

## **Meeting with the President of the Republic of Indonesia Dr. Susilo Bambang Yudhoyono**

### **Subject: EU-Indonesia trade relations**

#### **Scene setter**

The Commission and the Government of Indonesia are currently in the process of preparing the launch of bilateral free trade negotiations. In May 2011 a joint Vision Group recommended to launch negotiations of a so called Comprehensive Economic Partnership Agreement or CEPA and the Indonesian Government extensively consulted domestic stakeholders to obtain the necessary support.

Notwithstanding, Indonesian industry is struggling with the effects of other FTAs, (especially with China) and calls for more protectionist measures rather than trade liberalisation, the perspective of an agreement with the EU is seen by the Indonesian business more as an opportunity to foster complementarities and support the much needed investment and upgrade of the manufacturing and services sectors.

Also due to a reshuffle in the Ministry of Trade, preparatory talks with the EU have lost momentum after the summer but could be resumed quickly once the Indonesian will show readiness to do so. art.4.1 (a)

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#### **Objective**

Confirm the Commission interest in enhancing the long term perspectives of bilateral trade and investment relations. Listen to the Indonesian views on how to move the process forward.

#### **Line to Take**

- The joint Vision Group has recently looked at possibilities for increasing trade and investment between EU and Indonesia. Their report clearly suggests that status quo is not an option and proposes to start swiftly the process for the negotiation of a comprehensive free trade agreement.
- The Commission has already indicated its willingness to engage in bilateral talks with Indonesia and preparatory discussions could start as soon as the Indonesian Government has concluded its internal consultation process.

## **Speaking Points**

- In terms of trade and investment flows, EU and Indonesia are long-lasting partners. There is a mutual interest in pursuing closer commercial ties, with our two-way trade reaching 23 billion euro in 2011.
- Our economies are complementary and I see clear benefits for both sides to bring trade and investment relations to a higher level.
- Our joint Vision Group came with a clear recommendation to quickly start working on a Comprehensive Economic Partnership Agreement (CEPA), an elaborate version of a free trade agreement.
- The Commission is ready to start the preparatory work necessary to launch such negotiations and I understand that your domestic stakeholder's consultations are providing positive feedback.
- I also understand Minister Gita will meet EU Trade Commissioner Karel

De Gucht in Cambodia early April. This could be a good occasion for taking stock of the internal preparatory work and discuss the next steps.

*Defensive: in the (not very likely) case the Indonesian President would propose to set a date for the launch of the negotiations.*

- I am glad to hear that Indonesia has successfully completed the domestic consultation process and is now ready to proceed with discussions.
- Our Trade Ministers and officials will meet very soon and they can discuss time and ways to continue the preparatory process, i.e the scoping exercise, before a formal launch of negotiations is announced.

# Background

Indonesia's economic growth is – despite global crisis – impressive (6.1% in 2010, 6.4% projected in 2011). However, even though EU industry present in Indonesia is doing well, new ('fresh') EU investment and trade flows still remain behind the level of other ASEAN countries such as Thailand and Malaysia. EU industry is complaining of market access issues and lack of regulatory transparency (predictability).

The EU is not taking advantage of this expanding economy of 240 million consumers. Trade and investments are far below potential, mostly due to the difficult trade and investment climate and lack of awareness of the opportunities.

In 2007 the EU launched FTA negotiations with a group of 7 out of 10 ASEAN members. This has proved overly challenging. After two years of negotiations, it became apparent that the levels of ambition between ASEAN and the EU did not match. Therefore a joint decision was taken in March 2009 to "take a pause" in the regional negotiations.

Until the time is ripe for re-engaging at the regional level (that still remains the ultimate goal), the EU is open to engage on bilateral negotiations with those individual ASEAN members ready to do so. These FTAs are intended to become building blocks for a future agreement in the regional framework.

We have so far launched negotiations with Singapore and Malaysia. Vietnam, Thailand and, most recently, Philippines asked to open preliminary talks with the EU. Indonesia has started showing an interest to join the bilateral process only in 2010 by welcoming and actively participating to the EU-Indonesia Vision Group (see below), hinting towards the preferred option of a 'Comprehensive Economic Partnership Agreement'.

Indonesia is expanding his network of regional and bilateral trade agreements (China, Japan, Korea, India, Australia and talks with EFTA and Turkey) and this process is already showing an impact on the export shares in the countries where the EU is loosing ground (from 14% to 8%) to the advantage of China and Japan (and other ASEAN countries).

Still, Indonesia already benefits of a rather open access to the EU market (around 12 billion exports per year) thanks to the structure of its trade and the benefit of the GSP scheme. Meanwhile, the domestic industry is struggling with the implementation of other agreements signed by ASEAN with regional partners (especially China) and is asking the Government for further delays and increased protection.

## EU-Indonesia Vision Group and CEPA negotiations

The EU-Indonesia Vision Group was set up in 2010 to examine how to increase bilateral trade and investment relations. This project was in line with the positive political climate created by the partial resolution of the air ban and the consequent signing of the PCA, and had the objective of maintaining the momentum in the bilateral relations while buying some time to deal with the pressures of some sectors of the domestic industry, which is very much concerned about recent opening to other regional partners (especially China).

The main recommendation of the Group, presented to the Trade Ministers in May 2012, was to launch negotiations for an ambitious agreement denominated Comprehensive Economic Partnership Agreement (CEPA). The proposed agreement would be a comprehensive one, constructed like a pyramid based on three main pillars: Market access, Facilitation of trade and investment and Capacity building. This is very much similar to the Indonesia-Japan EPA and to the structure of the proposed bilateral agreement with Australia.

From the EU perspective, an agreement with Indonesia would be of high interest to given its size and our declining market share in the country. However it will also be challenging in terms of substance. In this respect, the reaction of the Indonesian Government to the recommendations of the Vision Group which called for the launch of CEPA negotiations is encouraging.

The Indonesian Government is currently consulting the main stakeholders on these recommendations, but also on the more detailed contents of a possible agreement (socialisation campaign). This will pave the way in Indonesia to the formal decision (by the President) to open negotiations. So far the reaction from the local industry (Chamber of commerce KADIN and employers' Association APINDO) and, surprisingly, from trade unions has been so far positive, highlighting in particular the complementarities between the two economies and the importance of closer bilateral ties.

Formal negotiations can start only after an in-depth discussion on key aspects of the agreement in order to evaluate their readiness to take commitments on critical aspects of services, market access and procurement. This will be reflected in the so-called "scoping paper" to be presented to the Member States ahead the formal start of the negotiations. An offer to start this preliminary exercise has been presented to Indonesia in occasion of the last bilateral working group on trade and investment. Indonesia requested some additional time to consult internally all the stakeholders and also to complete a reshuffling in the Ministry of Trade before engaging with the EU. Recent signals from Jakarta suggest that this process is now getting to completion and the newly appointed Minister for Trade is meeting with Commissioner De Gucht early April (in the context of the EC-ASEAN consultations) so we might receive further indications from Indonesia on their preparedness to formally start the scoping exercise.

**Contact:** art.4.1 (b)