

## **EU-INDONESIA TRADE RELATIONS: main current issues**

### **Possible meeting with Indonesian President Yudhoyono**

#### **Scene setter**

Indonesia's situation gives a mixed picture when it gets to our bilateral economic and trade relation.

On one hand, Indonesia is heading to be a \$1 trillion economy by 2014. Its very positive economic and demographic fundamentals promise to make it the world's seventh largest economy by 2030, surpassing both Germany and the UK. It is recognised as a key global player belonging also to ASEAN, APEC, EAS (East Asia Summit) and the G20. 2013 is an important year on the global political tour as Indonesia holds the APEC Presidency and will host the 9<sup>th</sup> WTO Ministerial conference end 2013 in Bali. While poor on governance, reforms and tariff reductions have made it relatively open to foreign trade and investment. As such, Indonesia is already a very substantial market for EU companies (close to €12bn of exports of goods and services; €20.4bn FDI stock). For its part, Indonesia enjoys open access to the EU, allowing its trade with us to expand strongly and enjoying a €5.7 billion surplus.

On the other hand, art. 4.1.(a)

, the mood in Indonesia is increasingly leaning towards economic nationalism and new protectionist measures appear on a very frequent basis. As a result, Indonesia has taken the greatest number of protectionist measures in 2012 and is well on track to keep this inglorious title in 2013. Its economy is also showing its first signs of weakness (increasing inflation and trade deficit, decreasing GDP growth and FDI).

Our trade strategy has so far not produced the results we had aimed for: too many trade irritants have surfaced over the past three years with too few of them being solved for our stakeholders. While we thought we could capitalise on the positive momentum surrounding the prospects of launching a Comprehensive Economic and Partnership Agreement (CEPA: art. 4.1.(a)), the Indonesians have dragged their feet and shown too little ambition in the on-going "scoping exercise". On the CEPA/FTA "scoping exercise", we recommend you to confirm that a CEPA/FTA with Indonesia is desirable and remains a priority but warn that this will not happen until Indonesia delivers clear indications of the seriousness of their intentions in the form of a credible scoping paper.

On the signature soon of the FLEGT VPA agreement, please see the briefing from DG ENV.

#### **Objectives**

- Stress that the business climate has worsened in Indonesia for European companies due to controversial decisions taken over the past two years and encourage the Indonesian President to find solutions to them.
- Confirm that an FTA with Indonesia remains a priority but warn that this will not happen until Indonesia delivers clear and tangible indications of the seriousness of their intentions in the form of a credible scoping paper.
- Exchange views with Indonesia on their expectations for the 2013 WTO Ministerial Conference in Bali and prospects for concluding parts of the Doha Round.

#### **Speaking Points**

### **OFFENSIVES**

#### **Rise in our market access problems:**

- I understand the policies Indonesia is pursuing to attract investments, create jobs and move up the value added chain, to avoid over-dependence on exporting of natural resources and commodities. I also understand the difficulties you

experienced with China in implementing the ASEAN-China FTA.

- However, I hope you agree that the EU is a different commercial partner compared to China: besides providing Indonesia with a trade surplus of € 5.7 billion in 2012, we are also the second largest investor in Indonesia with over 1000 European companies providing jobs to over one million Indonesians.
- Despite the benefits EU companies bring to Indonesia, they suffer from an increasing number of new laws and regulations which have negative consequences for them *[some examples if needed: new import licensing requirements, port of entry restrictions on many imports, pre-shipment inspection requirements, local content and domestic manufacturing requirements (including in the energy sector), safeguard measures and export restrictions]*.
- I count on you to address these market access issues.

#### **FTA (CEPA) prospects:**

- Since our endorsement of the Vision Group's report in May 2011, to negotiate an EU-Indonesia Comprehensive Economic Partnership Agreement (CEPA) remains our priority. But we will not be able to make it happen until Indonesia delivers clear indications of the seriousness of its intentions in the form of a credible scoping paper defining the overall level of ambition of our future Agreement. So far it is not the case.
- While I understand the sensitivities of some of the issues at stake, we need clear indications that the future CEPA will also address public procurement, export duties elimination, a good overall level of liberalisation in trade in goods, services and investment.

