BRIEFING *Origin: DG TRADE*	○ **Subject: EU/Indonesia trade and investment relations** ○ **Meeting: Bilateral meeting Commissioner/Minister Lembong** ○ **Date: 3 March 2016** ○ **Venue : Chiang Mai, Thailand**

OBJECTIVE

At his request, you last met Minister Lembong in Davos, where he acknowledged that he had not yet been able to advance internal work on the scoping sufficiently.

It is not clear yet whether the Minister will be in a stronger position in Chiang Mai. Under these circumstances, you may wish to reiterate previous messages and enquire about internal progress, also in view of the likely President's visit (planned on 21 April, not yet confirmed):

- Take stock of where internal discussions stand on scoping and CEPA/FTA;
- Reassure about the EU's readiness to engage in FTA negotiations, if we can share the same high level of ambition (refer to Vietnam) and commitment to scoping process. In this regard, convey readiness to hold another scoping meeting in Brussels
- Encourage continuation of reforms and stress need to address protectionist measures, as they go against what is needed for successful CEPA/FTA negotiation.

If raised: address Indonesia's concerns on palm oil (defensive point).

SCENE SETTER

This is the fourth time you meet Minister Lembong, since his appointment last summer after a cabinet reshuffle (Istanbul G20 in October; Nairobi MC10 in December, Davos in January).

Minister Lembong, who shows understanding of Indonesia's internal difficult situation and is backed by President Widodo, has been proactive and vocal about improving business climate and Indonesia's willingness to negotiate a CEPA/FTA, as a priority. However, internal difficulties slow down progress. In addition, despite various reforms since last September, most protectionist measures remain in place.

EU/Indonesia FTA scoping discussions were resumed on 11 September, after being stalled since 2013. 4(1)(a) [redacted]

4(1)(a) [redacted]

4(1)(a) [redacted]

4(1)(a)

You may therefore wish to support Indonesia's efforts, take stock of where discussions stand and reassure the Minister that the EU is ready to engage, if there are the same high level of ambition and commitment to the scoping.

4(1)(a)

(If raised: defensive point on perceived palm oil discrimination): One may wish to mention increased EU imports of palm oil over the past years and Indonesia lion's market share, as well as to EU non-discriminatory legislation. On the other hand, Indonesia should systematically address deforestation and land grabbing: this element would help mitigate "no-palm oil" campaigns and civil society concerns (which may be behind French proposed palm oil tax).

Speaking points/ Key messages

- It is a pleasure to meet you again.
- Let me reassure you that the EU continues to be ready to engage, if we can share the same high level of ambition.
- In Davos, you hinted at internal discussions on scoping and possible CEPA/FTA negotiations: what is the current situation?
- Technical contacts are still ongoing to finalize the scoping paper, following scoping discussions in September. There is still some work to do to bridge the gap in ambition between our positions and we are waiting for a reply from your side to advance on a common document.
- Following your reply, we are ready to hold another scoping meeting in Brussels, to further explain EU expectations and ambition for a

CEPA/FTA. Commitment to the scoping process and clarity about our respective level of ambition are key.

- As indicated in Davos, the EU/Vietnam FTA offers a concrete example of the EU level of ambition and it would be good to have that as a reference also for scoping discussions.

- We continue to commend your efforts to reform and look forward to their implementation.

- We also expect that the current protectionist measures are eliminated and business climate improved: this is essential to create a framework conducive for successful CEPA/FTA negotiations.

Defensives:

4(1)(a) [redacted]

[redacted]

[redacted]

[redacted]

4(1)(a) [redacted]

4(1)(a) [redacted]

[redacted]

4(1)(a) [redacted]

- [redacted]

- [redacted]

- [redacted]

- [redacted]

- 4(1)(a) [redacted]

BACKGROUND

Indonesia is a growing economy (although the growth rate, 5% in 2014, is slowing down) as well as the largest and most populated in ASEAN (about 40% of ASEAN GDP and 250 million people). An FTA would be beneficial to EU/Indonesia trade and investment relations.

However, still influenced by post-decolonization economic philosophy, Indonesia promotes trade and economic policies based on import substitution and aimed at self-sufficiency as well as climbing the value-added ladder: Indonesia has not developed its manufacturing sector, which it has neglected also due to reliance on export of commodities. The results are a high number of protectionist trade measures and a relatively limited exposure to trade (43.2% of GDP, the lowest rate among ASEAN partners).

With €25,3 bn of EU-Indonesia trade in goods in 2015, Indonesia is only the EU's fifth trade partner in ASEAN (EU imports: €15.3 bn; EU exports: €9.9 bn. EU has a negative trade balance: - €5,3 bn, most of which in the agricultural sector). Indonesia's main exports are commodities, followed by textiles and footwear. Trade in services amounted to € 6 bn in 2014.
On the other hand, EU foreign direct investment (FDI) stock in Indonesia amounted to € 25,8 bn in 2014, making Indonesia the EU second destination in ASEAN after Singapore.

4(1)(a) [redacted]

4(1)(a) [redacted]

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Palm oil

Indonesia perceives EU legislation in various fields as a threat to its exports of palm oil to the EU and a recently, a high level delegation has conveyed its concerns to DG TRADE and DG ENV. In particular, EU food labelling legislation in force since 31 December 2014, which requires indication of the type of vegetable oil on products as well as EU sustainability criteria for biofuels (which include requirements for GHG emission savings) have contributed to this perception, despite being non-discriminatory and applying to all products irrespective of their origin in or outside the EU.

In addition, the French Parliament is currently discussing a broad law on biodiversity and the Senate has proposed a new palm oil tax amendment. The law is still at the first reading stage and reportedly, there is no consensus on this issue, which takes place as France just signed the

Amsterdam Declaration, together with NL, GE, UK, DK to support the involvement of the private sector on sustainable palm oil.
However, this amendment is evidence of civil society concerns on deforestation and land grabbing by large companies, which motivate the contribution by certain environmental NGOs to negative palm oil campaigns and should be better addressed by Indonesia.

The EU remains Indonesia's second largest export market for palm oil, after India (54% of EU market or 3,7 million tonnes in 2014); for 2015 complete data not yet available, but are expected to be stable. Most palm oil enter the EU duty free. On the other hand, biodiesel imports have been decreasing due to EU anti-dumping duties. Indonesia requested the establishment of a WTO dispute settlement panel (stage: panel composition), but administrative WTO obstacles have so far delayed works. Should Indonesia request information on the interim panel report already released for Argentina's similar case, one should reiterate the confidential nature of works. Indonesia also challenged the EU anti-dumping duties on certain fatty alcohols and their blends (stage: first written submission). The final report is expected in the second half of 2016.

Annexes:

-CV Minister Lembong
-Sum up scoping discussions of 11 September 2015

Contact person:
4(1)(b)
DG TRADE C2
☎4(1)(b)

VISA: Helena König (23 February 2016)

Annex:

Scoping discussions

4(1)(a) [redacted]

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