



EUROPEAN UNION TRADE AND INVESTMENT WITH INDONESIA

2021





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MESSAGE FROM THE EXECUTIVE VICE-PRESIDENT
AND COMMISSIONER FOR TRADE OF
THE EUROPEAN COMMISSION

H. E. VALDIS DOMBROVSKIS

The EU-Indonesia relationship has deepened in recent years. Already, some 1,100 EU companies operate in Indonesia, employing 1.1 million people, and we are convinced there is potential for much more. We therefore attach particular importance to the ongoing negotiations for the EU-Indonesia Comprehensive Economic Partnership Agreement (CEPA). This deal would deliver a significant boost to our bilateral trade and investment flows.

Our economies are complementary, and CEPA should be seen as a driver for domestic reforms that will attract foreign investment. This can in turn bring jobs, skills and technology to Indonesia, helping to deliver more resilient and sustainable supply chains.

Both sides are committed to a timely conclusion of an ambitious and comprehensive CEPA. This will benefit business operators, including SMEs, workers and consumers, both in the EU and in Indonesia – as is already the case under the EU's Free Trade Agreements with other Southeast Asian countries, namely Singapore and Vietnam. Moreover, as we plan our recoveries from the COVID-19 pandemic, we should work together to find wider areas of cooperation.

The EU's ambition is to harness our recovery plans to accelerate the green and digital transformations of our economies. This will help us meet our target to become the world's first climate-neutral continent by 2050.

The Indonesian government has also prioritised a sustainable and digital recovery. This largely aligns with the EU agenda, and I therefore welcome the opportunities this opens up for further cooperation.

Trade policy has an important role to play in supporting the realisation of these goals, and under the EU trade strategy unveiled earlier this year we set course for an open, sustainable and assertive trade policy.

Open, fair and rules-based trade are the guiding principles of our policy, both at multilateral level and in bilateral trade relations with our global partners, including Indonesia. As CEPA negotiations advance, we are committed to developing our economic cooperation, trade and investment, for the mutual benefit of our people and economies. ■



MESSAGE FROM THE EU
AMBASSADOR TO INDONESIA

H.E. VINCENT PIKET

The EU has been a strong and committed partner of Indonesia for over 30 years in a wide range of areas, including trade and economic affairs. This is a country with extraordinary potential, and we support its aspiration of reaching upper-middle income status in the near future. We believe that this goal must go hand in hand with sustainable development and climate action.

The EU's ambitious agenda of realising a climate neutral economy by 2050 has become a part of our policy at home and abroad. Indonesia has embedded sustainability into its Medium and Long-Term Development Plans, aligned

with the UN Sustainable Development Goals. These bode well for economic cooperation, trade and investment.

While the COVID-19 pandemic has heavily affected bilateral trade flows, Indonesia remains our fifth largest trading partner in ASEAN. Around 1,100 European companies are providing employment to 1.1 million Indonesians. Economic ties between the EU and Indonesia will be strengthened by the conclusion of the Comprehensive Economic Partnership Agreement. The CEPA will boost overall trade and investment and promote a sustainable relationship in economic, social and environmental terms. Thereby the agreement will contribute to Indonesia's and the EU's socio-economic recovery from the COVID-19 crisis. We are determined to conclude the negotiations fast and make them a success for both sides.

This publication provides an overview of the latest trade and investment figures between the EU and Indonesia, covering trade in goods and services and FDI. It gives readers insights into the importance of EU-Indonesia economic relations in the context of ASEAN and the world. I hope this booklet will be a valuable reference to identifying opportunities to expand our trade and investment ties and to deepen our already very fruitful relationship. ■



THE EUROPEAN UNION



447 MILLION
CITIZENS



1 SINGLE
MARKET



4 THE FREE MOVEMENT OF PEOPLE,
GOODS, SERVICES AND CAPITAL



27 MEMBER
STATES



€ 13.3 TRILLION GDP
(NOMINAL)



€ 29,800 GDP
(PER CAPITA)



EU GLOBAL TRADE AND INVESTMENT

The EU is one of the grouping of sovereign states that has managed to create an extensive customs union with common commercial policies. Strong internal market and an open trade regime have made the EU a major world trading power. It has a large network of trade agreements with 78 partners, and has been the most open to developing nations.

Despite representing only 9.78% of the world population, the EU is among the three largest global players for international trade in goods, together with China and the United States. In 2020, the EU's trade in goods with the rest of the world (the sum of extra-euro exports and imports) amounted to €3,657 billion.

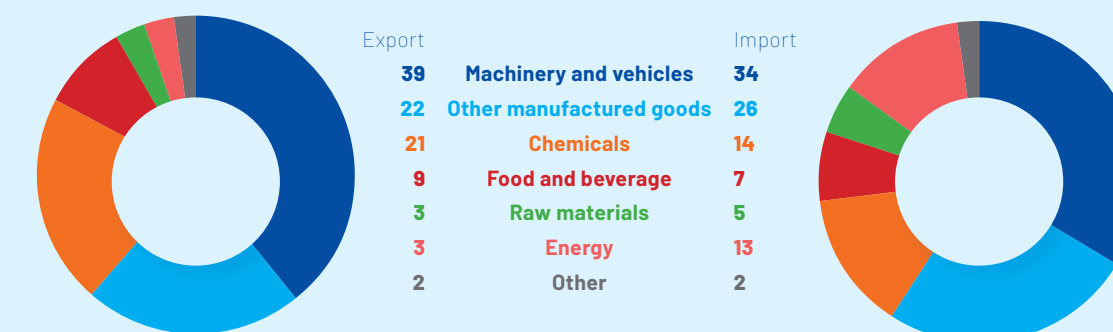
The main destination for EU exports in 2020 were other

countries in Europe (37%) followed by Asia (30%) and North America (20%). A majority of the exports are in machinery and vehicles (39%), manufactured goods (22%) and chemicals (21%). The United States, specifically, was the EU's biggest export partner in 2020, garnering €352.9 billion.

The same group of commodities also make up EU's main imports. Around 44% of imports came from Asia while other European countries accounted for 31% and North America for 13%. China is the EU's most significant importer, contributing €383.4 billion in 2020. Overall, in 2020, the EU economy registered a trade surplus of €217.5 billion of extra EU-goods which was largely driven by trade surpluses in chemicals (€178.4 billion) and machinery & vehicles, (€174 billion) and a smaller surplus in food & beverages.

EU EXPORTS AND IMPORTS BY PRODUCT GROUP 2020 (%)

Source: Eurostat



Services are also an increasingly important part of international trade and account for more than half of EU GDP. The EU's trade policy facilitates this exchange and has contributed to a doubling of EU services exports over the last decade. According to WTO data, the EU is also the world's largest trader of services in 2020 with 19% share, significantly larger than the United States (12%), China (7%), United Kingdom (6%) and Japan (4%). In 2020, total international trade in services for the EU was around €1,674 billion. EU's export of services to non-member countries amounted to €867 billion and import €807 billion, contributing to a surplus of €60 billion. The top two countries of origin for EU service imports, the UK and the US, also hold the highest shares for EU exports.

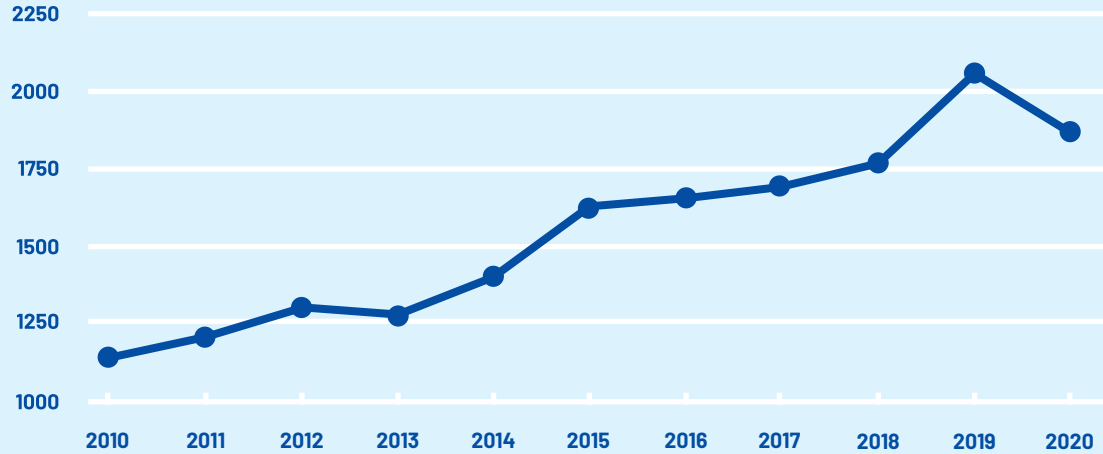


Furthermore, the EU is the world's main provider and the top destination of Foreign Direct Investment (FDI). It continues to be one of the world's most open markets for investment. According to the latest available statistics from Eurostat, net FDI stocks held in the rest of the world by EU investors amounted to €8,990 billion at the

end of 2019, up by 3.8% compared with the end of 2018. Meanwhile, FDI stocks held by third country investors in the EU amounted to €7,138 billion at the end of 2019 (+3.4%). Thus, the EU's net investment position in 2019 was higher by €90 billion compared with the year earlier.

