this Vision Group would work – namely based on the intelligence and experience of the vision Group members, aided by existing studies and backgrounds existing. It was agreed that this group should focus on opportunities more than obstacles and to advise the governments by June 2011. The first meeting on substance took place on 2 December in Jakarta, co-chaired by Prof Pelkmans (CEPS Brussels) and Prof Djisman Simandjuntak, (Prasetiya Mulya Business School).

First discussions were based on a number of studies and presentations, including opportunities for EU in Indonesia and vice versa, potential benefits of an FTA, views from business, existing arrangements as well as the Partnership and Cooperation Agreement, ongoing and planned economic cooperation. Indonesia members commented on issues such as the need for more assistance regarding EU standards and policies; possible options including defining ‘comprehensive’ and how to deal with potential losers of a trade deal. This reflects consideration of MoT that Vision Group should address concerns that constituents might have, especially parliament and learning from CHAFTA experience.

A very positive sign of commitment was the welcome by Minister Mari Pangestu and discussion on goals and ambition: Pangestu argued that the EU and Indonesia are compatible in terms of trade and industry and welcomed the idea – following among others the recommendations of the EU Indonesia Business Dialogue, of a mechanism to dialogue with business and government in an integrated way, focusing on opportunities that go beyond trade and investment alone. Regarding a potential future CEPA (comprehensive economic partnership agreement), Pangestu considers that this should include: 1. Liberalization; 2. facilitation and 3. Capacity building to help with the implementation. A CEPA should be win/win, with for IDN benefits related to REACH, RED, fisheries, as well as climate change and green economy. It should furthermore help SMEs to easier fulfill standards and NTBs.

Previous meetings (EU Indonesia Business Dialogue and Working Group on Trade and Investment) were reported on and recommendations shared, Kadin arguing especially that vision group advice should be followed up swiftly, considering the political developments towards the next general elections in Indonesia (mid 2014).

Follow up actions have been defined and the following meeting is scheduled for 22/23 February 2011 in Brussels.

### *Annexes*

- Terms of Reference of the Vision Group
- EIBD Recommendations
- Members of the Vision Group
- Agenda of the first meeting

## **ANNEX: TOR VISION OF ENHANCING EU-INDONESIA TRADE AND INVESTMENT RELATIONS**

When the Indonesian President Susilo Bambang Yudhoyono met with the European Commission President José Manuel Barroso in December 2009 they discussed ways of enhancing our bilateral ties. The two Presidents agreed that trade and investment is an area where the bilateral relationship has great potential to develop, and on the need to explore ways to strengthen these ties. **The two leaders decided to set up a "Vision Group"** that will examine how to increase trade and investment between Indonesia and the EU. The expected output is a strategic paper (vision) with recommendations to Ministers (including on the potential for a comprehensive Free Trade/Economic Partnership Agreement). This Group should be constituted by eminent persons from both sides consisting of members of the respective Governments, business and academia.

### **The Specific Objectives of the Vision Group are:**

- To provide a strategic view of EU-Indonesia trade and investment relations and identify on what basis EU-Indonesia trade and investment relationship can best be enhanced in an innovative way.
- To identify opportunities for fostering trade and investment between EU and Indonesia, bearing in mind the market characteristics and potential, evolution of bilateral flows and the challenges for realisation of this potential
- To provide recommendations to relevant parties (GoI, EU, business community, academia) for the full realisation of this trade and investment potential
- In this context, to explore the feasibility of a Free Trade/Economic Partnership Agreement between EU and Indonesia.