

## Minutes of the First Meeting of the EU-Indonesia Vision Group

**2 December 2010, Hotel Borobudur, Jakarta, Indonesia.**

1. 4.1(b) [REDACTED] the Indonesian Co-Chairman of the Vision Group, opened the meeting, affirming that the group should come to a joint vision towards a Comprehensive Economic Partnership Agreement, 4.1(a) and 4.3 [REDACTED]. The delegates of both sides were urged to leave their nationalities outside the door and to pool their resources. **“We want one team delivering one result and one common goal.”** The joint vision should be formulated in a comprehensive report eventually to be presented to Parliament.

### **Morning Session on state of EU-Indonesian trade and investment relations.**

2. 4.1(b) [REDACTED] from the Project Group (EU Delegation, Jakarta) then delivered a presentation based on a study entitled *Trade and Investment between the EU and Indonesia: Opportunities and Obstacles (IBM)*. This focused on problems of access for EU firms wanting to enter the Indonesian market. The EU was Indonesia's second largest export partner representing trade of up to EUR 11 billion by September 2010, with a considerable trade surplus in favour of Indonesia. Over 700 EU firms are present in the country having invested a cumulative total of over 50 billion Euros and having helped to create over 500,000 jobs. The data and results of the IBM data were not presented in full, s they referred to the period 2005-2007.

Although the EU firms and private sector were concerned at the level of protectionism and complexity of local regulations he was mindful that Trade Minister Mari Pangestu had urged a positive outlook and this report had some positive conclusions. The growing middle class comprising those earning more than \$5,000 US dollars per year, and that this group would reach 100 million people within the next 5 years. The IBM study emphasised economic stability and continued economic growth despite global recession. The study, with a main section and five sectoral chapters (on power generation, non-electrical machinery, consumer goods, pharmaceuticals and telecommunications) put forward some optimistic projections arising from an anticipated demographic dividend with Indonesia expecting a young productive population profile, in the context of continuing economic integration with ASEAN. However, less than optimum inward investment might leave the country with between 6 and 8% economic growth. Policy reform might already be opening the way to 7% growth but what was needed to reach the more favourable scenario of the upper 8% target? The main positive impacts of a possible

agreement with the EU were expected to be upon investment, innovation and economic restructuring, convergent with these goals.

3. 4.1(b) , also from the Project Group and EU Delegation, then made a presentation on the main thrust of the more recent Study on Indonesia's Trade Access to the EU: Opportunities and Challenges, Transtec, 2010, which comprised a main report and five sectoral studies on areas of higher advantage and opportunity, namely fisheries, agri-foods, consumer electronics, furniture and cosmetics. This Report focused on the export of Indonesian products into the EU, and on the sectoral advantages identified and the supply side constraints holding back the exploitation of these sectors already having high comparative advantage. However the overall EU market share of Indonesian trade had actually fallen from 14% percent at the start of the decade to about 10% now, and this was part of a pattern of relative decline in trade with traditional partners including the US and Japan. Had the identified supply constraints been addressed, then the report calculated that the trade income from these sectors in the last decade could have been 28% higher by 2009 compared to the realisation.

Moreover the pattern of trade from developed countries to emerging Asian countries had changed with a greater emphasis upon commodities (notably palm oil and coal) leaving Indonesia's neighbours to take more advantage of processing and value-added. The conclusion of the report therefore was that Indonesia should put more emphasis in improving its Export Quality Infrastructure (EQI) system in order to move up the value-added ladder. Although there had been a lot of improvements on Export Quality Infrastructure and standards in the last few years, for example via much improved laboratory facilities, notably in the fisheries sector, these improvements needed consolidation backed by trained personnel and these facilities needed to be sustainably extended to the provinces. There needed to be more capacity building, training and awareness to help these key targeted sectors to take up the market shares as Indonesia has a competitive advantage in those sectors.