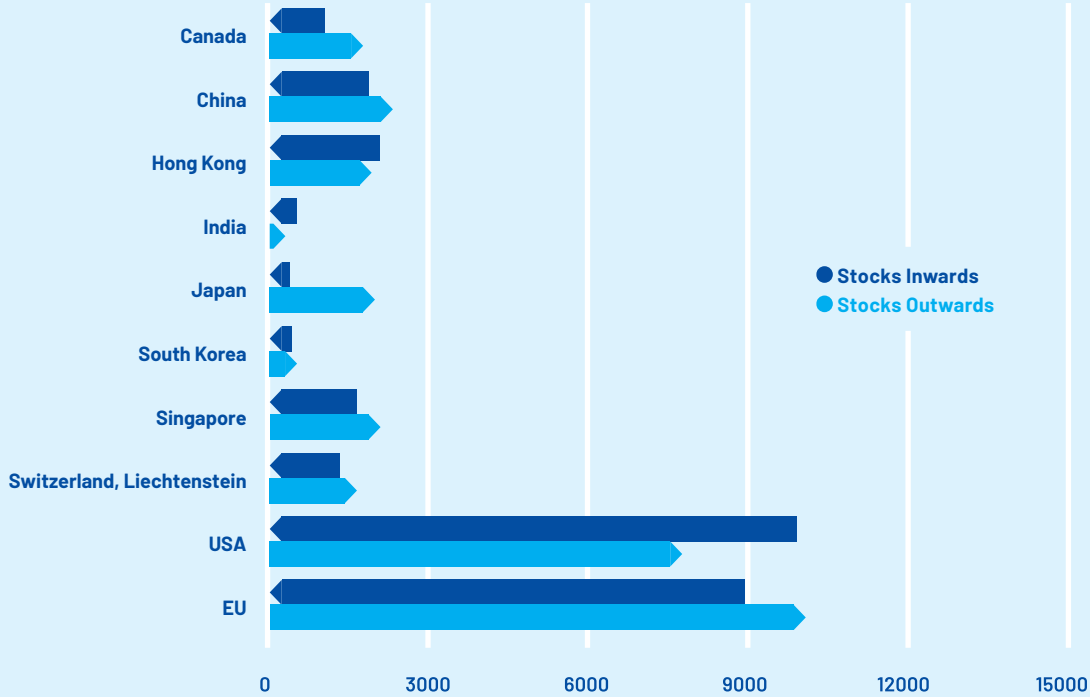
EU EXTERNAL TRADE IN SERVICES, 2010-2020 (€ BILLION)

Source: Eurostat



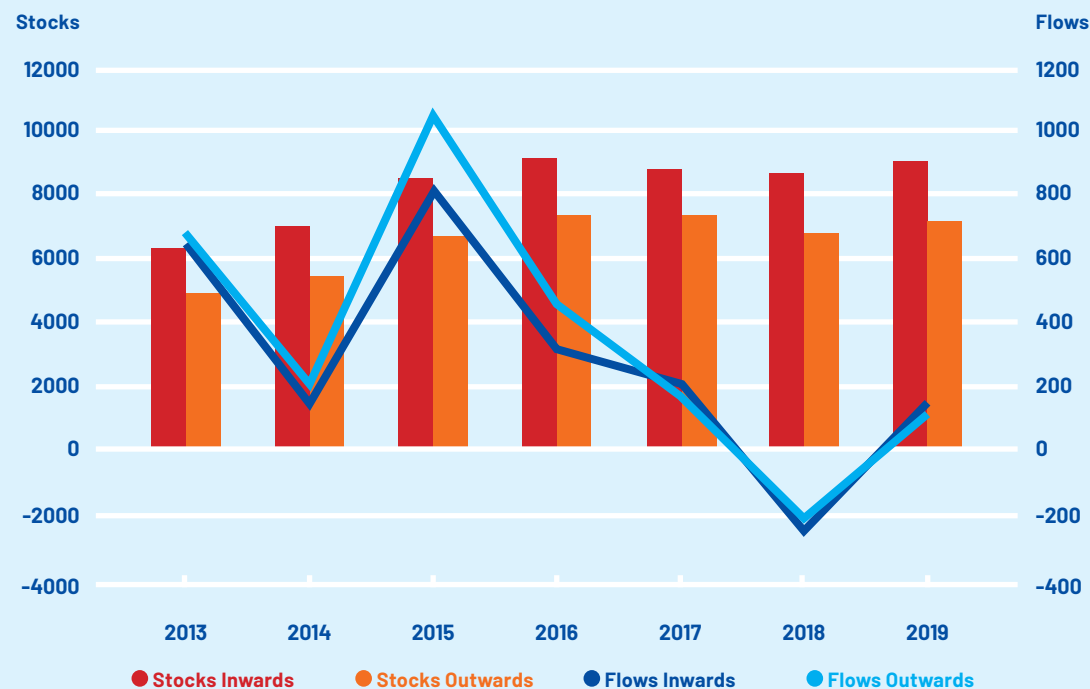
GLOBAL FDI OUTWARD AND INWARD STOCKS 2019 (\$ BILLION)

Source: UNCTAD



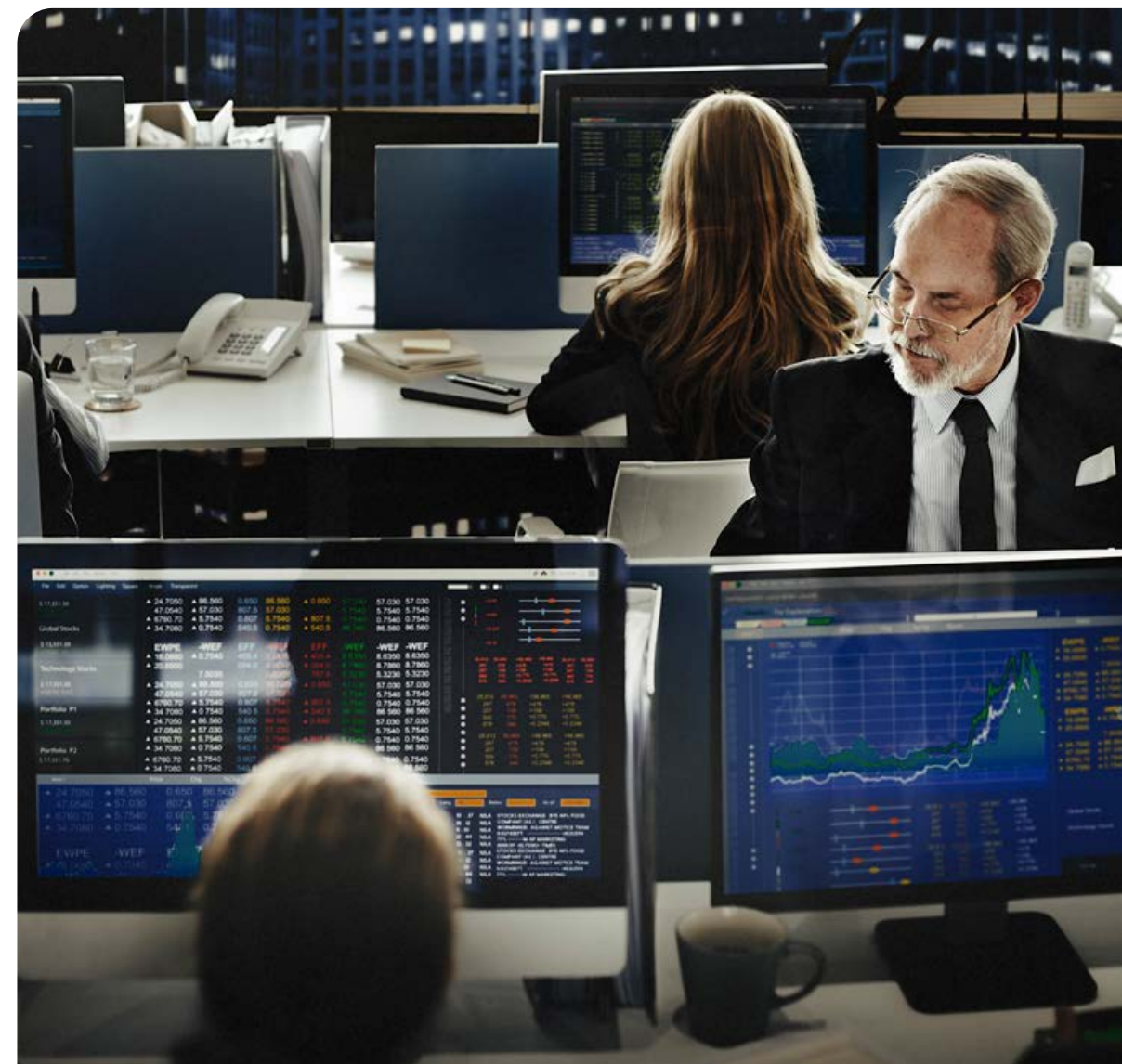
EU FDI FLOWS AND STOCKS WITH THE REST OF THE WORLD, 2013 - 2019 (€ BILLION)

Source: Eurostat



In 2020, the trade of the European Union was hit hard by the coronavirus pandemic, with significant falls observed in both exports (-9.4%) and imports (-11.6%) compared to 2019. The pandemic continued to affect EU trade in the first quarter of 2021. In the first three months of 2021, EU imports decreased by -0.9% to €460.6 billion and

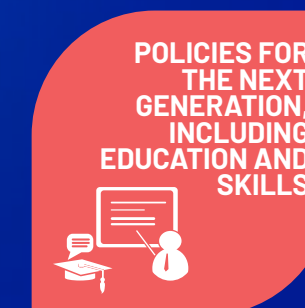
EU exports down by -0.8% to €509 billion. Despite the crisis, the EU continues to see trade as essential for the swift and sustainable socio-economic recovery from the COVID-19 pandemic. It remains committed to open trade and investment policies.





