EU-Indonesia relations

The European Union's relations with Indonesia are developing rapidly, reflecting Indonesia's status as the third largest democracy with the fourth largest population in the world, a regional 'giant' representing some 36% of the ASEAN GDP and 261 million inhabitants, and emerging global player (G20 member, 8th economy in the world in purchasing power parity). The European Union and Indonesia share similar values, interests and outlook on regional integration, multilateralism, democracy and human rights in open and tolerant societies, the environment and climate change.

Indonesia is the first ASEAN partner to have signed a Partnership and Cooperation Agreement (PCA) with the EU, which provides the legal and political umbrella for the bilateral EU-Indonesia relations. The PCA entered into force in May 2014 and provides for wide-ranging cooperation in the areas of political dialogue and security, trade, investments and economic cooperation as well as in the strengthening of people-to-people ties through mobility, educational and cultural exchange programmes. The first Joint Committee under the PCA took place in November 2016 in Brussels.

Political and security cooperation and dialogue

The EU and Indonesia hold both an annual political dialogue and a dedicated human rights dialogue. A security dialogue was launched in May 2016 to strengthen cooperation in this area, including countering extremism and terrorism, on which a host of projects have been or are being carried out. These include counter-terrorism capacity-building and training, as well as civil society projects, for example targeting the prevention and countering of radicalisation. Back in 2005 the EU deployed the civilian Aceh Monitoring Mission (AMM) under the European Security and Defence Policy, and continued to contribute to the peace process through long term capacity building, reintegration and police training programmes.

Trade and Investment

There is huge interest from European companies to export to and invest in Indonesia, especially given the growth of the Indonesian market. European companies present in Indonesia currently employ
more than 1.1 million workers in the country.

**Bilateral trade in merchandise** (non-oil and gas) **between the EU and Indonesia** amounted to **€25.1 billion** in 2016, of which €14.6 billion was generated through Indonesian exports to the EU. In 2016, the EU represented the third biggest non-oil and gas export market for Indonesia, behind the United States and China. **Indonesia's main exports to the EU** are animal or vegetable fats and oils, machinery and appliances, textiles, footwear, plastics and rubber products. Crude Palm Oil exports are Indonesia's number one export commodity to the EU, representing 49% of all EU imports of Palm Oil. Indonesia currently benefits from trade preferences granted by the EU Generalised Scheme of Preferences, under which about 30% of total imports from Indonesia enjoy lower duties. **EU exports to Indonesia** mainly consist of high-tech machinery, transport equipment, manufacturing goods, and chemicals. Total trade in services in 2015 amounted to €6.1 billion. In 2016, the EU was the fourth biggest source of FDI to Indonesia, representing 9% of the total FDI inflows, with a value of more than 2.3 billion euro, behind Singapore (31.7%), Japan (18.6%) and China (9.3%). EU FDI stock in Indonesia amounted to €30 billion in 2015, making Indonesia the EU second destination in ASEAN after Singapore.

**However, given** the size of the two partners, trade and investment levels are well below the volume that could be expected, in particular when considering that Indonesia is by far the largest economy in ASEAN. Negotiations for a Free Trade Agreement, or the **EU-Indonesia Comprehensive Economic Partnership Agreement**, were finally launched on 18 July 2016, after a successful scoping exercise. The third round of negotiations was held in Brussels on 11-15 September 2017. The ambition is to conclude a Free Trade Agreement that facilitates trade and investments by covering a broad range of issues, including tariffs, non-tariff barriers to trade, trade in services and investment, trade aspects of public procurement, competition rules, intellectual property rights as well as sustainable development.

