

## Meeting with Foreign Minister Natalegawa

### 1. Scene setter

- Indonesia is increasingly recognized as a key global player, both politically and economically. Part of ASEAN, APEC and the G20, in 2013 it is hosting both the APEC Summit and the 9th WTO Ministerial Conference in Bali (MC9). With a sustained GDP growth rate over 5% for the last decade, it is heading to become a \$1 trillion economy by 2014.
- However, with a widening trade deficit, signs of a weakening economy and the proximity of 2014 elections, Indonesia is increasingly leaning towards protectionism. Indonesia ranks third in the EU's protectionism reports (only after Argentina and Russia) in number of potentially trade-restrictive measures put in place since 2008. Business environment is deteriorating and trade irritants are mushrooming.
- After the promising launch of a scoping exercise in 2012, the process has stalled because of Indonesia's low level of ambition and lack of determination to address trade liberalization.
- On the other hand, Indonesia is recognized as a responsible and important partner of the international trading system and is playing a leading role in the Doha Development Agenda, particularly as this year's host of the MC9 in Bali.

### 2. Objective

- Stress that an EU-Indonesia Comprehensive Economic Partnership Agreement (CEPA: art 4.1(a)) remains our priority. However, the absence of progress on our outstanding market access concerns and the manifest lack of ambition shown by Indonesia are not the way forward.

- **Inquire on the prospects for concluding parts of the Doha Development Agenda and Indonesia's expectations for the WTO MC9.**

### 3. Key messages

- The EU trade and investment relation with Indonesia has **considerable scope for improvement** when compared to other countries in the region.
- EU is **committed to negotiate a CEPA** with Indonesia, but acknowledges that our views on the scope and ambition of a future negotiation of a CEPA are currently too far apart.
- The EU looks forward to receiving clear and tangible signals of Indonesia's commitment to the process in the form of an **improved and credible scoping paper** (particularly regarding the overall liberalization level, public procurement, competition and the elimination of export duties) that would allow both sides to feel comfortable to resume the scoping exercise and continue towards the launch of CEPA negotiations.
- Meanwhile, a **myriad of new laws and regulations** are hindering the growth of our trade flows and are not contributing to create the climate of mutual trust that should precede the negotiation of a CEPA. Encourage the Minister to help revert this tendency.
- The WTO and the multilateral trading system need a good outcome at the **9<sup>th</sup> WTO Ministerial Conference** and thus, a rapid acceleration of negotiations is needed if we want to be successful. The EU will support the new Director General Azevedo in moving the process forward. Given the importance of resolving the Food Security proposal for overall negotiations, Indonesia should exert its influence to make sure that a reasonable compromise is found so that Trade Facilitation negotiations can move forward.

**Background fiche for meeting with Foreign Minister Natalegawa****1. Key facts and milestones**

- EU-Indonesia trade figures:

Indonesia is the largest economy in ASEAN representing 40% of its GDP (\$878 billion) and population (244 million). However, it ranks only at the fourth position inside the region as EU's trading partner and only 10% of EU exports to the region have Indonesia as destination.

EU exports of goods to Indonesia 2012: **€9.6 bn** [€5.9 bn in 2008]

EU imports of goods from Indonesia 2012: **€15.4 bn** [€13.5 bn in 2008]

EU trade balance for goods 2012: **€-5.8 bn** [€-7.6 bn in 2008]

EU services exports to Indonesia 2011: **€2.9 bn** [€2.1 bn in 2009]

EU services imports from Indonesia 2011: **€1.8 bn** [€1.3 bn in 2009]

EU trade balance for services 2011: **€1.1 bn** [€0.8 bn in 2009]

EU investment flows to Indonesia 2010: **€0.6 bn**

Indonesian investment flows to the EU 2010: **€0.1 bn**

EU total stock of investment in Indonesia 2010: **€20.4 bn**

Indonesian total stock of investment in the EU 2010: **€-2.7 bn**

- Scoping for an EU-Indonesia CEPA:

The shared interests and commitment to closer collaboration between EU and Indonesia outlined in the EU-Indonesia PCA (signed in November 2009) opened the door to closer cooperation in a wide range of fields, including trade. When Presidents Yudhoyono and Barroso met in December 2009 they tasked a joint Vision Group to examine how to increase trade and investment between both partners.