To help rebuild Europe post-COVID 19, EU leaders agreed on a €1.8 trillion stimulus plan, the largest ever financed in Europe. The deal includes a €750 billion recovery fund for 2021-2023, dubbed Next Generation EU (NGEU), and will be tied to the €1 trillion multiannual financial framework (MFF) for the next seven years. At the centre of the NGEU is the Recovery and Resilience Facility (RRF) with €672.5 billion in loans and grants to support reforms

and investments in member countries. The funds will help counteract socio-economic damages from the COVID-19 pandemic and will go to the countries and sectors most affected. Additionally, it serves to assist Europe's digital and green transitions. Member states are currently working on their national recovery and resilience plans which must cover six policy areas:



The NGEU also allocated €47.5 billion for the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) initiative which continues and extends the crisis response and crisis repair measures delivered

through the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus, as well as additional funds to Horizon 2020, InvestEU, rural development or the Just Transition Fund (JTF).

NEW EU TRADE STRATEGY

In February 2021, the European Commission set out a new trade strategy to address current challenges and the expectations of citizens. It is based on the concept of 'Open Strategic Autonomy' building on the EU's openness to contribute to the economic recovery through support for the green and digital transformations, as well as a renewed focus on strengthening and reforming global trade rules to ensure that they are fair and sustainable. The EU will also take a more assertive stance in defending its interests and values where necessary, including through new tools.

Sustainability is at the heart of this trade strategy and it supports the EU's fundamental transformation to a climate-neutral economy. Headline actions are centred on delivering stronger global trading rules and contributing to the EU's economic recovery.

This new strategy prioritises a major reform of the World Trade Organisation (WTO), including global commitments on trade and climate, new rules for digital trade, reinforced rules to tackle competitive distortions, and restoring its system for binding dispute settlement.

It will also bolster the capacity of trade to support the digital and climate transitions. First, by contributing to achieving the European Green Deal objectives. Second, by removing unjustified trade barriers in the digital economy to reap the benefits of digital technologies in trade. The EU will also shape global change by reinforcing its alliances,

such as the transatlantic partnership, together with a stronger focus on neighbouring countries and Africa.

At the same time, the EU, in the service of its own citizens and its agreement partners', will adopt a tougher, more assertive approach towards the implementation and enforcement of its trade agreements, fighting unfair trade and addressing sustainability concerns. EU's efforts to ensure that its agreements deliver the negotiated benefits for workers, farmers and citizens.

THE EU FOCUSES ON THREE MAIN OBJECTIVES:



Supporting the recovery and fundamental transformation of the EU economy in a way that is consistent with our green and digital ambitions



Shaping global rules for a more sustainable and fair globalisation



Increasing our capacity to pursue our interests and enforce our rights, autonomously if necessary



TO DELIVER ABOVE OBJECTIVES, THE EUROPEAN COMMISSION FOCUSES ON SIX CRITICAL AREAS:

Reform the World Trade Organization (WTO)



Strengthen the EU's regulatory impact

Support the green transition and promote responsible and sustainable value chains



Strengthen the EU's partnership with neighbouring, enlargement countries and Africa

Support the digital transition and trade in services



Strengthen the EU's focus on implementation and enforcement of trade agreement, and ensure a level playing field

EU-INDONESIA TRADE AND INVESTMENT



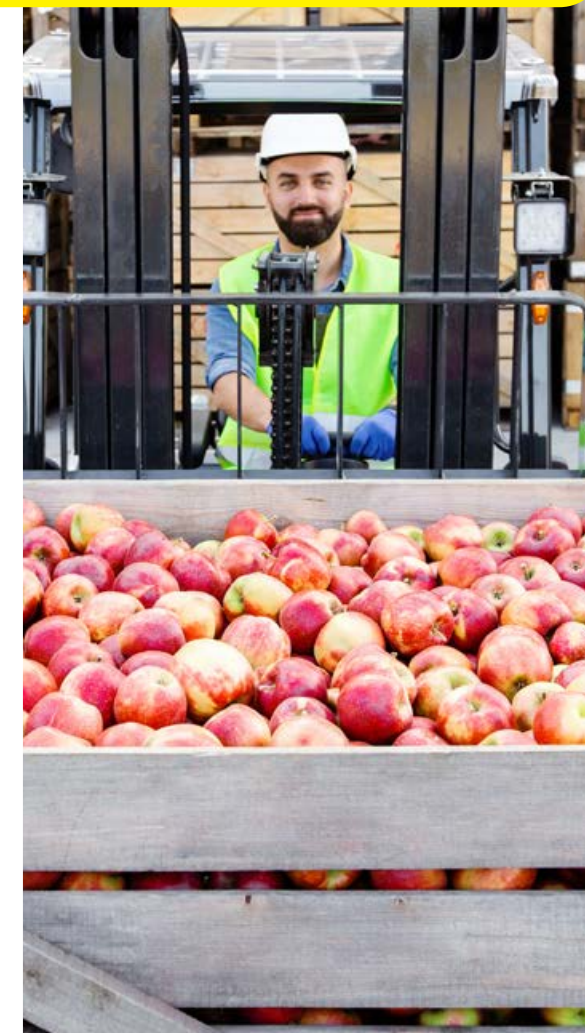
TRADE IN GOODS

The EU was Indonesia's fifth largest trading partner in 2020. Bilateral trade in goods amounted to €20.6 billion in 2020, with EU exports worth €7.2 billion and EU imports worth €13.4 billion. Meanwhile, Indonesia was the 31st global trading partner for the EU and fifth EU partner in ASEAN. For the EU, Indonesia was the 25th largest import source and 33rd largest export destination in 2020.

There is a high level of trade complementarity between Indonesia and the EU. A study conducted by a Jakarta-based think tank CSIS in 2021¹ shows that the Complementarity Index of Indonesian exports and EU imports is 0.6 of 1. Over half of EU-Indonesia trade consists of intermediate goods used as input for further production process both in Indonesia and Europe. Around 40% of Indonesia's exports to the EU are consumer goods.

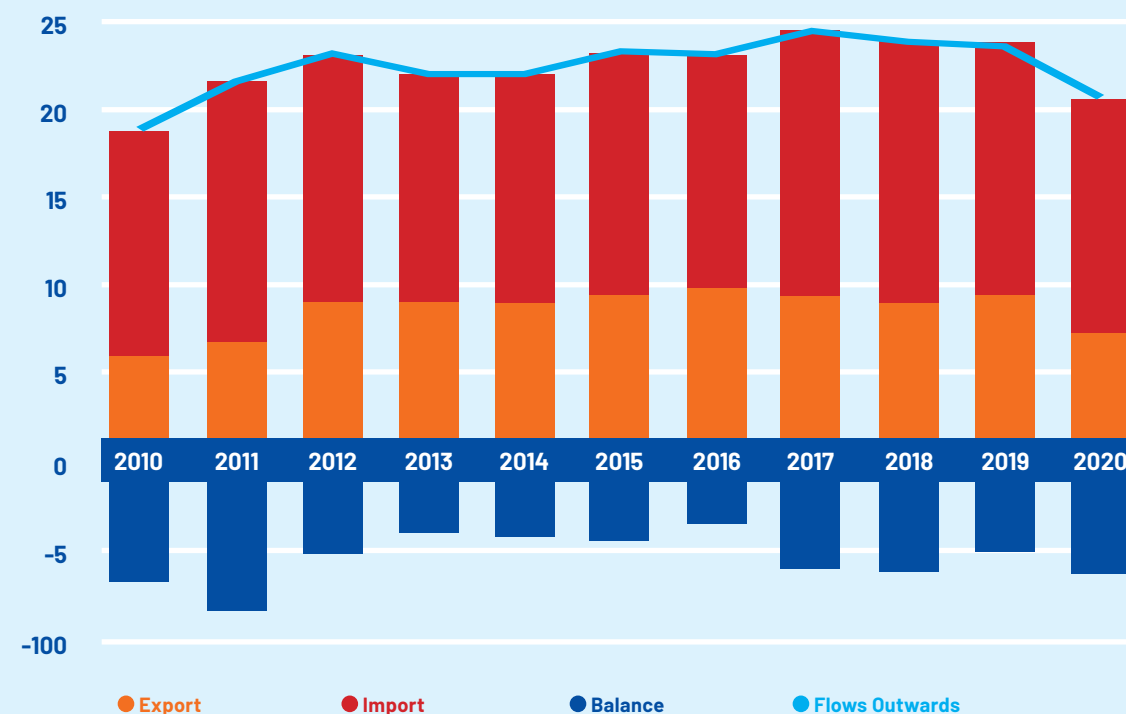
Within ASEAN, Indonesia is only the EU's fifth largest trading partner, after Vietnam, Singapore, Malaysia and Thailand, suggesting ample room for growth. In the last decade, the value of merchandise trade between the EU and Indonesia increased by 12% while trade in goods between EU and ASEAN increased more than half to €189 billion.