4. 4.1(b) introduced the older but informative report on *Trade Sustainability Impact Assessment of the FTA between the EU and ASEAN*(Ecorys, 2007), which concluded that an EU-ASEAN FTA could have made welfare gains worth 1.81% of Indonesian GDP by 2020, through efficiency and structural gains. The Report predicted (as of 2007) that gains could be expected to accrue to several key sectors, notably fisheries, apparel and textiles, while in ASEAN (not necessarily Indonesia) losses could be expected in gas production and services.

The conclusion from this Report (originally written in a regional context) was that climbing the value chain was both necessary and a challenge that could be met, that there

would be short-term losers as well as winners, but that the positive aspect of this report was its emphasis on sustainability, on flanking measures (such as capacity building) and a comprehensive approach. What the Report also conveyed was that non-trade gains have become increasingly important and went beyond tariffs to include health and education, welfare and increased income for households. The Report placed importance on social sustainability and that economic and trade agreements needed a social base as well as addressing environmental and sustainability issues.

5. The question as to what kind of analysis was needed to understand the impact of trade policy on economic growth was posed. In particular in the case of Indonesia could there be predictable downside results of GDP growth. .
6. Indonesia is making progress and the downside risks are very limited. A new National Economic Commission has recently been formed by the President, which has been tasked to form a strategy how Indonesia could leap to a higher level of economic growth. The effect of the political reform would be expected to improve the Indonesian economy, and also the economic policy. The economic growth should rely more and more on manufacturing and there have been some positive signs recently.
7. It was stated that trade policy can make a huge difference as an instrument of development but it cannot do everything. Trade policy gains are assumed “all things being equal” and without unexpected events or global financial shocks. What analysis the Vision Group would need to understand the impact of trade policy on economic growth?
8. EU-Indonesia trade is largely complementary (more so than with Japan or Australia). As the Vision Group would only meet three times the focus of the discussions need to be specific and on specific obstacles to EU-Indonesia trade. These obstacles appeared to be mainly in terms of trade facilitation and less in tariffs.
9. It is crucial for the Vision Group to define the definition of complementarity, since it would mean there would be no losers.
10. Most of this complementarity in EU-Indonesia lies in **services**. Services around products are key to Indonesia's competitiveness. In the EU competitive products are produced and are supported by services especially marketing, advertising, insurance and logistics so that 75% of the EU economy is really about services and 65% of all EU outbound investment goes into services. For this reason, analysis would be needed for key services sectors.

11. It was also said that there is also a need to discuss the direction of economic and policy reform developments in the EU and the "welfare crisis" that the EU is going through. It is little known in Indonesia what fundamental reforms and difficult changes Europe has gone through and that there are "losers" in the EU as well. Indonesia could learn from how EU has dealt with these "losers" of free trade.
12. Some members put the emphasis on the importance of trade facilitation rather than tariffs, the former which appears to be hindering EU exports to Indonesia in agricultural products. The trade profiles of agricultural products of the EU and Indonesia were indeed very complementary. There is a need to work together to stress value added products and to push Indonesian production up the value chain,
13. Since the Vision Group would use these studies as the basis for policy-making it should be aiming for mutual growth. The FTA with Japan is an agreement where conflict of interest was relatively small. The Consultants were urged to look at the dynamic effects of other FTAs and he wanted more than the same analytical approach as usual and to contrast business as usual with the impacts of previous FTA implementation.
14. <sup>4.1(b) and 4.1(a)</sup> declared that EU-Indonesia economic relations have entered a new chapter. All stakeholders should work hard together to catch the momentum after the EU-Indonesia Business Dialogue (EIBD) and the Vision Group was encouraged to reflect upon how its recommendations would be followed up. The seven policy recommendations of the EU-Indonesia Business Dialogue (EIBD) should be taken into account by the Vision Group (focusing on opportunities, exploring possibilities of a CEPA, formal consultations with business of both sides, regulatory cooperation, cooperation and technical assistance, cutting red tape and the investment climate). The need for infrastructure was also emphasised, especially roads, ports and power plants, and for more formal and clear mechanisms whereby <sup>4.1(b) and 4.1(a)</sup> could facilitate government-private sector cooperation in Indonesia especially with focal points in the Ministry of Trade and BKPM (the Investment Coordinating Board). The Vision Group had access to extensive paperwork and studies. A Pilot Project could become a locomotive to push forward these issues and priorities. Such a Pilot Project could follow on after the work of the Vision Group. This does not need to be a physical project but could be based on a more pragmatic approach to bring about "islands of success" on policy and regulatory reform. There is a need to be specific and concrete if a possible agreement would gain support from the political side. It was concluded that the recent EIBD recommendations presented concrete points and solutions to be taken on board by the Indonesian Government and the EU. There needed to be a clear plan for dialogue between business and government on both sides.

