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Directorate-General for Trade

Directorate C - Sustainable Development, Bilateral Trade Relations

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**NOTE TO DAVID O'SULLIVAN
DIRECTOR GENERAL FOR TRADE**

Subject: Indonesia : Next Steps

This note seeks your approval on the TORs for our EU-Indonesia "vision group" to bring forward the EU-Indonesia trade agenda. If all goes well, the report of this group will be instrumental to engage Indonesia into FTA negotiations with the EU in the mid-term.

Background:

Indonesian President Susilo Bambang Yudhoyono and European Commission President José Manuel Barroso in December 2009 agreed that trade and investment is an area where the bilateral relationship has great potential to develop, and on the need to explore ways to strengthen these ties. The two leaders decided to set up a "Vision Group" that will examine how to increase trade and investment between Indonesia and the EU.

This project, very much inspired by the Indonesian Trade Minister Mari Pangestu, is in line with the positive political climate created by the partial resolution of the air ban and the consequent signing of the PCA. Its main objective is adding momentum to the bilateral relations while buying some time to deal with the pressures of some sectors of the domestic industry very much concerned about recent FTAs with other regional partners ([Art. 4.1.a]). [Art. 4.1.a]

This comes against the backdrop of a number of recent positive signals which we received from Jakarta on what seems to be a change of attitude in the Indonesian Government on the opportunity of an Agreement with the EU (the local industry, represented by the Indonesian Chamber of Commerce or Kadin, already expressed its support earlier this year). The Vice Minister for Trade Mahendra Siregar expressly mentioned this possibility during a meeting with the Head of Commissioner De Gucht's Cabinet in April and other high ranking Indonesian officials now also seem more open to move in this direction, as reported by the Jakarta Delegation on 1st July 2010.

Next Steps:

Minister Pangestu has recently issued a decree establishing the Vision Group for Indonesia that will be composed by eleven personalities from academia, business (Kadin) and different Government Departments. The task of the Group will be also to explore the feasibility of a bilateral trade agreement with the EU.

I believe we need to keep the Indonesian Government engaged in a period during which the risk of increasingly inward looking policies is very high. Moreover, we want to move our trade dialogue from a defensive (trade irritants) stance to a more constructive one. The Vision Group will serve as a confidence building exercise and, if correctly steered, its recommendations will contribute to the objective of bringing the Indonesian Government to a meaningful trade negotiation.

Attached you will find the Draft Term of Reference of the Vision Group that we are discussing with the Indonesian side. If you agree, we could launch this exercise formally at the end of August and have a first substantive meeting of the Group end of November in Jakarta. The Commissioner will see Indonesian Trade Minister Pangestu at the end of August in Vietnam. A note to Marc Vanheukelen, setting out agreement on the Vision Group as the main deliverable for this meeting is attached for your signature.

Ignacio Garcia Bercero

Cc :

[Art. 4.1.b], DG Trade

[Art. 4.1.b], Jakarta Delegation

Annexes:

- 1) Terms of Reference of the Vision Group
- 2) Note from Jakarta Delegation of July 1st
- 3) Note to Cabinet

ANNEX 1

TERMS OF REFERENCE

VISION OF ENHANCING EU-INDONESIA TRADE AND INVESTMENT RELATIONS

Trade and investment is an area where the EU-Indonesia bilateral relationship has great potential to develop and there is the need to explore ways to strengthen these ties. The "Vision Group" therefore will examine how to increase bilateral trade and investment relations. The expected output is a strategic paper (vision) with recommendations to Ministers (including on the potential for a comprehensive Free Trade/Economic Partnership Agreement). This Group should be constituted by eminent persons from both sides consisting of members of the respective Governments, business and academia.

The Specific Objectives of the Vision Group are:

- To provide a strategic view of EU-Indonesia trade and investment relations and identify on what basis EU-Indonesia trade and investment relationship can best be enhanced in an innovative way.
- To identify opportunities for fostering trade and investment between EU and Indonesia, bearing in mind the market characteristics and potential, evolution of bilateral flows and the challenges for realisation of this potential
- To provide recommendations to relevant parties (GoI, EU, business community, academia) for the full realisation of this trade and investment potential
- In this context, to explore the feasibility of a Free Trade/Economic Partnership Agreement between EU and Indonesia.