¹ Seizing Gain from a Transformative Agreement: A Study on the EU-Indonesia Comprehensive Economic Partnership Agreement (CSIS, 2021)



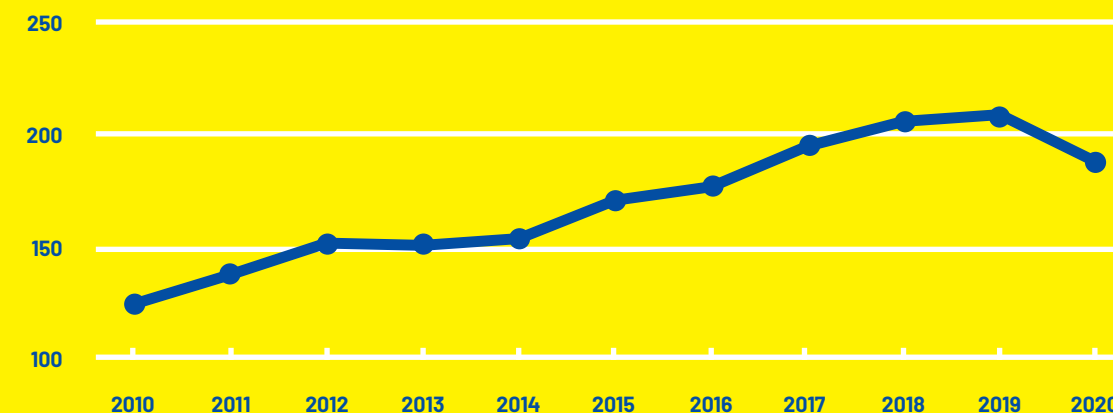
EU TRADE IN GOODS WITH INDONESIA, 2010 – 2020 (€ BILLION)

Source: Eurostat



TOTAL EU TRADE WITH ASEAN MEMBER COUNTRIES, 2010 – 2020 (€ BILLION)

Source: Eurostat



EU exports of goods to Indonesia amounted to €7.2 billion in 2020, a sharp decrease of 23.4% from 2019 levels, including mostly machinery and transport equipment (43.3%), followed by chemicals and related products (19.7%) and manufactured goods classified chiefly by material (10%).

The COVID-19 pandemic negatively affected EU-Indonesia trade. EU exports suffered more with disruption in domestic manufacturing in Indonesia due to the pandemic. Exports of aircraft and its parts in particular

recorded a significant decrease (-78%) due to delayed or cancelled purchases by Indonesian airlines. Sharp decreases also recorded for machinery and transport equipment (-35.3%), beverages and tobacco (-29.5%), and miscellaneous and manufactured articles (-26.3%). Conversely, exports of pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard registered a 17.3% increase compared to 2019. Meanwhile, exports of mineral fuels, lubricants and related materials increased by 44.8%.

EU EXPORTS OF GOODS TO INDONESIA BY PRODUCT CATEGORY (SITC)

Source: Eurostat

SITC SECTION	Exports (€ Mio)			
	2017	2018	2019	2020
Food and live animals	552	559	704	564
Beverages and tobacco	55	66	66	46
Crude materials, inedibles, except fuels	399	410	495	478
Mineral fuels, lubricants, and related materials	293	111	59	85
Animal and vegetable oils, fats and waxes	19	23	22	22
Chemicals and related prod, n.e.s	1,334	1,488	1,443	1,430
Manufactured goods classified chiefly by material	764	808	816	721
Machinery and transport equipment	4,698	4,490	4,851	3,138
Miscellaneous manufactured articles	634	644	676	499
Commodities and transactions n.c.e.	176	93	92	167
Other	341	211	186	96
Total	9,265	8,902	9,410	7,249

At a more disaggregate level, EU exports to Indonesia in 2020 included mainly nuclear reactors, boilers, machinery and mechanical appliances and parts thereof; electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (9.4%), optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and

accessories thereof (5.3%). Other main exports comprised of pharmaceutical products (4.2%), pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard (3.9%), plastics and articles thereof (3.6%), dairy produce; birds' eggs; natural honey; edible products of animal origin (3.1%), miscellaneous chemical products (2.9%) and aircraft, spacecraft, and parts thereof (2.9%).

EU EXPORTS OF GOODS TO INDONESIA BY HS CHAPTER

Source: Eurostat

SITC SECTION	Exports (€ Mio)	
	2019	2020
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2,603	1,955
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	875	684
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	413	387
Organic chemicals	283	324
Pharmaceutical products	308	304
Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	243	285
Plastics and articles thereof	277	263
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	323	227
Miscellaneous chemical products	223	211
Aircraft, spacecraft, and parts thereof	952	209
Total	9,410	7,249

EU IMPORTS OF GOODS FROM INDONESIA BY PRODUCT CATEGORY (SITC)

Source: Eurostat

SITC SECTION	Imports (€ Mio)			
	2017	2018	2019	2020
Food and live animals	1,186	1,107	1,122	1,124
Beverages and tobacco	138	147	135	117
Crude materials, inedibles, except fuels	926	1,289	992	954
Mineral fuels, lubricants, and related materials	414	388	231	123
Animal and vegetable oils, fats and waxes	3,166	2,446	2,156	2,620
Chemicals and related prod, n.e.s	1,589	1,911	1,760	1,525
Manufactured goods classified chiefly by material	1,527	1,611	1,801	1,581
Machinery and transport equipment	2,427	2,360	2,206	1,842
Miscellaneous manufactured articles	3,797	3,666	3,903	3,493
Commodities and transactions n.c.e.	28	13	14	13
Other	9	58	45	7
Total	15,206	14,997	14,363	13,398

Meanwhile, Indonesia's exports to the EU reached € 13.4 billion in 2020, a small decrease by 6.7% from the previous year. Main export commodities to the EU are miscellaneous manufactured articles (26.1%), animal and vegetable oils, fats and waxes (19.6%) and machinery and transport equipment (13.8%). At a more disaggregate level, EU imports from Indonesia were dominated by

animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes, accounting for 19% of total imports. It also increased by 18.3% from 2019 levels. Indonesia's exports have been benefited from a shift in global demand to palm oil due to supply disruption of other vegetable oils.

EU IMPORTS OF GOODS FROM INDONESIA BY HS CHAPTER

Source: Eurostat

SITC SECTION	Imports (€ Mio)	
	2019	2020
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	2,161	2,557
Footwear, gaiters and the like; parts of such articles	1,419	1,313
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	1,367	1,114
Miscellaneous chemical products	1,190	822
Rubber and articles thereof	819	737
Articles of apparel and clothing accessories, not knitted or crocheted	690	539
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	506	440
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates and the like; prefabricated buildings	422	411
Articles of apparel and clothing accessories, knitted or crocheted	450	376
Organic chemicals	283	324
Total	14,363	13,398

TRADE IN SERVICES

Bilateral trade in services between Indonesia and the EU in 2019 amounted to €7.5 billion (a 13.6% increase compared to 2018), with the EU exporting €5.3 billion and importing €2.2 billion. Indonesia has consistently been a net importer of European services. EU service exports to Indonesia in 2019 are mainly in the following sectors: business services (€2.2 billion), transport (€1.3 billion), telecommunications, computer, and information services (€0.7 billion).

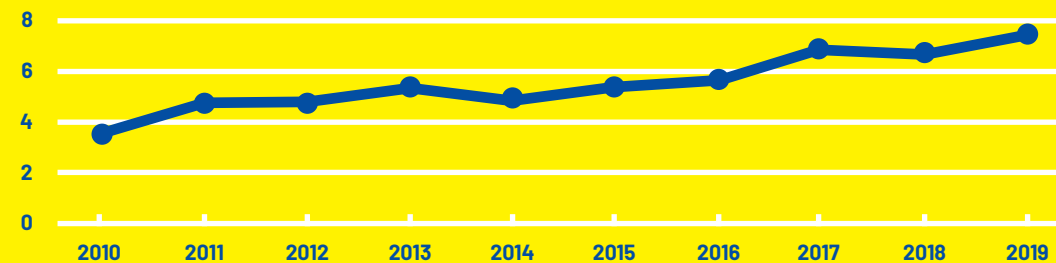
Exports of business services included mainly technical trade-related services (€2 billion) and professional and management consulting services (€0.2 billion) and research and development services (€26.9 million). Within the transport sector, exports of sea transport services to Indonesia amounted to €858 million, whereas exports of computer services reached €718.1 million, representing the largest sector among telecommunications, computer and information services.