15. The European side agreed that the level of dialogue had never been better and that EIBD had been very constructive. EuroCham's position papers were distributed to the Vision Group members, giving concrete recommendations in 14 sectors. Among those, the acute need for dealing with physical barriers was highlighted, e.g. infrastructure, in Indonesia, simplification of licensing and other administrative processes and dismantle barriers in services sectors (e.g. postal and horticulture laws). There is also a need to discuss the direction of economic and policy reform developments in the EU which faced many internal problems. It is little known in Indonesia what fundamental reforms and difficult changes Europe has gone through and is now facing. On the Indonesian side there was need for a better coordinated plan on how to promote Indonesia in Europe, with better coordination between different Ministries and agencies. The consultation groups recommended by the EIBD could be one way of helping overcoming some issues and support better coordination between government agencies.

16. Other members agreed the need to be very practical. In particular Indonesia needed infrastructure, while the EU needed exports and jobs. How could these two issues be brought together? The financial sector was also important in this regard. Access to financing for SMEs is limited in Indonesia today despite sufficient there being sufficient capital available because financial structuring issues were not being addressed.

Local companies could somehow benefit from poor infrastructure which they could navigate better while inward investors were at a disadvantage. EU efforts and resources could be deployed in a more effective manner, for instance through a working model on EU-Indonesia infrastructural cooperation that could compete with China, Korea and Japan.

17. Some members that at the moment Indonesia is giving somewhat conflicting signals to foreign investors. The Vision Group should give a vision on how to attract investors, in particular for Indonesia to deal with legal certainty and the incentives to invest in Indonesia, such as FDI ownership limits. This could be done through regulatory reform, better investment conditions and changes in fiscal policy. Despite these problems a push forward was favoured and leading to a conclusion how the group could unite around concrete recommendations that can be applied in a political and institutional context. It was concluded that proposals by the Vision Group should be done in a constructive manner focusing on solutions.

18. EIBD put all priority issues on the table but the question is if it would lead to more investments from the EU? 4.1(a)

To move forward we needed regulatory and bureaucratic reform and a push towards the green economy. The issue of access to land

for development projects need to be properly addressed in Indonesia. 4.1(a)