#### **WTO Ministerial in Bali in December:**

- We need a good outcome at the 9th WTO Ministerial Conference – a rapid acceleration of negotiations is needed if we are to have a success. The EU will support the new Director General in moving the process forward. Given the importance of resolving the Food Security proposal for overall negotiations, I would urge Indonesia to exert its influence to make sure that a

reasonable compromise is found so that Trade Facilitation negotiations can move forward.

## **DEFENSIVES ON TRADE DEFENCE INSTRUMENTS**

### **EU's increased use of trade defence Instruments:**

- I am well aware of the sensitivities of Indonesia in the on-going trade defence investigations.
- The EU is a moderate user of trade remedies: only 0.04% of your exports are affected by them.
- The EC strictly follows the WTO rules in its investigations and I can assure you that my services will fully take into account any comment from your exporters or your government.

### **Biodiesel anti-dumping and anti-subsidy cases:**

- The EU is a moderate user of trade remedies and strictly follows WTO rules as you have seen with the **non-imposition of provisional anti-subsidy measures on biodiesel** coming from Indonesia and the low anti-dumping duties imposed (2.8%-9.6%).

## **Background**

### **EU-Indonesia trade figures**

Indonesia is the largest economy in ASEAN representing 40% of its GDP and population (244 million inhabitants). However, it ranks only at the fourth position inside the region as EU's trading partner (and 29th overall), with a bilateral merchandise trade just reaching 24.9 billion euro in 2012. Although growing, bilateral trade in services is not yet substantial (3.8 billion in 2010).

#### **Trade in goods**

- EU exports to Indonesia 2012: **€9.6 bn**
- EU imports from Indonesia 2012: **€15.3 bn**
- EU trade balance for goods 2012: **€-5.7 bn**

#### **Trade in services**

- EU commercial services exports to Indonesia 2010: **€2.3 bn**
- EU commercial services imports from Indonesia 2010: **€1.4 bn**
- EU trade balance for services 2010: **€0.9 bn**

#### **Foreign Direct Investment**

- 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**

## **Main trade issues**

### **1) Market Access barriers**

- They are too numerous to list them but usually fall within the following categories:

**Non-tariff barriers:** Licensing is a major instrument used. Exporters to Indonesia must comply with numerous and overlapping import licensing requirements that create confusion. They do this on a broad range of products, including electronics, household appliances, textiles, toys, food and beverages.

**TBT:** National standards often deviate from international standards. The latest measure is the issuing of new mandatory national standards (SNI) covering steel, ceramics and textile products. Pre-shipment inspections requirements for imported tires on the basis of national standards are also in preparation. Another example would be the requirement for all imported products to bear original labels in the Bahasa language before they are shipped to Indonesia (previously, it was allowed once imported).

**Local content requirements and investment restrictions:** in this case, the Indonesian government requires the use of x% of domestic goods and services in any given production like for instance a circular “recommending” that civil servants purchase domestic goods and services in their official capacities as well as their private purchasing, local content requirements in the telecommunications sector since 2009 (40% of telecom companies total capital expenditures for network development to be locally sourced components or services; 30%-50% of operating and capital expenditures in the wireless broadband sector). Same goes for investment restrictions in various sectors (e.g. telecom sector exclusion).

**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.

- **Here are just few examples of trade protectionist measures passed over the last two years:**
  - Franchising Regulations imposing local content and restricting number of outlets.
  - Import Licensing Regulation regarding licenses for imports for production and / or sales.
  - Regulation on cellular phones and handheld computers (licenses)
  - Regulations with regard to horticulture imports being restricted to a few ports only (outside Jakarta).
  - Food Law restricting imports of food *before, during and after* harvesting seasons, being implemented already for a number of products affecting the EU (potatoes, broccoli).
  - Defence Law imposing 85% local content.
  - New draft laws on Industry and Trade that could seriously impact the business environment by imposing local content requirements, standards, support to domestic industry by subsidies and safeguards as well as taking control over strategic industries.

## **2) 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 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.

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