

## BRIEFING

Origin: DG TRADE

- o Subject: EU-Indonesia bilateral trade and investment relations
- o Meeting : ASEAN Economic Ministers Meeting
- o Date: 10 March 2017
- o Place:



Ref. Ares(2017)1579585 - 23/03/2017

### OBJECTIVE

- Welcome the constructive second round of FTA negotiations in January and reiterate that the EU shares Indonesia's ambition to move forward fast. Show understanding for Indonesia's proposal to hold the 3<sup>rd</sup> round of negotiations in September but stress that intense inter-sessional work beforehand is key to make progress.
- Invite Indonesia to tackle the high number of trade restrictive measures and counteract protectionist tendencies: they contradict the spirit of the FTA and do not ease negotiations. The recent example of renewed import restrictions on tyres and the draft measures restricting dairy products are not perceived as positive signals.
- Convey regret over Indonesia's policy to discontinue BITs with Member states.

### SCENE SETTER

This is the first time you have the opportunity for a full-fledged conversation with Minister Enggartiasto Lukita, who replaced Minister Tom Lembong in July 2016 and whom you have met briefly in Davos at the dinner of WTO ministers. It is likely that the Indonesian FTA Chief Negotiator (4(1)(b) ) will be present at the meeting.

Your meeting takes place in a peculiar context, which is characterized by uncertainty regarding the international trading system – which risks to strengthen protectionist trends – and recent constructive negotiations for an EU-Indonesia FTA (which Indonesia calls CEPA: Comprehensive Economic Partnership Agreement).

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Furthermore, during the FTA negotiations Indonesia showed surprising ambition in certain areas, such as trade in goods, but also difficulties in areas such as IPR, Government Procurement and services and investment. Because of genuine capacity constraints and ongoing negotiations on RCEP, Indonesia proposed to hold the next round only in September.

On the other hand, although views are fragmented across the Indonesian administration, one should not lose sight of Indonesia's ongoing inner fight against traditional protectionist tendencies, even more so at a time when the US withdrawal from TPP has partly allayed fears of increased competitiveness by Malaysia, Singapore, Vietnam – and might lead to put off implementation of much needed reforms.

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You may also wish to recall the importance to show some openings to stakeholders and therefore tackle main restrictive measures and refrain from issuing new ones, since they are not leading to the direction where we wish the FTA to go – and contribute to an uncertain international trading system. The recent restrictive measures on tyres are not a positive sign.

*[Due to Indonesia's confirmation of its contentious policy on the discontinuations of BITS you may limit your intervention to simply express regret over this self-defeating policy.]*

The recurrent issue of palm oil might be raised again: a defensive is drafted below.

### SPEAKING POINTS/ KEY MESSAGES

- Very satisfied about the second round of negotiations in Bali end January. Hope that the commitment can continue – and that our joint effort also continues to enjoy President Widodo's full support.
- Share the ambition of Indonesia to conclude CEPA negotiations within the next two years, if conditions are there.
- Accept Indonesia's proposal to hold a third round only in September, but key to make progress in inter-sessional work beforehand to maintain mutual ambition.
- This involves intense bilateral engagement before the next round, with a view to being able to exchange the remaining negotiating texts before the next round. As to an exchange of tariff offers, my services are still examining the parameters and some intermediate data exchanges still need to take place; a first offer before the round may come too soon.

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- Follow up also involves need to show stakeholders early positive results by removing main trade restrictive measures – and avoid introduction of new ones.
- In this regard, express concern about the recent reintroduction of restrictive import measures on tyres, which are to the detriment of EU industry and do not send positive signals in the current context. We sent a letter at services level – unanswered so far – and hope the issue can still be addressed.
- Regret that we have not managed to persuade Indonesia to find a solution to the discontinuation of Bilateral Investment Treaties with EU Member States.

### DEFENSIVES

#### ***PALM OIL***

##### ***Q: EU imports of palm oil are decreasing***

The evolution of EU imports of palm oil during the last years shows a positive trend – even if the 2015 figure is somewhat lower than in the 2014 record. Total imports of palm oil into the EU increased by 40% since 2011 and the Indonesian share is increasing.

There are neither limitations nor restrictions or discriminatory measures on the EU market.

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### BACKGROUND

#### General

Indonesia is the fourth most populous country in the world (**250 million**, 52% are aged below 30). **Its economy has more than tripled its size** in the last decade and is one of the fastest growing in Southeast Asia (average GDP growth of 5.6% during the period from 2005 until 2015). With **36% of ASEAN GDP**, it is the largest economy in the region – and is expected to become the 7<sup>th</sup> largest economy in the world by 2030. A lower middle income country since 2014, Indonesia is still a **GSP beneficiary**.

