

### **Scene setter**

You will meet CEOs from various important European companies (annex I) at the lunch hosted by Vice President Katainen on occasion of President Widodo's visit in Brussels. Minister Lembong will attend. The lunch meeting would be an opportunity for EU business to articulate their concerns and expectations as regards Indonesia directly to the President and for you to underline our keen interest in engaging with Indonesia, should we receive the right signals in the FTA scoping exercise and in showing restraint in protectionist measures.

Your participation in the business lunch happens at an interesting and intense political juncture and soon after your meeting of 4 April with Minister Lembong, on occasion of scoping discussions in Brussels, which he personally chaired.

Increased activity by Indonesia with regard to scoping discussions for an FTA comes with the country's realisation of the need to engage and avoid isolation, particularly after the negotiation of the TPP and two EU FTAs in the ASEAN region. Furthermore, since his appointment last summer, Minister Lembong has made genuine efforts to try and reform Indonesia's restrictive trade policy and engage with the EU to make progress and launch FTA/CEPA negotiations (*Comprehensive Economic Partnership Agreement*, in Indonesian jargon)..

Scoping discussions chaired by Minister himself on 4 and 5 April have been constructive and we made good progress, but works remains to be done. [TO BE UPDATED: we await Indonesia's scoping counterproposal to evaluate extent of progress on outstanding issues and need to see whether the scoping discussions can be finalised next week.]

From our side, Indonesia has been identified as a priority FTA partner in the Commission's strategy "Trade for All" and we have always conveyed that we are ready to engage when we see Indonesia is ready.

EU companies are eager to penetrate the largest and most populated ASEAN economy (35% of ASEAN GDP and 255 million people). European companies present in Indonesia currently employ 1.1 million workers in the country. Indonesia is the EU second largest destination of FDI in ASEAN after Singapore. But despite solid relations there is a lot of untapped potential in EU/Indonesia trade relations.

In this context, despite positive reform packages and few concrete positive signs (e.g. removal of tyre protectionist measures; improvement of foreign equity caps), protectionist measures in Indonesia persist and the pace of reform of implementation of reforms is slow. Therefore, while welcoming progress towards the conclusion of scoping discussions and a possible launch of FTA negotiations (to be updated), we should stress that we expect Indonesia to resolve some of the main trade irritants to demonstrate their clear intent and capability of negotiating an ambitious FTA with the EU.

These measures would build confidence among Members states and investors in the process leading to open negotiations and would trigger a positive dynamics and climate before and during negotiations.

4(1)(a)

It also includes concluding remarks for your participation in the business lunch.

**Objective(s)**

- Convey the importance of Indonesia, which the EU trade policy strategy identifies as one of the key priority for opening FTA/CEPA negotiations.
- Welcome the very constructive scoping discussions of 4 and 5 April and progress made in ongoing scoping discussions. [TO BE UPDATED after we receive Indonesia's counterproposal]
- The EU is ready to engage in negotiations for a FTA/ Comprehensive economic partnership agreement (CEPA), when we see that Indonesia is ready.
- In this regard, encourage removal of key protectionist barriers, as this type of confidence building measure will ease the EU internal process leading to [the opening of FTA negotiations], will trigger positive dynamics and create a conducive climate for negotiations.

**Line to Take/Key messages**

- Indonesia is a key partner for the EU. It is the third largest democracy, a regional giant representing some 36% of ASEAN GDP and an emerging global player (G20 member, 10<sup>th</sup> largest economy in the world in purchase price parity). The 2015 EU trade policy strategy "Trade for All" identified it as one of the priority partners for opening of free trade talks.
- An ambitious and comprehensive FTA would certainly have a "win-win" outcome. Independent Indonesian studies have shown that both sides would gain extra trade opportunities and it would also lead to more EU investment in Indonesia.
- I am therefore pleased that during Minister Lembong's visit on 4 and 5 April, we were able to make progress on ongoing discussions on scoping and towards opening CEPA/FTA negotiations [TO BE UPDATED IN CASE AGREEMENT IS REACHED].

- The Scoping exercise is certainly very important. Both sides must share the same understanding on level of ambition for the negotiations to go smoothly and swiftly.
- A solid scoping paper will provide the reassurances that Indonesia is ready to work with us towards successful FTA negotiations and do avoid that we face fundamental obstacles to their conclusion.
- The EU fully supports the President Widodo's economic vision, which has among its top priorities reducing red tape, speeding up licensing and make the rules and procedures for business more transparent.
- Main Laws and Regulations often point towards a protective and restrictive investment/business climate. Issues such as the proliferation of national standards, local content provisions, minimum asset requirements, foreign ownership restrictions have deterred European companies from investing in Indonesia.
- The EU therefore welcomes the recent deregulation and stimulus packages adopted by the Government and looks forward to more deregulation in order to make the business environment, which remains complicated, more attractive and comparable to some of Indonesia's regional competitors.
- I would also encourage Indonesia to address as soon as possible some of the key obstacles our exporters and investors face on the EU market. This would certainly reassure EU Member States and send a positive signal to EU companies eager to invest in and exchange with Indonesia.