Members of the Vision Group

For EU side (to be confirmed)

- **Commission:** [redacted] (DG Trade [redacted])
- **Business:** [redacted] (ING) (EU based) and [redacted] (Maersk) (Indonesia based)
- **Academic:** [redacted] (CEPS and College of Europe) or EAIS representative

For Indonesia, already formally appointed:

- **Indonesian Government:** [redacted] ([redacted] Ministry of Trade), [redacted] ([redacted] Ministry of Industry), [redacted] (DG for fisheries products processing, Ministry of Fisheries), [redacted] ([redacted] Investment Coordination Board BKPM), [redacted] (DG for agricultural products processing, Ministry of Agriculture) [redacted] ([redacted] Ministry of Trade)
- **Business:** [redacted] (Deputy Chair of Kadin) and [redacted] ([redacted] Committee for West Europe in Kadin)

- **Academic:** [redacted] business School Prasetya Mulya), [redacted] (Economist – Gajah Mada University), [redacted] Institute of Economic Management of University of Indonesia)

Methodology

The Group would form its own assessments and judgements on the basis of existing data and studies.

The work of the vision group will be prepared and supported by a joint EU-Indonesia project group. For the EU Commission [redacted] of DG Trade in Brussels, [redacted] and [redacted] from the EU's Jakarta Delegation will be part of the group. For the Indonesian officials from the Ministry of Trade. (members to be confirmed).

The Project group will work under the guidance of the Vision group and will

1. Arrange and coordinate all logistics and ensure reports of meetings.
2. Provide relevant input for the Vision Group discussions. This includes primarily relevant trade and investment data and analysis, and existing studies ¹
3. Synthesise the views of the Vision Group in a draft report, to be endorsed by the Vision Group, on
 - the potential for further development of EU-Indonesian trade and investment
 - the strategic parameters and elements for a comprehensive vision for the enhancement of EU-Indonesia trade and investment relationship
 - possible recommendations and proposals to relevant parties (GoI, EU, Business Community, academia) for the full realisation of this trade and investment potential, and the implementation of the vision.

Timing and meetings

The exercise should be contained in a reasonable space of time (not to exceed the 12 months timeframe). The formal launch could be done at the end of September by senior officials from the Commission and Ministry of Trade.

Three meetings of the Group are proposed as well as a conference to present the findings, namely:

- **Jakarta, 29-30 November 2010 (in connection with EIBD) –First brainstorming and discussion with business**

¹ In particular the studies on “Trade and Investment between EU - Indonesia: Opportunities and Obstacles” and the complementary study “Indonesian Trade with the EU: Opportunities and Challenges”. The two studies will in combination serve as one, but not the single, input for the Vision Group in its work on exploring ways of enhancing bilateral trade and investments.

- **Brussels, end February 2011 – Full meeting on all issues, followed by (March 2011) drafting of the Vision groups report**
- **Jakarta, April 2011 – Finalisation of the report**
- **Jakarta/Brussels May 2011 - A one day conference presenting the outcome of the Vision Group to stakeholders.**

Background

Indonesia has gained an important role in the G-20 and other international fora as a manifestation of an impressive job in keeping the economy stable and recording the largest growth in Southeast Asia in 2009. It is the largest and considered the most stable democracy in Southeast Asia. On the other hand the EU, with its 500 million citizens, constitutes a large and important market for Indonesia. It is also the source of investments and trade giving rise to fair employment conditions, sustainable development and innovative technological solutions.

In 2008, Indonesia exported 13.5 billion euro worth of goods to the EU, making the EU its biggest export destination of non-oil and gas exports. Indonesia imported goods from the EU worth 6 billion euro. These flows remained stable even during the global crisis last year (bilateral trade amounted to a total of 17 billion euro) and growing by an annual average of 6% between 2004 and 2008.

The scale of this trade and investment relationship between the EU and Indonesia generates a wide range of new opportunities which we could exploit more. EU and ASEAN started negotiations on a deep and comprehensive FTA in May 2007, but two years later the negotiations were paused due to differing perceptions and ambition levels. The EU has, following this halt in the negotiations, explored the possibility of negotiating bilateral FTAs, with a view of at a later stage create a region-to-region architecture and started negotiations with Singapore in March 2010. Vietnam and Malaysia have also shown interest for a bilateral FTA .