19. It was concluded that it was right to raise the "hard issues". While the Vision Group should be critical and put all the problems on the table but find solutions to those problems and show the likely impact in case of action and no action. "The Vision Group should be friends of the EU and friends of Indonesia".
20. The view that the real variable affecting Indonesian penetration of EU markets was the variation in GDP of EU Member States was put forward, which seemed to be the main determinant of demand for Indonesian goods. As European companies are more competitive, there would be potential losers in Indonesia of an agreement so that there needs to be a clear communication of facts underpinning the benefits. It was also noted that most of the bilateral trade is dependent on the EU economic growth patterns – meaning that the EU GDP is a push factor for trade and Indonesia's growth does not act as a pull factor. It was furthermore said that Indonesia needed continuing help to improve trade quality infrastructure, customs regulations and management, port efficiency and clear bottlenecks in the way of inward investment. It was noted that the EU was good on infrastructure and water supply and that Indonesia really needed help in these areas, especially to prepare ideas and project proposals that would meet EU requirements and specifications. Capacity building was key for Indonesia to benefit from a closer trade and investment cooperation (especially in respect of infrastructure, customs, port services, laboratories). The country needed many more small planes to connect provincial hub airline centres, more investment in inter-island connectivity, especially by sea (ports and ships) and air. The EU and Indonesia should showcase such proposals and prepare feasible projects so that they fit European interests for instance at exhibitions and trade fairs in EU countries, and invite EU investors to Indonesia. An innovative approach to these activities with a clear timeframe was encouraged.
21. It was argued that there was an on-going transformation under way making progress on infrastructure, logistics and supply constraints. Therefore, the Report should make specific recommendations with time lines linked to them and that priorities for a CEPA should cover the needs of SMEs and for improvements in standards. The great benefit of a well conceived CEPA could act as a justification to push forward domestic reform in Indonesia.
22. The Group should not consider one party losing or winning. The Vision should focus on liberalisation of trade in goods, services and investment and related to trade facilitation on standards compliance and customs issues. Agreements have in today's climate been

imperative if a country does not want to be discriminated in another market. Innovative elements in the recommendations of the Vision Group are important and that the Group should bear in mind that the main purpose of the Vision is to upscale EU-Indonesia trade relations and not restrict itself so that issues would have to be brought up at a later occasion.

23. Several members urged that the group look at the way the Japan FTA was structured in terms of commitment to capacity building and it was decided a short summary of these supportive measures would be useful. 4.1(a)

EU has to compete with trade approaches that were strongly backed by governments, as in the case of China on the 10,000 MW accelerated electricity programme. The work of the group should help prepare for how to react to downside impacts affecting negative economic sectors in the context of an FTA and to help ensure that these downside impacts would be properly addressed. The group should look at potential negative impacts sector by sector. A quick resolution of a possible agreement due to elections approaching in 2014 was favoured.

24. There should be a lot of cooperation included in a potential agreement. The growth of EU trade with Indonesia has been lower than with other countries.
25. Fair rules on public procurement are important for the EU – not solely looking at the lowest price, in order to get the best value for tax payers' money. The banking sector in Indonesia is not conducive, particularly not for SMEs, as credit rules are too strict.
26. It is crucial that the Vision Group performs an impact analysis for sector by sector to explain the benefits of an agreement to the business sector.
27. Competition is beneficial for economic growth. This is however rarely discussed in an FTA context. Any analysis should focus on opportunities, for which hard analysis is needed. Protectionists will not listen but there is some scope for influence. With which countries should Indonesia compare itself? i) ASEAN and ii) BRICS might be relevant. What reforms are needed if Indonesia wants to catch up with those countries?
28. Green development and sustainability issues should be seen as a competitive edge and not as a cost. Scientific cooperation between EU and Indonesia is needed to deal with environmental issues. Further progress in green energy is desirable, for example geothermal projects, and for power plant from EU countries, creating opportunities for sustainability and for EU firms.

