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Position paper

EU-Indonesia Comprehensive Economic Partnership Agreement

amfori calls for quick progress between the European Union and Indonesia on the negotiations for a Comprehensive Economic Partnership Agreement. The final deal will provide a win-win situation for businesses and consumers on both sides. For this to happen, the parties must approach the talks in a bold and committed manner.

Background

Indonesia is growing in importance for the European retail and import sector, which sees it both as an increasingly important sourcing market and a wealthy consumer base. In a 2015 survey conducted by amfori, Indonesia featured in the top 5 sourcing markets most likely to grow in importance. amfori expects Indonesia's appeal to grow even further, especially due to the positive effects from increased exposure that the country will gain during the negotiation period. As an example, EU-Vietnam trade has increased significantly (from €24 billion in 2012 to €42 billion in 2016) around the period when the negotiations were completed, and even before the entry into force of the agreement, possibly due to more businesses wishing to establish links before the agreement enters into force.

amfori proposals for the negotiations

The six issues that the EU and Indonesia must address so that the agreement will be beneficial for all, are:

1. Open the large potential for business and consumers.
2. Eliminate the many costs and barriers to trade that exist today.
3. Commit to a high-level application of social and environmental standards.
4. Extend the Rules of Origin to acknowledge the current business realities.
5. Lay the ground for a region-to-region agreement between the EU and ASEAN.
6. Progress quickly to conclude the negotiations to reduce costs, generate jobs and create growth.

Nevertheless, amfori believes that trade relations between the EU and Indonesia are currently highly underutilised, taking into consideration that Indonesia is ASEAN's biggest economy and most populous nation, it is only the fifth trading partner of the EU in ASEAN.

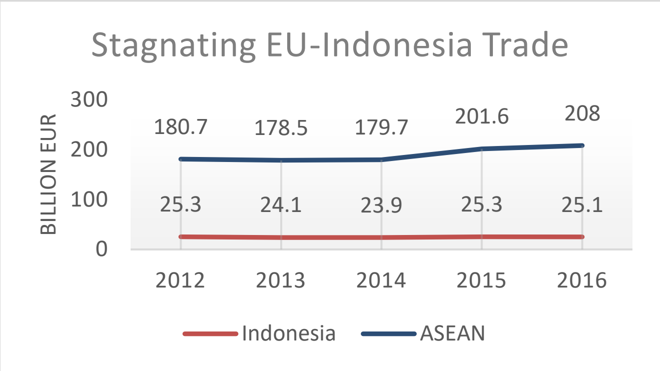
1. Greatly untapped potential

Currently, Indonesia is an important sourcing country for European companies for a number of food and fast-moving consumer-goods. According to Eurostat figures in 2016, the top imports into Europe from Indonesia were: clothing (€1.2 billion), footwear (€1.2 billion), furniture (€356 million), textiles (€351 million), coffee (€209 million), spices (€116 million) and toys (€113 million).

However, amfori believes that the relations between the two sides are highly under-utilized, and the current exchanges could be much higher. The case in point is that while the overall EU-ASEAN trade in goods has increased between 2012 and 2016 by 15%, EU-Indonesia trade reduced by 0.8%. (see table below). Moreover, Indonesia is ASEAN's largest economy, accounting for 36% of its GDP, as well as its most populous nation with over 260 million inhabitants. However, it is only the fifth trading partner of the EU in ASEAN with €25.1 billion in total trade in 2016 (Singapore was €50.9 billion, Malaysia €35.4 billion, Thailand €33.9 billion and Vietnam €28.4 billion).

The situation with investment is even more disheartening: Indonesia received only 6% all EU foreign direct investment in ASEAN (2012), which made up 1.6% of total EU investment in Asia.

Thus, amfori feels that the EU and Indonesia have a huge scope for improvement of their trade relations, and sees that the reason for this is still the high numbers of trade barriers, both tariff and non-tariff, on both sides.



Source: Eurostat

2. Remove the high barriers to trade

Members of amfori are facing certain obstacles which have a negative impact on business development between the EU and Indonesia, and must be tackled for the mutual benefit of consumers and businesses on both sides.

There are still high barriers on Indonesian imports to the EU. Today, the country benefits from the EU's Generalised Scheme of Preferences (GSP) which provides duty reductions on 66% of all EU tariff lines. However, this only covers around 30% of the actual imports from Indonesia. Due to the graduation methodology of the GSP,[1] the most competitive sectors (such as live animals, animal products, and chemicals) from Indonesia are, or eventually will be, excluded from the preferences. For this reason, a trade agreement is needed to ensure continued trade between the EU and Indonesia.

On the side of EU exports to Indonesia, doing business in the country is currently very difficult. Firstly, it is more expensive due to disproportionately higher tariffs, and secondly there is a plethora of trade impediments behind the border regulations and administrative burdens that make doing business very difficult. amfori hopes that many of these non-tariff barriers in Indonesia will already be reduced during the negotiation stage to show the country's good-will to trade facilitation.

For the exact restrictive behind the border measures in Indonesia, please refer to the **Annex** below.

amfori fully endorses the objectives of reaching an even higher level of consumer protection and promoting effective and easily applicable rules for consumer goods safety, but this must not be used as a hidden means of protectionism or unfair technical barriers to trade.

3. Include an ambitious TSD Chapter

As an association that promotes free trade and sustainable supply chains, amfori believes that increased trade relations are a powerful tool for promoting sustainable development.

The chapter on Trade and Sustainable Development (TSD) should include a platform for cooperation between the EU and Indonesia on issues relating to trade and sustainability, and provide for the engagement of multiple stakeholders in the discussions. We are convinced that only by involving all parties can sustainable development on both social and environmental levels be ensured. In this respect, the EU must not call for a sanction mechanism in this chapter, since durable solutions require long-term cooperation, and not immediate penalties.