Meanwhile, Indonesia's services exports to the EU are mostly related to travel (€1.2 billion) and transport (€0.5 billion). In 2019, the decline in Indonesia's service exports can be attributed to a drop of EU imports related to travel, which fell by 14.3% due to COVID-19 restrictions.

The use of domestic service output as an intermediate input in Indonesian production tends to be low compared to other countries in the region. According to the CSIS study, there is still a shortage of domestic supply in 23 out of 44 service sectors in Indonesia, most notably in environmental services and aircraft. Meanwhile, many of those sectors such as transportation services, financial services, as well as professional and business services are input providers for other sectors. Thus, increased openness to services would benefit not only the service sector, but also the Indonesian economy as a whole.

EU-INDONESIA TRADE IN SERVICES, 2010-2019 (€ BILLION)

Source: Eurostat



EU-INDONESIA EXPORT AND IMPORT OF SERVICES BY SERVICES CATEGORY, 2018-2019 (€ MILLION)

Source: Eurostat

SITC SECTION	2018		2019	
	Export	Import	Export	Import
Manufacturing services on physical inputs owned by others	13.5	12.8	17.3	43.7
Maintenance and repair services n.i.e.	85.7	16.9	90.9	28.2
Transport	1,098.1	468.2	1,273.4	455.5
Sea transport	700.4	277.7	858	282.7
Air transport	361.3	89.8	378.9	91.5
Other modes of transport	13.2	83.6	13.4	66.8
Postal and courier services	23	18.2	19.9	15.2
Travel	294.4	1,437.4	326	1,197.5
Travel; Business	54.8	174.3	61.8	135.7
Travel; Personal	237.6	1,261.1	262.5	1,061.7
Construction	70.2	45.4	121.7	71.1
Construction abroad	70.2	44.4	121.7	70.1
Construction in the reporting economy	0	2	0	1
Insurance and pension services	58.8	25.3	48.2	11.5
Direct insurance	7.8	10.3	3.9	9.8
Reinsurance	7.2	8.6	2.7	0.2
Auxiliary insurance services	2	6.1	0.3	1.4
Pension and standardised guarantee services	40.8	0	40.4	0
Financial services	118.6	24.6	90.3	18.7
Financial services explicitly charged and other financial services	74.7	19.7	55.5	13.8

Continued in next page

EU-INDONESIA EXPORT AND IMPORT OF SERVICES BY SERVICES CATEGORY, 2018-2019

SITC SECTION	2018		2019	
	Export	Import	Export	Import
Charges for the use of intellectual property n.i.e.	314.1	4.2	355.5	7.5
Telecommunications, computer, and information services	620.2	39.1	742	49.2
Telecommunications services	22.2	18.8	19.5	19.3
Computer services	587.5	17.9	718.1	28.9
Information services	9.2	1.1	3.2	1.1
Other business services	1,441.7	307.5	2,180.2	302.6
Research and development services	21.2	11.1	26.9	13.3
Professional and management consulting services	178.7	121.6	161.4	84.3
Technical, trade-related, and other business services	1,237.5	175.8	1,990.3	205.5
Personal, cultural, and recreational services	13.8	29	27.3	31
Audiovisual and related services	12	1.3	22.7	2.4
Personal, cultural, and recreational services other than audiovisual and related services	1.8	27.7	4.6	28.6
Government goods and services n.i.e.	21.7	19.1	23.2	17.1
Embassies and consulates	21.2	18.1	22.6	17.1
Military units and agencies	0	0	0	0
Government goods and services n.i.e. other than embassies and consulates and military units and agencies	0.5	1	0.6	1
Services not allocated	37.2	5.3	25.7	3.3
Commercial services	4,129.2	2,410.3	5,272.8	2,216.6

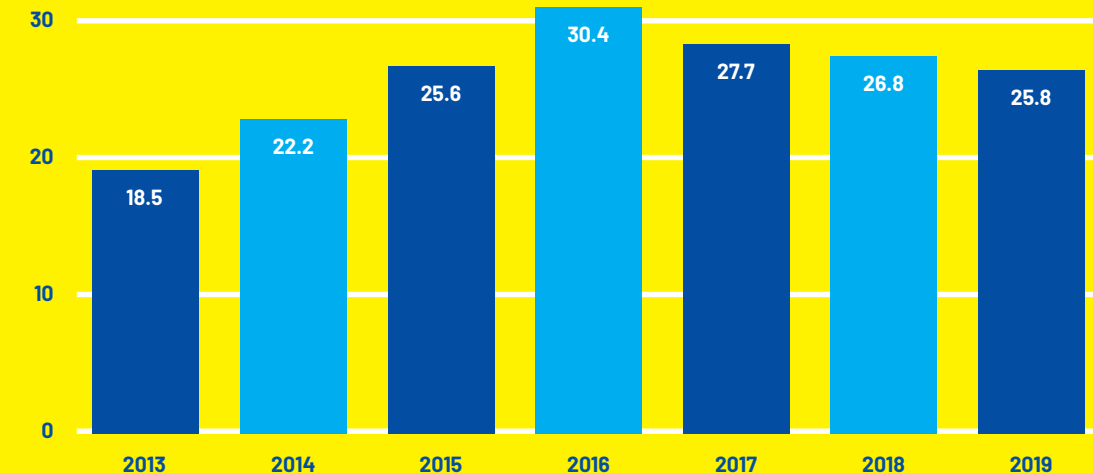
FOREIGN DIRECT INVESTMENTS (FDI)

EU investments in Indonesia have increased steadily throughout the years. In 2019, the value of EU FDI stock in Indonesia was €25.8 billion, an almost 40% increase compared to 2013. This increase was notwithstanding a dip in 2019 by €10 billion. The EU remains in the top four sources of foreign investors in Indonesia and the leading non-Asian investor.

Indonesia is the second destination for EU investment in the region after Singapore, accounting for 8.2% of the total EU FDI stock in ASEAN. This suggests ample room for growth as Indonesia is the largest economy in ASEAN. EU companies particularly invest in sectors with high value added products or activities as in manufacturing (especially chemicals and pharmaceuticals), transport, storage and communication, utilities infrastructure, and mining services.

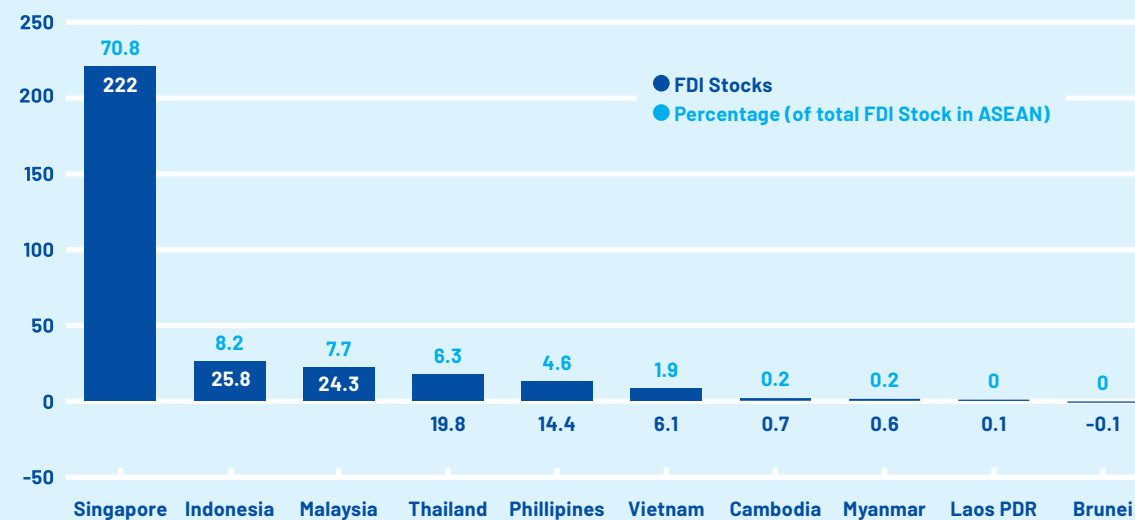
EU FDI STOCKS IN INDONESIA (€ BILLION)

Source: Eurostat



EU FDI OUTWARD STOCK IN ASEAN BY COUNTRY, 2019 (€ BILLION)

Source: Eurostat



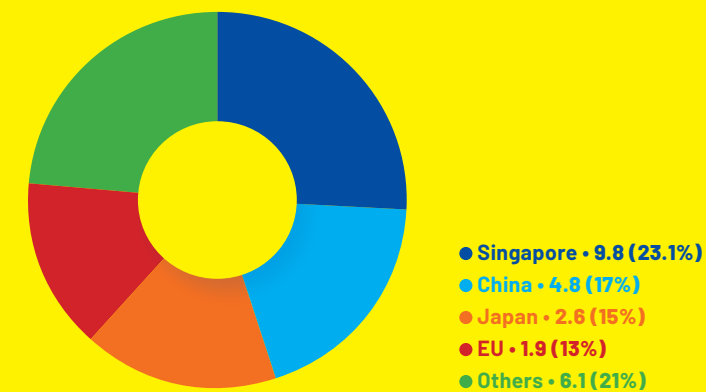
According to the Indonesian Investment Coordinating Board (BKPM), EU investment in Indonesia amounted to USD 1.9 billion throughout the year of 2020, a significant decrease by almost half compared to the previous year. However, FDI from the EU to Indonesia resulted in a large increase in the number of projects, from 300 in 2010 to nearly seven thousand in 2020.