29. Implementation remains an issue in the reform process in Indonesia. For instance the experience of the Ministry of Fisheries where the assistance and support programmes from the EU had helped deal with export standards and quality issues by strengthening export infrastructure, especially laboratories.
30. It was argued that losers might lose anyway with or without an agreement – but how to tackle them? There would be losers in the short-term but these become winners in the long term. The importance of flanking measures was stressed. Effective implementation and political commitment are key to successful reform and that Indonesia was benefiting a lot from its regional positioning with ASEAN (in terms of development towards an FTA and economic community). How far and how fast Indonesia could move further in this direction and towards BRIC status? Is Indonesia willing to become a BRIC and how to get there?
31. In the context of the state-oriented economic structure of Indonesia it would take time to make further progress but that in terms of openness the economy was already one of the most open in the world with little emphasis on tariff barriers, plus special economic zones. It was furthermore pointed out that Indonesia is already a part of ASEAN regional networks.
32. Trade policy has a large effect on economic gains, which is often forgotten. Trade facilitation requires relatively little efforts whereas the gains can be large. Indonesia needs a common vision if it is to be connected globally, not its own national vision. It was presented that the logic of the new EU trade strategy included how to deal with losers. Studies by ADB and others gave useful lessons on economic analysis in relation to FTAs but there is no need for an overdose of analysis rather than having a clear view of the main issues. For example ADB data made it clear that perhaps 50% of exporters in different countries did not make full use of FTAs perhaps because of lack of awareness, or sticking to what they knew and using GSP provisions instead. Any FTAs have to be used by traders and properly implemented. As Minister Mari Elka Pangestu had said it came down to understanding global value chains and getting involved in them to your advantage. Trade data did not always get at these issues and that it was necessary to look at data arising from the analysis of what happens when value added can be acquired. Value added analysis was not the same as trade analysis, and value added was a very important consideration.

#### **Afternoon session on different models for bilateral arrangements**

33. 4.1(b) \_\_\_\_\_, introduced a session on different types of bilateral agreement, and their different



characteristics, by presenting a short typology of FTAs and their different effects and impacts. The EU has launched its new trade strategy and this looked at what trade policy could deliver to an economy. These days trade policy could deliver progress towards a greener economy and smart growth and greater competitiveness. The EU now aimed using this strategy to promote a 1% increase in its GDP per year, which did not sound much, but amounted to 150 billion Euros per year, representing average consumer gains of EUR 600 per person and year due to a wider and cheaper choice of goods. 4.1(b) furthermore stated that 14 million workers in the EU depend on exports and 36 million workers are somehow or the other linked to trade. A modern trade policy is therefore an important instrument for development. As openness to trade went up unemployment decreased, and vice versa.

He noted the EU trade policy follows a three-pronged approach: multilateral agreements (WTO/DDA), bilateral agreements and autonomous agreements (like the GSP and EBA – which offered unilateral preferences). EU FTAs have three different rationales: preparing for EU membership, enhancing relationships with neighbouring countries, and development (in the case of ACP countries and reciprocal market access, i.e. promoting competitiveness on both sides). Shallow FTAs have mostly included tariff reduction in goods, whereas deep and comprehensive FTAs also included government procurement, competition policy and technical barriers to trade. For the EU the home market is still important (intra-EU trade is twice as big as external trade) but global value chains are key. EU exports depend critically on imports as more than two-thirds of EU imports are intermediates. He also showed the negative impacts of lack of competition on domestic markets and price fixing – for instance that developing countries imported more than US\$ 81 billion of goods from industries affected by price-fixing conspiracies in the 1990s, leading to US\$ 20-25 billion in excess consumer prices. A comprehensive FTA is more beneficial as removal of tariffs in goods is not sufficient to fully realise gains of trade liberalisation and in some cases tariff removal is not enough to give a balanced outcome for every partner.

In Asia, FTAs are on the rise and Singapore, China and India sticks out with relatively numerous cross-regional FTAs. Most countries favour a WTO+ approach in their FTAs while China and India generally seems cautious to conclude very comprehensive FTAs.

Economic impact of an FTA could lead to two different effects: i) trade creation: inefficient domestic products are replaced and ii) trade diversion: low cost imports from non-FTA countries are replaced by inefficient imports from FTA members.

There are different models to assess the impacts of FTAs. The Computable General Equilibrium (CGE) model gives the big picture of dynamic effects in the long and short

term, efficiency gains and demand factors. The Partial Equilibrium Models has a greater emphasis on sectoral approaches. There are also econometric and gravity models. Partial equilibrium did not calculate efficiency gains and econometrics approaches were aimed more at new areas of trade, services and non tariff barriers.

