

Briefing note

Objectives

Confirm the commitment of the Commission to a reinforced substantive dialogue on trade and investment matters including developing a vision for long term trade and investment partnership with the EU (for us this means ultimately and FTA).

Line to Take

- Emphasise importance to further strengthen our trade and investment relationship. Several modalities exist, such as the recently launched Vision Group and the dialogues (second business-to-business and third government-to-government meetings foreseen for early December).
- Confirm that the Commission is prepared to engage in bilateral FTA negotiations with those ASEAN countries which are ready to and capable of negotiating a comprehensive FTA. This obviously includes Indonesia once ready.

Speaking Points

- There is a mutual interest in pursuing closer commercial ties, with two-way trade now exceeding 20 billion euro, and the EU constituting the largest market for Indonesian goods, excluding oil and gas. Significant further opportunities exist for Indonesian companies in the EU market.
- We understand Indonesia is not yet ready to embark in FTA negotiations, but we welcome the initiative of Minister Pangestu (endorsed also by our Presidents) to set up a Vision Group that will provide recommendations on how to further develop our trade and investment relations. This will help in building the necessary confidence and support for a further strengthening of our bilateral ties.
- While some progress has been made foreign (and domestic) investors face regulatory uncertainty and restrictions in key sectors (such as mining, pharmaceuticals, telecommunications, services and infrastructures). According to a recent report of the World Bank, Indonesia remains one of the least favorable business environments for private sector investment in Southeast Asia.

Possible Indonesian offensive issues

RED: EU's Renewable Energy Directive is unfair and it will prevent Indonesian CPO exports into the EU. It will be impossible for Indonesian producers to meet the sustainability criteria set by the EU.

The sustainability scheme is not an import ban. It is an expression of an imperative for the EU public that taxpayers' money used to promote biofuels should not lead to the destruction of sensitive biodiverse areas or to a net increase in greenhouse gases. It is designed in a non-discriminatory way with limited administrative burden and will equally apply to both EU domestic production and imports. The sustainability scheme is essential to the further promotion and the increase in use of biofuels in the EU between now and 2020.

Moreover, these sustainability criteria only apply to palm oil produced for bio fuels. All of Indonesia's crude palm oil exports will continue to enjoy full and unimpeded access to the EU market, regardless of how the palm oil is produced, and regardless of whether

they have a sustainability certification or not. The EU plan is to offer additional incentives to those Indonesian exporters who are producing palm oil for bio fuel in a sustainable way.

REACH: The REACH directive is discriminatory towards imports and will impede Indonesia's exports to the EU.

It is important to stress that REACH does not apply outside the EU and that the responsibility to comply with REACH regarding imported substances falls primarily upon the importers. The obligations for EU manufacturers and importers are the same.

The Commission and ECHA have made considerable effort to produce guidance, explanatory documents, and tools to help industry better understand and comply with their obligations under REACH. This effort continues today. In addition, the REACH helpdesks continue providing responses to questions raised by industry (including from third countries).

Commission sent a letter to Minister Pangestu in July 2010 providing response to the Indonesian requests for exemption of certain substances for the registration requirements. According to the recent Guidance from ECHA, many fatty acids and glycerol could be exempted. However, the majority of methyl esters could not be exempted. This progress was welcomed by Indonesia.

Background

Indonesia is moving up the ladder towards a 'middle-income' country. Its economic growth is impressive, underpinned by macroeconomic stability and fuelled by increased consumption, exports and investments. The economy is expected to grow by 6.3% in 2010 and reach 7% from 2012. This sound economic situation is driven by strong performance in the mining as well as manufacturing and construction sectors. The currency (Indonesian rupiah) has appreciated further due to heavy foreign capital inflows. Higher growth and a stable economy has substantially improved the welfare, as indicated by GDP per capita of US\$ 2,600, reduced poverty rate of 13%, and unemployment rate of 8%.

Even though EU industry is doing well at present, new ('fresh') EU investment and trade flows still remain behind the level of countries such as Thailand and Malaysia. EU industry is complaining of reduced market access and lack of regulatory transparency (predictability).

So far Indonesia has not shown a strong interest for a bilateral deal as it already benefits from a rather open access to the EU market due to the structure of its trade and the benefit of the GSP scheme. Moreover, the domestic industry is already struggling with the implementation of other agreements signed by ASEAN with regional partners and is asking the Government for increased protection. The government has responded to some of these calls with protectionist measures.

However, conscious of the need to keep open the bilateral dialogue and prepare the ground for future increased cooperation (first among the ASEAN group, Indonesia signed a PCA with the EU in November 2009) the Indonesian Trade Minister launched last December 2009 the idea of developing a "vision" on how to bring forward trade and investment relations between EU and Indonesia. This proposal was subsequently discussed and endorsed during a meeting between Presidents Barroso and Yudhoyono on 14 December 2009.

Preparatory work for this project is now under way and both sides selected a team including academics, government officials and business representatives. The first substantial meeting will take place in Jakarta on 2nd December hosted by the Indonesian Ministry for Trade.

From the EU perspective, this joint group will be instrumental in keeping the Indonesian Government engaged in a period during which the risk of increasingly inward looking policies is very high. It will contribute bringing the trade dialogue (often focusing on trade irritants) to a more constructive level. Moreover, if correctly steered, this exercise will contribute to the objective of bringing the Indonesian Government to a meaningful FTA negotiation, crucial for the EU to capitalise on Indonesia's market growth – a market that is increasingly occupied by China and Japan following (ASEAN) FTAs. The first signals in received from different Indonesian stakeholders in this respect are rather encouraging.