Since 2016, the trend of EU's FDI has shifted to the tertiary

sector (service sector) and the primary sector (mining) from the secondary sector (manufacturing). According to investment data per sectoral by BKPM, most of the EU FDI to Indonesia in recent years went into transportation, warehousing and communications, electricity, water and gas sector and the mining sector. In 2019, investment in the electricity, gas and clean water accounted for 27.7 % and the mining sector accounted for 5.4 % of the total EU FDI to Indonesia.

TOP 5 SOURCES OF FDI IN INDONESIA, 2020 (€ BILLION)

Source: BKPM



EU-INDONESIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (CEPA)



BACKGROUND

European Union-Indonesia economic relations have continued to deepen over the years. Diplomatic ties were initially based on an EU Cooperation Agreement with ASEAN, formalised in 1980. More opportunities opened up with the Framework Agreement on Comprehensive Partnership and Cooperation (PCA), signed in November 2009 and entering into force in May

2014. Indonesia was the first ASEAN partner to conclude a PCA with the EU. The Agreement provides the basis and legal framework for regular political dialogue and sectoral cooperation across a wide spectrum of policy fields, including human rights, political dialogue, and trade.



EU-INDONESIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (CEPA)



In July 2016, negotiations were launched for the EU-Indonesia Comprehensive Economic Partnership Agreement (CEPA). Despite the COVID-19 pandemic, negotiations have achieved steady progress. The agreement will produce free flow of goods, services and investments in a combined total market of over 710 million people, while incorporating sustainable development, intellectual property rights, fair competition, as well as economic cooperation between both sides.

Indonesia is the sixth ASEAN member to start negotiations for a bilateral Free Trade Agreement (FTA) with the EU, after Singapore (2010), Malaysia (2010), Vietnam (2012), Thailand (2013) and the Philippines (2015). Negotiations have already been concluded with Singapore (2019) and Vietnam (2020) and the FTAs have entered into force. Talks are currently on hold with Malaysia, the Philippines and Thailand.

Negotiations with Indonesia are well advanced, despite some delay due to the pandemic. Both the EU and Indonesia are committed to concluding the negotiations as soon as possible.

CEPA is crucial to help eliminate and reduce tariffs as Indonesia is expected to become an upper-middle income country and will then lose access to the EU's General Scheme of Preference (GSP) for developing countries. For Indonesia, it is estimated that the agreement will increase welfare and GDP to €3.2 billion and €5.2 billion respectively. The agreement will increase EU welfare to

€2.4 billion and GDP to €3.1 billion by 2032, according to the latest Sustainability Impact Assessment (SIA) by the European Commission.

Furthermore, the higher the degree of trade liberalisation achieved in the agreement, the larger the economic gains expected for both sides. The removal of non-tariff barriers (NTBs) to trade seems to be key in determining the size of expected economic gains, special attention should be paid to Sanitary and Phyto-Sanitary (SPS) measures and Technical Barriers to Trade (TBT).

Total output in goods and services are anticipated to increase under the agreement. At the sectoral level, some industries such as textiles, wearing apparel and leather products in the EU; and motor vehicles and parts, chemicals, rubber and plastic, and metal products in Indonesia might see a contraction in production but would be more than compensated by expansion in other sectors like motor vehicles, machinery and dairy in the EU; and textiles, wearing apparel and footwear, as well as electronics, in Indonesia. The output of Indonesian oil and oilseeds sector would slightly decrease but exports to the EU would still increase due to a reallocation of existing trade flows and not from a production expansion.

Small and medium sized enterprises (SMEs) on both sides would benefit from increasing integration into global value chains and from the reduction of non-tariff related measures.

AWARENESS RAISING – CEPA ROADSHOW

Despite the COVID-19 pandemic, the EU Delegation, together with the Indonesian Ministry of Trade, EuroCham, and Indonesian Business Chambers (KADIN and APINDO) continued to hold the CEPA roadshows in a virtual format. From the end of 2020 until mid-2021, the Roadshow took place in Maluku, Central Java, West Java and South Sumatera, with good attendance and excellent interaction with local audiences.

The roadshow aims to build trust and understanding about the importance of the swift and ambitious conclusion of the agreement among local business, regional government, academia, and other local stakeholders. Additionally, it will create and nurture a favourable environment for the future implementation of the agreement.



EU-West Java Virtual Business Roundtable, featuring Governor of West Java, EU member state embassies, EU businesses and local KADIN, 11 June 2021



Virtual CEPA Roadshow in South Sumatera, 15 June 2021



Governor of Maluku Province delivered an opening remark during the virtual CEPA Roadshow in Maluku, 14 December 2020



Director of Bilateral Negotiations, Ministry of Trade, presented the benefits of IEU-CEPA during the virtual CEPA Roadshow in Central Java, 9 March 2021

CSIS STUDY: A STUDY ON INDONESIA-EU CEPA



The Centre for Strategic and International Studies (CSIS) in collaboration with ARISE+ conducted a study titled "Seizing Gains from A Transformative Agreement: A Study on Indonesia-EU CEPA" examining the potential impact of CEPA on Indonesian economy. The results were disseminated in webinar titled "Opportunities for Post-Pandemic Economic Reform and Recovery

in the Negotiations of the Indonesia-European Union Comprehensive Economic Partnership (IEU CEPA)", with opening speeches from Ambassador Vincent Piket and Minister of Trade Muhammad Lutfi. Panelists included officials from BAPPENAS, Ministry of Trade, Ministry of Finance, KADIN, EU Delegation and EuroCham Indonesia.



Besides expanding market access and diversifying exports, raising availability of affordable and quality inputs of goods and services, increasing investment, and involvement in the global value chain of EU companies, the study reports that the agreement can accelerate Indonesian economic recovery from the COVID-19 crisis.

Economic modelling suggests that Indonesia will gain a significant increase in real GDP and welfare from the trade liberalisation. The successful agreement would boost an additional 0.2% to Indonesia's real GDP growth year-by-year and an additional income of USD 2.8 billion. Increased welfare is closely related to increased productivity due to lower prices for raw materials and intermediary inputs. Overall, Indonesia's total industrial output is expected to increase by 0.1% against the baseline. This increase gives

Indonesia more capacity to increase its export volume to the EU. Indonesian exports to the EU are estimated to increase by 57.76% and EU exports to Indonesia is projected to increase by 76.17%.

In implementing and optimising the IEU CEPA negotiations, the study highlights that there are several important notes regarding policy adjustment options, especially those related to business sector competitiveness, especially MSMEs, good regulatory practice, and coordination between Ministries / Agencies. It also recommends that the government makes some policy adjustments and improvements on export quality infrastructure in the form of testing and labs to meet EU export standards and certifications.

EU BUSINESS PRESENCE IN INDONESIA



European Union investments have brought significant benefits to Indonesia: boosting economic growth, providing direct employment to 1.1 million Indonesians and helping Indonesia climb up the value chain through technological transfers. They also put importance on Corporate Social Responsibility (CSR) and encourage sustainable business practices supporting inclusive growth.

Below are some examples of the presence and recent activities of EU companies in Indonesia in the past year:



PT EAST WEST SEED INDONESIA (EWINDO) is the first integrated vegetable seed company in Indonesia which commits to being a Farmer's Best Friend. EWINDO produces the best of high quality vegetable seeds through the development of local, cutting-edge seed industry to increase farmers income. For more than three decades, EWINDO always provides healthy seeds with high genetic purity and good germination in order to achieve good results aligning with the consumers' wants and to become the key to success for Indonesian Farmers.

Social responsibility is the driving force for EWINDO's mission of providing innovative products and services to help farmers increase their income and promote the growth of vegetable farming industry. In one of its CSR projects, EWINDO has helped established plot demonstrations which illustrates the crucial role of women in the farming process and/or vegetable cultivation, and further, to promote and stress the importance of consuming vegetables in a domestic environment. In Malangnengah Village, the plot is managed by 70 women and have supplied vegetables to two Rukun Warga (RW) during the large-scale social restriction period. Together with Bina Tani Sejahtera Foundation (YBTS), EWINDO held an expo on vegetable technology and farmer resiliency in Tubuhe village, East Nusa Tenggara to improve the consumption of vegetables for the improvement of family nutrition, especially for children. This project aimed to increase welfare and resilience when facing drought.



REPSOL

Repsol S.A. is a Madrid headquartered Multi-Energy company that operates around the globe. Repsol's activities range from oil and gas exploration and production to refining and selling derived products, and electricity generation. Repsol is committed to leading the energy transition with its ambition of achieving zero net emissions by 2050.