Deep integration is important in an FTA context. The deep bilateral relationship between the EU and Japan put more emphasis on non tariff barriers (NTBs) where the gains on both sides are more than double and more mutually beneficial than without considering dismantling non-tariff barriers.

Looking forward, the need for good economic analysis is useful in assessing trade policy options. Comprehensive agreements produced the most benefits for the wider economy. Trade policy around the world is in motion and others are moving.

34. 4.1(b) then introduced an overview of Bilateral and Regional FTAs of Indonesia.; The Vision Group had been provided with an overview of concluded agreements or agreements under negotiation, and that some of the agreements would be analysed in more detail for the next meeting of the Vision Group. The table would also be complemented with a short text describing the agreements. An overview of the agreements can be found in the presentation forming an integral part of these minutes.
35. 4.1(b) continued to present the FTAs concluded or under negotiation by the EU. The FTAs already concluded cover 22.3% of imports and 27% of exports. Another 20% of imports and 26% of exports are currently under negotiation. When concluded, 44% of EU imports and 53% of exports would be covered by FTAs. The EU has many types of FTAs:
- **Customs Union:** with Turkey and EFTA countries.
  - **Stabilisation and Association Agreements:** include country specific issues, including political issues, capital movement; legislation and justice affairs. These are agreements for candidate and potential candidate countries for EU accession.
  - **Economic Partnership Agreements:** regional agreements for former colonies in the ACP countries. As of now, EPAs have been concluded with the CARIFORUM countries and with the remaining countries there are interim agreements in place. The EPAs are motivated by development objectives and are less relevant from a trade perspective but more out of a development perspective.
  - **Euro-Mediterranean Agreements:** Including economic and political stability issues. The agreements mainly cover industrial goods, NTBs as well as social and cultural cooperation.

- **Commercially oriented FTAs** (competitiveness FTAs): Have been concluded with countries such as Mexico, Chile, South Africa and are under negotiation with MERCOSUR. The liberalisation is mostly in agricultural goods but they are also covering services, investment and competition.
- **New generation FTAs:** These deep and comprehensive FTAs go beyond WTO and include IPR, public procurement, competition, sustainable development. Examples include South Korea, Singapore, India and Malaysia (under negotiation), Peru and Colombia.

4.1(b) furthermore posed some questions for reflection by the Vision Group:

- How can regional and bilateral FTAs be compared?
  - What are good elements to integrate in a potential agreement?
  - What lessons have been learnt from the processes of previous FTAs for both sides?
  - How can the strategies of the two sides match?
36. Following this presentation, a major discussion on what is meant by the concept of deep and comprehensive FTAs – if these concepts need to go together or if they can be seen in isolation? was launched. Some CEPAs did seem to include cultural and political as well as economic issues and should that be included in the vision as well?
37. Calculations of benefits of growth in trade should not only focus on employment but also **diversification of products**, which is an important issue in Indonesia. In terms of employment, **SMEs** are also important. Indonesia already has a competition law and does a potential agreement mean that the **competition policies** of Indonesia and EU have to be harmonised? Finally, it is important for Indonesia to maintain **benefits from the GSP** throughout a possible negotiation process, and it should be extended to GSP+.
38. The EU had one single unified competition policy and also state aid is included in this policy – thus there is a lot to be gained by SMEs. SMEs are not only important in Indonesia, but also very vital in the EU. Regarding the design of FTAs and CEPAs there was no simple model to follow but all elements are important to consider in an FTA context as they are interlinked. In preparation for FTAs, the EU talks closely to the industry on which barriers are the most significant and which can be quantified. However EU experience and its new competition policy stressed a strong link between mobilisation of inward investment (FDI) and services, and also prioritised SMEs as key stakeholders whilst recognising their systemic weaknesses. Signing an FTA/CEPA also did not rule out using previously gained trade benefits like GSP. Although new FTAs were usually more comprehensive than the GSP, some companies still preferred to utilise the benefits and systems they understood, rather than new ones. For example in Japan surveys

showed that 30% of companies did not yet understand what was available to them under the new EU-Japan bilateral agreement. Thus, awareness building is crucial in any FTA process. An FTA is only one part of a new relationship and that trade facilitation and capacity building are also vital to a new approach.