The Vision Group's report, made public in 2011, recommended the negotiation of a CEPA. After the promising launch of a scoping exercise in 2012, the process has stalled because of Indonesia's low level of ambition and lack of determination to address trade liberalization (in their latest scoping counter-proposal full negotiation chapters, such as competition, had been completely eliminated).

- Main market access concerns:

**Investment restrictions:** a 'negative list' restricts foreign ownership in sectors of great interest to the EU companies (telecom, transport, pharmaceuticals, etc.). Also, the \$1M minimum investment requirement for foreign investment is very constricting for European SMEs.

**Import licensing:** extremely complex import licensing procedures, including the requirement for importers to certify through Indonesian Embassies in the export countries a 'special relationship' with exporters, which implies costs and inconsistent procedures.

**Industry and Trade Draft Laws:** The draft Industry Law has raised great concern, as it prohibits foreign ownership of small companies, supports 'strategic industry' (food, high technology), allows for quota and safeguards and obliges local content for public and private procurement. The draft Law on Trade gives the Government discretion to take measures based on subjective assessment ("national interests") to put an embargo on or limit import or export of goods.

**Export restrictions:** of goods such as raw metal and non-metal minerals as well as stones (including gold, copper, nickel, bauxite, iron, diamond, granite, etc.) which must be processed within the country since 2012 which de facto bans the export of raw minerals and metal ores.

- 9<sup>th</sup> Ministerial Conference of the WTO (MC9):

Negotiations are resuming in Geneva on the three pillars of deliverables for MC9: trade facilitation, agriculture and development. Trade facilitation still requires a considerable effort, but not enough progress is being done due to the tactical approach employed by India, which wants its Food Security concerns resolved first. Indonesia, as the chair of the G33 group which sponsored the Food Security proposal, could be instrumental in finding a solution that would allow negotiations to move forward toward a successful outcome.

## **2. Sensitive or difficult issues**

- Biodiesel cases:

Following complaints lodged by the European Biodiesel Board ("EBB"), the Commission initiated anti-dumping and anti-subsidy investigations in August and November 2012 respectively on imports of biodiesel from Indonesia and Argentina. Provisional anti-dumping duties were imposed

on 28 May 2013. No provisional anti-subsidy measures were imposed; instead the Commission decided to continue the investigation.

The Commission disclosed its proposal for the imposition of definitive anti-dumping measures to the interested parties on 1 October 2013. Interested parties have 15 days to submit their comments and request a hearing. The Commission will analyze any such comments before presenting its final proposal to the Member States.

The Commission is continuing its investigation into the alleged subsidisation of the biodiesel sector in Indonesia (and Argentina) and will disclose its findings shortly. Interested parties will be given the opportunity to comment before a final decision is taken. Definitive measures are based on a careful assessment of the evidence gathered and must be adopted within 6 months from the date of the imposition of provisional measures, that is by 28 November 2013.

The rights of defense of the Indonesian producers, guaranteed under WTO rules, are fully respected.

**Message:** Assure the interlocutors that the current anti-dumping and anti-subsidy biodiesel investigations are highly technical proceedings based on strict legal WTO requirements.

- Fatty Alcohol case

In November 2011 EU imposed anti-dumping duties on fatty alcohols originating in Indonesia, India and Malaysia. Two Indonesian producers were originally affected, however following a review only one (P.T. Musim Mas) remains under moderate measures (45 Euro/tonne, ca 4% if expressed ad valorem).

Indonesia not agreeing with the methodology applied asked for the establishment of a WTO panel. It demands that the remaining company be removed from measures within the context of an on-going review of the measures. We are currently discussing with the representatives of the company the possibility of accepting a price undertaking, which would possibly avoid the dispute in Geneva.

**Message:** Assure the interlocutors that we are actively engaged in seeking a solution that would be workable for the company and avoid a dispute on this issue.

## HR/VP BRIEFING

Meeting with Foreign Minister  
Natalegawa  
6 November 2013

Given that we are at a crucial phase in both biodiesel cases, an update will be necessary to provide the latest information. We would appreciate if you could inform us by when we will have to submit that update at the latest.

Contact point: Biodiesel: art 4.1(b)  
Fatty Alcohol: art 4.1(b)

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Date: 08/10/2013