In Indonesia, Repsol has been a leading player in oil and gas exploration for a number of years. In 2019, the company made the largest gas discovery in Indonesia in many years at the Kaliberau Dalam field, and they are now progressing its development. Repsol works in partnership with the communities wherever they operate, and within the framework of the United Nations' SDGs. Repsol's most recent initiatives have included supporting Aceh's coastal communities salt farming and milkfish farming, and during the Covid-19 pandemic the company has actively supported hospitals, the Indonesian Red cross, and local and regional governments in Aceh, Jambi and South Sumatera.



INDRA

Indra is one of the leading global technology and consulting companies and the technological partner for core business operations of its customers world-wide. It is a world-leader in providing proprietary solutions in specific segments in Transport and Defense markets, and

a leading firm in Digital Transformation Consultancy and Information Technologies.

Indra has a strong presence in Asia and has been operating in Indonesia since 2012 through its subsidiary Indra Indonesia. The Air Traffic management systems deployed by Indra in the last 10 years, are covering most of the Indonesian Airspace, helping to increase the efficiency and safety of the air transportation in the country.



ROTAREX

The Rotarex group is a world leading producer of gas control cylinder valves and pressure regulator equipment, with a presence in more than 65 countries. Since 1995, Rotarex has been an important contributor to the industrial gas community in ASEAN, having its headquarters in Singapore. Over years, understanding the dynamic regional growth, Rotarex expanded its operations with more integrated logistics and a direct presence in Thailand, Philippines, Malaysia, Vietnam and Indonesia.

In 2020, PT. Rotarex Teknosolusi Indonesia was established with a unique business model within the group. From Jakarta, Rotarex is now offering a wide range of engineering services adapted to the expectations of a unique emerging country. The core idea is to find and maintain the balance between the specific Indonesian market requirements and the group culture. The natural next step of a long-term commitment.



ORIFLAME

Oriflame globally supports and empowers more than 3 million independent sales consultants in over 60 countries. In Indonesia, Oriflame has started changing people's lives since 1986, and to date Oriflame Indonesia have 13 Experience Centres, empowering the life of more than 350,000 registered members across the country through Oriflame Changes Lives program. Oriflame is a longtime supporter of the Honey Bee Farmers of Tesso Nilo and Ujong Kulon – providing the communities with a sustainable source of livelihood, planting mangroves and trees in the community where they live in, as well as working with Indonesia Heritage Foundation for the Early Childhood Education Teacher Training program for more than 350 schools.



ERICSSON

Ericsson enables communications service providers to capture the full value of connectivity. Having been in Indonesia since 1907, with a strong commitment in building local competence, the company's portfolio spans Networks, Digital Services, Managed Services, and Emerging Business and is designed to help our customers go digital, increase efficiency and find new revenue streams. Ericsson's investments in innovation have delivered the benefits of telephony and mobile broadband to billions of people around the world. As the leader of mobile telecommunication partner in Indonesia, Ericsson

strives to keep its position by providing the best solutions to their customers. Ericsson will continue the commitment by bringing the latest technologies and innovations towards strengthening the ICT ecosystem of Indonesia.



PT. SOUTH PACIFIC VISCOSE, A MEMBER OF THE LENZING GROUP

Over 40 years ago Lenzing AG from Austria invested in Indonesia into the manufacturing of high quality viscose fibers under a legal entity of PT. South Pacific Viscose (SPV). The Lenzing Group's high-quality fibers form the basis for a variety of textile applications. Due to their consistently high quality, their biodegradability and composability, Lenzing fibers are also highly suitable for hygiene products and agricultural applications. World famous brands from Lenzing are TENCEL™, VEOCEL™, ECOVERO™, and LENZING™.

Today SPV operates the world's largest viscose manufacturing site located in Purwakarta, West Java with a production capacity of 325,000 tons/year. Furthermore, 70% of SPV's business is for the export market and according to the Indonesian Ministry of Industry in 2020, SPV is the world's biggest viscose exporter, making Indonesia the 2nd most prominent viscose exporting country in the world after China.



The Allianz Group is one of the world's leading insurers and asset managers with more than 100 million private and corporate customers in more than 70 countries. Allianz offers a broad range of personal and corporate insurance services, ranging from property, life and health insurance to assistance services to credit insurance and global business insurance. With the systematic integration of ecological and social criteria in the business processes and investment decisions, Allianz is amongst the leaders in the insurance industry in the Dow Jones Sustainability Index. Furthermore, the company is one of the leading insurance groups in the world market trusted to protect more than 8,3 million insured. Allianz started its operations in Indonesia with a representative office in 1981 and today, it has more than 1,300 employees and a network of more than 34,000 sales professionals as well as bank partners and other distribution channels in Indonesia.



Siemens has been an integral part of Indonesia's technological and economic development for 165 years, providing technology as well as in building up local manufacturing facilities and skill development initiatives. The Siemens pointer telegraph machines

arrived in Indonesia as early as 1855 and the first office was established in Surabaya in 1909. Today, Siemens is operating in Indonesia with more than 1,000 employees and 3 production sites and is part of an industry that helps to transform the everyday with technology. As a global technology powerhouse that is active in nearly all countries of the world, Siemens helps to electrify, automate, and digitalize Indonesia's infrastructure and empowers customers to transform their industries that form the backbone of the economies. Through localisation and partner development, up-skilling and re-skilling, Siemens has been making real what matters to Indonesia in the areas of smart infrastructure development, digital transformation of the manufacturing sector, sustainable and clean energy supply.



Saint-Gobain is ranked among the top 100 Global Innovators in the past 9 years. The group's commitment towards performance quality is paired with ambition to reach carbon neutrality by 2050.

Saint-Gobain's presence in Indonesia is represented by various brands in the construction sector, performance plastics & abrasives. Guided by the purpose of "Making The World a Better Home", these brands provide comfort,

performance, safety and security, while addressing the challenges of sustainable construction, resource efficiency and climate change.

Saint-Gobain's Mortar Utama and Gyproc are the founding members of Green Product Council Indonesia and are the first to be acclaimed for Green Level Gold certification. ISOVER & CLIMAVER offers innovative energy efficiency & cost-effective thermal comfort insulation solutions. Saint-Gobain is the first abrasive product to obtain Forest Stewardship Council™ certification in Indonesia.



Veolia group aims to be the benchmark company for ecological transformation. With nearly 179,000 employees worldwide, the Group designs and provides game-changing solutions that are both useful and practical for water, waste and energy management. Through its three complementary business activities, Veolia helps to develop access to resources, preserve available resources, and replenish them.

Since 2018, Veolia made its first investment into Indonesia in East Java, with the largest plastic recycling facility in the country, one that embodies the principle of the circular economy, by recycling used PET plastic bottles

into food grade rPET pellets at a production capacity of 25,000 tons/year.

Along the plastic waste supply chain, Veolia is engaged in various programs to empower workers for a better livelihood. Today, Veolia has great ambition to continue investing in Indonesia by creating value for and assisting industrial clients to achieve their sustainability goals because that is Veolia's purpose, to contribute to human progress to achieve a better and more sustainable future for all.



PT Nokia Solutions & Networks Indonesia has been active and trusted partner for 24 years with major operators, enterprises, and government in Indonesia. Have more than 600 workforces and collaborate with local partners, the company support and building world class Mobile, Fixed and Cloud networks. As the World Most Ethical Companies' for 4 consecutive years since 2018, Nokia adhere to the highest standards of integrity & security, helping build the capabilities needed for the more productive, sustainable and inclusive world.

EUROPEAN BUSINESS ORGANISATIONS IN INDONESIA

EUROPEAN CHAMBER OF COMMERCE IN INDONESIA (EUROCHAM)



Launch of Eurocham Position Paper with the presence of the Coordinating Minister for Economic Affairs and the Minister of Trade, 21 July 2021

European Business Chamber Of Commerce (EuroCham) established in May 2004, has become the principal European business organization in Indonesia focusing on advocacy for more than 15 years. EuroCham Indonesia is a members-based non-profit principal business organization that promotes and supports European business interests across Indonesia by seeking better market access and improved business environment in Indonesia for European companies.

Representing more than 200+ member companies directly and approximately 1500+ indirect members through currently 8 bilateral chambers, EuroCham actively promotes European business interests in Indonesia. Through its diverse network of companies and the bilateral chambers, Eurocham is a policy advocacy platform that benefits members and stakeholders for a mutually conducive and sustainable business climate in Indonesia



Launching of 2nd Report on EuroCham Contribution to Sustainable Development Goals, 7 December 2020

EuroCham aims to be as a unified single voice of European Business and chambers in Indonesia that give mutual benefit to members and stakeholders through collective action to improve market access and become a dialogue partner with the Government of Indonesia and the European Union, by being at the forefront to address crucial and important business issues, including trade and investment concerns.

Continuous information sharing and a pro-active advocacy dialogue are the contributing factors for EuroCham to be acknowledged as the Government of Indonesia's partner and by other stakeholders as well. These efforts are executed through 15 working groups and member forums, all of which are representing European business interest in certain sectors or focus.

In 2020 full year, EuroCham held 98 working group meetings and coordinate 20 of policy meeting with

government officials, including policy dialogue with Vice President, Chairman of BKPM, Ministry of Trade, Ministry of Industry, Minister of Bappenas, Vice Minister of Finance, and President Staff's Office. In the first half of 2021, the organization managed to conduct 54 working group meetings and 24 policy meetings with different officials covering multiple sector related with the advocacy by the relevant working groups.