39. It was added that social, political and cultural aspects are more relevant in a Partnership and Cooperation Agreement (PCA) context. Any comprehensive economic agreement should for the EU's interests include tariffs, non-tariff barriers, services, IPR (including TRIPS+ on agricultural products), technical assistance, investment, competition policy, public procurement (also at decentralised level). The example of automobiles was given, which is a traded good to be covered by a Trade in Goods (TIG) agreement but that this actually involved also Trade in Services (of TIS). Making and selling cars involves design, engineering, management, financing, insurance, logistics and advertising and these all contribution to the production, distribution and value of cars. Hence trade in goods becomes inseparable from trade in services. IPR is essential to give comfort to investors and that TRIPs represented a minimum standard to be attained under WTO rules.
40. TRIPS+, Rules of Origin (RoO) and sustainability issues should also be features of any agreement.
41. What stops investors from investing in a particular country? In particular if the legal system did not work then contracts were unenforceable. This aspect would need to be handled in a comprehensive agreement.
42. A dialogue could help to strengthen the legal framework. The legal system in Indonesia might be slow but it is working and improving.
43. There is a difference in the definition of SMEs in Indonesia and the EU. There needs to be a clarification on the concept of Corporate Social Responsibility (CSR), since this is a legal requirement in Indonesia.
44. Although the Vision Group should not become negotiators of an agreement, there needed to be clarity on definitions used in the report, such as on SMEs, CSR and comprehensiveness. Facilitation and cooperation would enable both sides to benefit from a comprehensive agreement.
45. 4.1(b) of RELEX (Directorate General of External Relations of the European Commission) explained the background to the bilateral Partnership Cooperation Agreement (PCA) between the EU and Indonesia. This bilateral PCA is the first of its

kind that the EU has signed with an Asian country. It was signed in November 2009 after negotiations since 2005. Four countries (Denmark, Poland, Latvia and Estonia) have already ratified the PCA and hopefully all 27 EU Member States would follow suit during 2011. In addition, the PCA has not yet been ratified by. In Indonesia it was not yet clear if the PCA would have to be ratified by a Presidential Decree or the House of Representatives.

The PCA is regarded as the political base towards the negotiation of an FTA. The PCA is really a preferential political relationship which provides a legal framework and political basis for future cooperation in a wide range of areas including climate change, energy, maritime matters, narcotics, organised crime and corruption, human rights, counter-terrorism, regional political cooperation, weapons of mass destruction, intellectual property rights (IPR), sanitary and phyto-sanitary standards (SPS), international standards, customs administration, investment and services (covering more than 50 topics). This also provides for a dynamic relationship between the private sector and government.

46. 4.1(b) then provided an overview of current EU economic cooperation activities with Indonesia including the new Trade Support Program II, aimed at supporting Export Quality Infrastructure in Indonesia. This programme should help Indonesia improve product standards and quality in order to better access the EU and other developed markets, which should help Indonesia benefitting from any potential agreement. The programme amounts to EUR 15 million and has already started with its policy component, whereof the first topic is the study presented in the morning on Indonesia trade access to the EU. Another study is also in the making mapping out the EQI system in Indonesia and giving recommendations for improvement. In addition, the EU is starting Trade Cooperation Facility in 2011, which is a demand-driven facility aimed at improving various trade and investment issues in Indonesia such as IPR, trade policy analysis, domestic trade, science and technology, energy planning and investment facilitation. The TCF amounts to EUR 12.5 million during five years. At the moment, the TCF is awaiting the approval of the financing agreement by the Indonesian Government, which is delayed due to one government agency not having decided about their participation in the programme. The TCF is also complemented by a civil society component of EUR 2.5 million, aimed at strengthening business associations and NGOs in their role as giving input to government policies and providing services to their members. KADIN could be one of the beneficiaries of such a programme. In the presentation it can also be seen that the EU also gives substantial support to ASEAN economic integration through various regional cooperation programmes dealing with inter alia product standards, IPR and various economic policy issues. Regional cooperation programmes and cooperation programmes offered by EU Member States