#### **Defensive Points**

4(1)(a)

- 4(1)(a)

## **Background Notes**

### **General**

- Trade in goods in 2015: €25,3 bn: (EU imports: €15.3 bn; EU exports: €9.9 bn). The EU has a negative trade balance: €5,3 bn, most of which in the agricultural sector. Indonesia's main exports are commodities, textiles and footwear. EU mainly exports manufactures, machineries and appliances, transport equipment, chemical products.
- Trade in services in 2014: EU imports: M€ 1894; EU exports: M€ 4107 ;
- EU FDI stock in Indonesia: € 25,8 bn in 2014, making Indonesia the EU second destination in ASEAN after Singapore.

The 2015 EU trade policy strategy "Trade for All" identifies Indonesia as one of the priority partners for opening of free trade talks. Indonesia offers a large market with much untapped potential and is a growing economy (almost 5% in 2015). It is by far the largest economy in South-East Asia, representing about 40% of GDP and population of the Association of South-Asian Nations (ASEAN), but it ranks only at the fifth place inside the region when it comes to trade with the EU. One of the reasons are Indonesia's trade policies, which during the past years, have been increasingly protectionist and aimed at reindustrializing the country and climb up the value-added chain.


Since his appointment last summer, Minister of Trade Lembang, supported by the President, has been making genuine efforts to reform the unfriendly trade and investment business environment and possibly shift trade policy direction. Since 29 September 2015 the Government has issued ten reform packages to cut red tape and ease investments in Indonesia. The Minister has also conveyed Indonesia's renewed interest and willingness to negotiate an FTA with the EU. 4(1)(a)

An actual change of the difficult trade and investment climate will be key in preparing the ground for future negotiations, when decided, and in avoiding that any possible future negotiation for an FTA is nullified by the effect of persisting protectionist measures.

The scoping exercise preceding the EU Free Trade Agreement (FTA) started in 2012, but was interrupted due to lack of ambition. It was resumed in September 2015.

In view of the President's visit, Minister Lembong came to Brussels on 4 and 5 April to hold scoping discussions personally.

Important progress has now been made, but there are still important issues under discussions, as of 15 April. 4(1)(a)



Indonesia maintains a lot of barriers to imports, also from the EU. These are of either of general nature, such as the lack of transparency and predictability, general non-automatic import licensing requirements, or very specific, such as import restrictions in the food sector, including alcohol and horticultural products, export restrictions on raw materials; extensive use of local content requirement, e.g. in retail and franchising; in the reassurances sector; in the food sector; in applying export restrictions for raw minerals; in the tobacco sector; increased minimum paid capital implying forced divestment as well as restrictions of operation for foreign freight forwarding companies.

4(1)(a)

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**ANNEX I**

4(1)(b) + 4(2)

[REDACTED]

[REDACTED]

[REDACTED]

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## ANNEX II

### CONCLUDING REMARKS

- It has been an honour for me and an enriching experience to participate in today's event and exchanges on the EU/Indonesia trade relations and the European business views.
- In its trade strategy the EU has identified Indonesia as a key partner for opening FTA negotiations.
- An ambitious and comprehensive agreement would provide a solid framework to create opportunities, jobs and growth; it would create synergies and exchanges between almost 800 million people.
- As we heard today, there is huge interest from European companies to export to and invest in Indonesia.
- European companies present in Indonesia today already employ 1.1 million workers in the country. Indonesia is the EU second largest destination of FDI in ASEAN after Singapore.
- But there is still a lot of untapped potential. You have heard today about the great potential in financial and insurance services, manufacturing, telecommunications, transport and logistical services and indeed mining. In addition, you will be aware that EU companies are also very interested in other key sectors such as pharmaceutical manufacturing and distribution, retail, oil/gas services, construction, the energy sector, environmental goods and services and express delivery services. While the recent revision to the Negative Investment list is welcome, it would clearly be beneficial to EU investment in Indonesia if caps on FDI and local content requirements are addressed across the board.
- So while we welcome and encourage the reform packages issues since last September, the EU operators are



discouraged by persisting obstacles to exploit that potential. EU industry has repeatedly expressed general concerns with regard to legal uncertainty due to changing regulations and investment rules. This deters EU investors from entering or expanding in the Indonesian market.

- To achieve our ambition, we need to precede business decisions and create a climate conducive to negotiations: the removal of the some of the protectionist measures would send a clear signal to investors and traders and help accompany the EU internal process towards opening negotiations.