The EU promotes **sustainability** in its trade relations with Indonesia, as illustrated in the forestry sector by the **Voluntary Partnership Agreement (VPA)** signed by the EU and Indonesia on **30 September 2013** to assure access of legal Indonesian timber exports to the EU market. After over ten years of negotiations, significant progress was achieved in 2016 towards the full activation of the VPA, which now recognises the Indonesian Timber Legality Assurance Scheme (SVLK) as fully meeting EU legal standards. On 15 November 2016, the first shipment of Indonesian certified woods departed to Europe, making Indonesia the very first tropical country reaching timber products licensing under **FLEGT (Forest Law Enforcement, Governance and Trade)**. The formal national launch of FLEGT licensing, took place in Jakarta on 24 November 2016. The first FLEGT License was issued in a ceremony on 28 November in Brussels, in the margins of the EU-Indonesia Joint Committee, by the High Representative/Vice-President, Federica Mogherini, the Foreign Minister of Indonesia, Retno Marsudi and European Commissioner for Environment, Maritime Affairs and Fisheries, Karmenu Vella.

**Climate change and the environment**

The 17,000 Indonesian islands scattered over both sides of the equator and over 5,000km, support the world's second highest level of terrestrial and marine biodiversity, and can become (during the fire season) the second or third biggest greenhouse gases emitter in the world (on par with the EU and China economy wide emissions) because of high forest carbon stocks and carbon-rich peatlands. Tackling deforestation and unsustainable land use (such as criminal wildfires and sprawling oil palm plantations encroaching on pristine ecosystems), would represent 2/3 of the national climate change mitigation potential by 2030. **Both Indonesia and the EU ratified the Paris Agreement** in October 2016 highlighting the common commitment to fight climate change.
Development cooperation

The EU has spent more than €500 million development assistance in Indonesia in the last ten years, in particular to promote basic education for all and good governance (public finance management and justice), and to support efforts against climate change and deforestation and trade. EU cooperation is designed to support the Government of Indonesia's policies, as reflected in the Government’s Medium Term Development Plans. Indonesia has now graduated out of bilateral EU development assistance in the current programming period 2014-2020, but most programmes under the 2007-2013 financial framework, where €356 million was allocated, are still under implementation, some of them running until 2019.

Indonesia continues to be eligible for EU Thematic and Regional Cooperation programmes; the later growing steadily in particular the EU-ASEAN cooperation’s allocation which has almost tripled between 2007-2013 and 2014-2020. These regional and regional thematic instruments allow the EU to concentrate its support to Indonesia’s own priority sectors:

- Higher Education - European Higher Education Fair, Erasmus+ scholarships and projects;
- Continued Aid for Trade support - dedicated Indonesia component under the regional Multi Annual indicative programme by 2017 with € 10 million;
- Green Infrastructures and Green Growth - Asian Investment Facility, and Sustainable Consumption and Production under SWITCH Asia;
- Climate Change & Forestry – new regional funding on peatlands and biodiversity; thematic and global funding to support fighting deforestation and licensing for timber products (FLEGT);
- Support to civil society with a current portfolio of NGO projects managed by the Delegation amounting to over €20 million, and including on human rights; yearly allocations are € 3 million for CSO-LA and € 1 million for EIDHR.

Since 1995, the European Union has made available €136 million in humanitarian aid, including over €60 million in response to the 2004 earthquake/tsunami in Aceh-Nias. The EU civil protection mechanism stands ready to support Indonesia and was deployed in January 2016 in order to improve prevention and preparedness to address forest and peatland fires.

People-to-people exchanges

The European Union offers various scholarships and grants to Indonesian students, researchers and university staff to promote exchange and foster educational ties between the EU and Indonesia. Over 9,600 Indonesians currently study in Europe, of whom 1,600 have received scholarships from the EU and its Member States, and of whom 225 are recipients of Erasmus+ mundus scholarships. Reciprocally, more than 100 European students and scholars are studying and teaching in Indonesia thanks to Erasmus+ scholarships. EU-organised scholarships include: Erasmus Mundus scholarships for Joint Masters and Doctorate programmes, Marie Skłodowska-Curie Fellowships, and Erasmus+ mobility grants. In addition to Erasmus+ scholarships, the EU – in collaboration with ASEAN – is also providing 500 scholarships for ASEAN students through the EU Support to Higher Education in ASEAN Region (SHARE) programme. The EU and its Member States organise an annual European Higher Education Fair in Indonesia, with over 130 European universities exhibiting and promoting scholarships, and over 20,000 visitors in 2016, which makes it the largest European university fair in the world.

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