should also be taken into account when looking at the total picture of EU support to Indonesia. The issue was – what else would be needed in support of an FTA? In fact EU support could come by at least four different modalities including trade support funds via ASEAN, from EU Member States from the EU Commission (DEVCO) or from multilateral agencies (ADB, World Bank etc.) which have been funded by the EU. Participants expressed interest in the accessibility and usability of such funds and the effectiveness of use in support of trade support measures and activities.

47. It was expressed that the technical support requirement of an FTA should be additional to and on top of any trade support already in place or planned. Capacity building should cope with both losses and gains, and other aspects of implementation should all be additional to any programmes already in place.
48. The Vision Group should look at the working of the Indonesia Japan bilateral agreement which had included capacity building.

#### **Main conclusions by the Co-Chairman and issues for follow-up.**

49. 4.1(b) as Vision Group Co-Chairman then pulled together some of the suggestions and ideas emerging from the day's discussion. He concluded that the group needed more solid understanding of some issues and suggested that the members of the group should help elaborate the way forward. 4.1(b) said that in the context of a wider CEPA we would need mechanisms to manage our bilateral relationship. He suggested the following issues for follow-up and papers to be produced by the Vision Group members to the Chairs, in a short and brief format (1-2 pages):
  - (1) 4.1(b) to describe the capacity building component of the Indonesia-Japan EPA as a model for a potential agreement with the EU.
  - (2) That 4.1(b) should seek to clarify what are the major hurdles regarding **sanitary and phyto-sanitary measures** (SPS) on both sides.
  - (3) 4.1(b) to specify what could be included in the concept of a “comprehensive” CEPA and how to structure an effective dialogue mechanism between Government and KADIN. The Project Group proposes that also 4.1(b) is involved in this work.
  - (4) 4.1(b) were tasked to address infrastructure recommendations arising from the EIBD, in particular focusing on Public Private Partnerships A brief guideline should be produced depicting a model as to how infrastructure projects could be prepared to attract EU investors, including financing and implementation.

- (5) That 4.1(b) should look at measures to attract EU investors to come to Indonesia, with a focus on the five priority sectors in the Transtec Report (fisheries, agri-foods, consumer electronics, furniture, natural cosmetics), also those in the IBM Report (power, machinery, consumer goods, pharmaceuticals and telecom).
- (6) 4.1(b) were tasked to look at the issues arising from the liberalisation of trade and services and especially with ways of **identifying and dealing with potential losers** (both goods and services). 4.1(b) offered from DG Trade that he might assist in this area with some of the analytical work.
- (7) 4.1(b) should look at communications strategies and communication with wider stakeholders with a view to identifying ways and means for dialogue to mobilise support for a potential CEPA between Indonesia and EU.
- (8) 4.1(b) should deal with trade and investment regulatory reform and a possible pilot project for trade and investment regulatory reform, in cooperation with 4.1(b).
- (9) 4.1(b) to produce a one page summary of EU's support to Indonesia in the education sector, including ERASMUS-MUNDUS scholarships in higher education.

Furthermore, the Co-Chairman suggested:

- (1) That the working dates for the next VG meeting in Europe should be on the **22-23 February 2011**, probably with the VG meeting on Wednesday 23 February and possible meetings with high level officials from the European Commission to be explored the day before. All delegates noted this date.
- (2) That working documents should be completed by **1 February 2011** at the latest so that the Project Group could finalise draft preparations on **11 February** and the Co-Chairmen could review all the papers to be distributed to the Vision Group members on **15 February**.