Since the election of President Widodo, there has been a strong emphasis on infrastructure investment, more opening, including shift in protectionist trade policy direction. **But a lot remains to be done, particularly in terms of implementation.**

Indonesia has a **bilateral FTA with Japan** and a **preferential agreement with Pakistan** in addition to the ASEAN regional FTAs. Bilateral FTA negotiations with EFTA and Australia are being resumed; discussions for bilateral agreements have been conducted with Iran, Chile and Korea. It participates in on-going negotiations for a Regional Comprehensive Economic Partnership (RCEP: ASEAN countries + China, India, Korea, Japan, Australia, New Zealand).

**The Partnership and Cooperation agreement has been in force since 1 May 2014.**

**The VPA-FLEGT** (Voluntary Partnership Agreement) to ban the import of illegal timber has been equally in force since 1 May 2014 and its licensing system has been fully implemented since November 2016, making Indonesia the first country with which such an agreement is fully implemented.

With regard to **bilateral trade**, the EU is Indonesia's 4th largest trading partner. Indonesia ranks 30th in the general EU trade ranking and is the EU's fifth largest trading partner in South-East Asia. Bilateral trade **in goods** amount to over €25 billion in 2015, with over €5 billion trade surplus for Indonesia. Indonesia's key exports include agricultural products (€4.3 billion in 2015)

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and machinery and appliances, textiles and footwear, plastic and rubber products. EU exports to Indonesia mostly industrial products, including machinery and appliances, transport equipment and chemical products. **Bilateral trade in services amounts to €6 billion in 2014**, with a surplus of €2.2 billion for the EU. The EU has a **foreign direct investment stock** in the country of nearly €26 billion, second only to Singapore.

### State of play of FTA

Discussions during the second round of negotiations, which were held in Bali on 24 to 27 January 2017, were **constructive** and demonstrated Indonesia's continued willingness to engage in negotiations for an ambitious agreement. The Parties examined all 10 draft negotiating texts the EU had tabled in December and continued discussions on all issues to be covered by the Agreement: trade in goods, rules of origin, sanitary and phyto-sanitary (SPS) measures, technical barriers to trade (TBT), customs and trade facilitation, government procurement, services and investment, intellectual property rights (including geographical indications), competition, trade and sustainable development, trade remedies, dispute settlement, and economic cooperation. Indonesia also tabled a non-paper on economic cooperation and capacity building, as well as a few specific counter-proposals to our texts.

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In this regard, **reflections are ongoing** to take the most appropriate steps and decide when to put forward the tariff offer and how to shape it. Based on past experience and since Indonesia has only recently agreed to tariff modalities, **exchange of offers should not happen before the next round** and the delivery of the remaining EU negotiating texts, including the one on trade in goods. On the other hand, inter-sessional work should intensify in all fields before the next round in order to make actual progress.

### Trade restrictive measures

A high number of trade restrictive measures persist. Furthermore, Minister Lukita has reinstated barriers on imports of tyres, which had been previously removed by his predecessor thanks to pressure exerted by the EU. We sent a letter at services level in December 2016 - but it remained unanswered to date.

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In the margins of the round, **on 28 January 2017, the 8th Working Group on Trade and Investment took place**. Its long agenda showed a **sobering image of the many barriers operators face** on the ground, with two recent new measures (on tyres and on dairy) being WTO incompatible and clearly going against the spirit of the FTA.

These measures are applied in addition to a long standing list of barriers ranging from local content requirements (in telecom, retail, energy sectors), to fiscal discrimination and quantitative restrictions in many areas, in particular in the food sector.

At the same time, Indonesia ventilated frustration on the many EU pieces of legislation, including new pending food safety measures that seem to affect palm oil, their most important export product.

### *Palm oil*

Indonesia perceives that palm oil is discriminated on the EU market. Statistics contradict this perception, but there are also various EU initiatives which involve palm oil and explain Indonesia's perception (including anti-dumping duties on biodiesel derived from palm oil).

The EU is willing to work with Indonesia on sustainable palm oil and to share experiences as well as to support responsible supply chains, which Indonesia already does.

The FTA between the EU and Indonesia should provide a comprehensive framework, in particular through a Trade and Sustainable Development chapter.

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Contact person:

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DG TRADE C2

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16 February

VISA:



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### **Annex on Palm oil**

Art 4.1(a)