This approach can also go a long way in addressing the sustainability challenges in the Indonesian palm oil sector. The agreement must ensure that the EU and Indonesia put in place structures that will be able to monitor and ensure progress on addressing sustainability issues in the sector, rather than imposing sanctions and stopping all cooperation.

4. Introduce Effective Rules of Origin

Today's business realities of both regional and global supply chains are threatened by the fragmentation created by the current EU bilateral trade agreements and the highly restrictive rules of origin contained in them.

Therefore, amfori calls on the EU and Indonesia to automatically allow for regional cumulation for all goods and to all ASEAN countries with whom the EU has an FTA, such as Singapore and Vietnam. This will allow businesses and consumers to continue profiting from the current value chains operating efficiently in the region.

The current process of the EU and third countries negotiating ex-post the inclusion of goods is highly detrimental to business, causes disruption and does not take into consideration the current business realities on the ground.

5. Lay the foundation for an EU-ASEAN agreement

A successful conclusion of the free trade agreement between the EU and Indonesia would inject new momentum into the inter-regional trade negotiations between the EU and ASEAN. While the EU-ASEAN negotiations are currently interrupted, they must remain the ultimate goal between for the parties involved.

Considering the EU's shift away from regional cumulation with regards to rules of origin, amfori attaches even more

[1] Graduation means that once specific Indonesian goods are highly competitive on the EU market they lose preferential treatment.

importance to a future region-to-region trade agreement which will not disrupt the current supply chains that companies have established in the region.

6. Quick progress is imperative

As already seen, the many barriers to trade between the EU and Indonesia contribute to the low level of business links between the two sides, and they must be tackled in a decisive manner. amfori urges the parties to conclude a deep and comprehensive agreement by the end of 2018, in order to tap into the huge potential and move forward together on sustainable trade practices.

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ANNEX: LIST OF MAIN LEGAL AND PROCEDURAL OBSTACLES IN INDONESIA

Non-Tariff Measure	Description	Impact
Farming Law (19/2013)	Draws strategies to protect farmers, e.g. through the “elimination of the practice of high-cost economy.”	Has a serious impact on the openness to trade and investment.
Import Identification Number (API) and API-U *N.B. An Import Identification Number (API) is required in case a company wishes to import goods into Indonesian territory. An API-U (general) is the import identification number that is applicable to companies that wish to import specific goods for general trading purposes.*	An API is required in case a company wishes to import goods into Indonesian territory. An API-U (general) is the import identification number that is applicable to companies that wish to import specific goods for general trading purposes. amfori members have to extend their general import license, the API-U, every five years. Additionally, there are a number of product categories, for which import licenses need to be renewed for a 6 months period, such as beef, lamb and pork or on the first and second semester of the year, such as fish, sea food, fruits and vegetables, dairy, horticultural items and honey.	In order to qualify for application for these specific permits, companies need to provide a purchase forecast for the next quarter and, when it comes to meat, they are required to prove a minimum of 80% of import realisation in comparison to the previous forecast period. This means that amfori members are forced to fulfil the 80% import benchmark until the end of the license’s validity to be eligible to apply for new permits for the following period. This regulation, which ignores the dynamics of actual demands, is affecting almost all product ranges in almost every quarter. It is very difficult to fix the purchase forecast taking into account the challenge of finding the right balance between a conservative stock position while also keeping enough room for development. An excess of forecast pushes companies to overstock positions. This may lead to massive food waste. A shortfall of forecast, on the other side, puts product availability and stock management under pressure with direct impact on company service level to customers. amfori members are suffering from costs to handle these additional governmental requests. amfori understands that the reasons for this rule on 80% import realisation are concerns that feedlot mafias in Indonesia might be hoarding beef.
Laws on food (18/2012)	The law on food authorises the government to regulate trade in food through price and quantity stabilisation.	Have a serious impact on openness to trade and investment. After the Cabinet’s reshuffle in 2012, technical barriers to trade were on an increase. The Ministry of Agriculture and the Ministry of Industry added new products to the list of those that require permits. The Ministry of Trade reinstated import licensing on a number of products and imposed tighter control over the distribution of imported goods amfori members are suffering from such non-tariff measures as described above in various forms. While non-tariff measures usually target commodity retailers, highly-specialised retailers also suffer by not being able to provide targeted service levels to its local customers and ever higher costs.

MOT Regulation 27/2009	Stricter regulation on fruit and vegetable imports.	Certification letters that products do not contain dangerous chemicals as regulated by FAO.
MOT Regulation 46/2013	Import restriction for meat, offal, and processed meat.	Reference price system. Labelling imposed. Import volumes are determined for each import permit individually.
MOT Regulation 83/2012	Imposition of additional requirements for imports of certain products.	Requirements include licenses, pre-shipment inspection, and limited access to seaports and airports.
MOT Regulation 84/2013	Import restriction on carcass, meat, offal, and/or their derivatives.	Reference price system. Labelling imposed.
National standard Indonesia (SNI); 07/M-IND/PER/2/2014	Sampling and testing of all infant garments to control the level of Azo Dyes and Formaldehyde.	This is a very costly and time-consuming process which can delay release and clearance of shipments up to 6 weeks. Samples are taken from each and every shipment at the departure point (i.e. Europe), even if repeat shipments of the same item are sent. These samples are sent to Indonesian laboratories for testing, and until the issuance of the SNI Permit, the shipment cannot depart towards Indonesia. Garments need to be labelled accordingly with the SNI permit number. This is a highly impacting measure which is a considerable barrier to trade. It leads to a de facto ban of imports.