EuroCham also publishes several publications; among others are the EuroCham Annual Position Papers, Business Confidence Index, and Sustainable Development Report. Furthermore, EuroCham consistently organizes seminars virtually on issues that become hot topics during the year, for example The Omnibus Law Implementing Regulation series webinar, Manpower Regulations series of policy dialogue, Personal Data Protection, and Intellectual Property enforcement.



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USEFUL TRADE TOOL: ACCESS2MARKETS

<https://trade.ec.europa.eu/access-to-markets/en/home>

In October 2020, the European Commission launched Access2Markets, an online portal which provides assistance to small and medium enterprises (SMEs) beyond the EU's borders. This is a response to requests from stakeholders to better explain trade agreements and help companies

ensure their products are eligible for duty discounts.

The new portal provides the following information to import goods to the EU and to export goods to over 120 foreign markets:

TARIFFS



TAXES



RULES OF
ORIGIN



PRODUCT
REQUIREMENTS



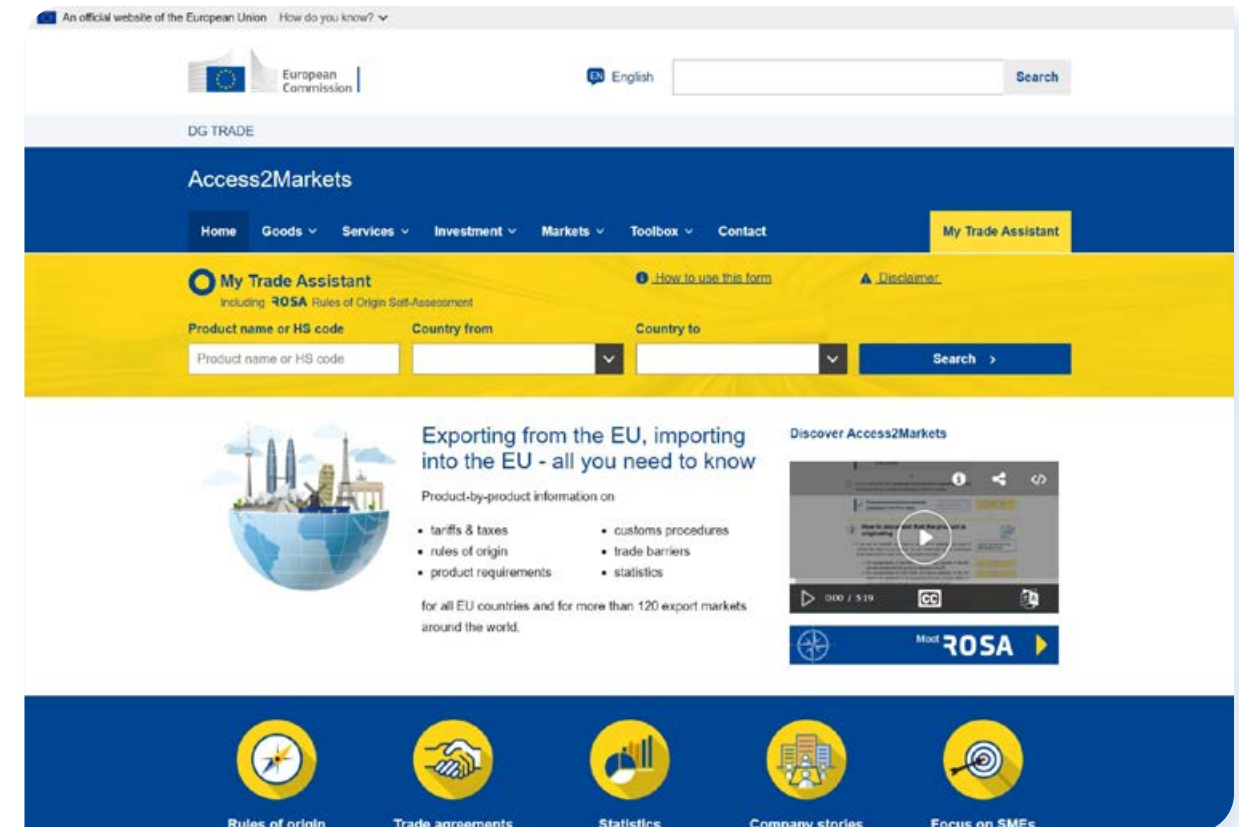
CUSTOMS
PROCEDURES



TRADE
BARRIERS



TRADE FLOW
STATISTIC



Also available is the self-assessment tool, ROSA, which provides special assistance on rules of origin that are tailor-made to every trade deal, making sure that sensitive market sectors are protected and that businesses can claim reduced/eliminated customs duties as set in the agreement.

The portal's My Trade Assistant tool allows businesses to look up information on duties, taxes, product rules

and requirements on a product-by-product basis for each market using product codes/names. Additionally, companies can also use the portal to report trade barriers they encounter.

The new Access2Markets portal also includes explanations, tutorials and FAQs to help new and experienced traders analyse the benefits of trade with each of the EU's trading partners.

EU ECONOMIC ASSISTANCE PROGRAMMES FOR INDONESIA

ARISE+ INDONESIA (2019-2024) €15 MILLION

The ASEAN Regional Integration Support from the EU (ARISE+) Indonesia – Trade Support Facility, is one of the flagship initiatives under the EU-Indonesia Cooperation Framework which aims to contribute to Indonesia's preparedness and enhanced competitiveness in global value chains through interventions at national and sub-

national levels. Launched in 2019 with a budget of €15 million, ARISE+ Indonesia covers the priority areas of trade and investment policy, trade facilitation, export quality infrastructure, Geographical Indications (GI) and support active participation of Indonesian SMEs in international trade, an important cross-cutting area. Furthermore, the programme supports the Government to enhance its trade policy reforms and economic recovery plans after the pandemic.

2019-2023

ARISE+ Indonesia was launched in 2019 to increase Indonesia's trade competitiveness by improving the country's business environment, strengthening trade and investment policy, and providing technical assistance to Indonesian SME's.



SUSTAINABLE INFRASTRUCTURE INVESTMENT (PT SMI) €21 MILLION

The EU is supporting Indonesia's national infrastructure financing institution and future development bank, PT Sarana Multi Infrastruktur (SMI) with two projects. Together with KfW, a €16 million EU grant supports project preparation and capacity building, for instance on social and environmental safeguards. In parallel and together with AFD, a € 5 million EU grant, will accompany the AFD's \$ 150 million green credit line to PT SMI for green and health infrastructures. Both projects support "SDG Indonesia One", a platform which combines public and private funds through blended finance schemes for infrastructure projects to further achieve SDGs.

INDONESIA POLICY DIALOGUE FUND (IPDF) (2019-2024) €6.3 MILLION

The Indonesia Policy Dialogue Fund, under Asian Investment Facility (AIF), supports policy dialogue linked to policy-based loans in key reform areas of the Government in order to promote investments and infrastructure development, focusing on climate change, the environment, energy, SMEs and social services.

PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

Since 2007, Indonesia has received grants from several donor countries such as the EU, Netherlands, Switzerland,



USA, Canada and administered by the World Bank to support the implementation of reforms in the public finance landscape. In its second phase PFM-MDTF II (2014-2020), the EU allocated €10 million. The EU, along with Switzerland and Canada have agreed to continue support (phase III) which will focus on increasing income and quality of spending, both at the central and regional levels, by improving the management of state revenue and expenditure, including the use of information technology.

SOUTH EAST ASIA IPR SME HELPDESK

The South East Asia IPR SME Helpdesk supports EU small and medium sized enterprises (SMEs) to both protect and enforce their Intellectual Property rights in or relating to South East Asian countries, through the provision of free information and services. These take the form of jargon-free, first-line, confidential advice on intellectual property and related issues, training, materials and online resources.

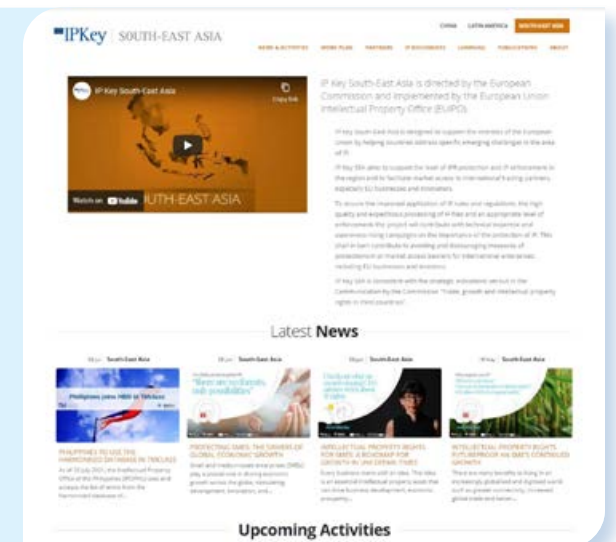
<http://www.southeastasia-iprhelpdesk.eu/>



IP-KEY SOUTH EAST ASIA

IP Key South-East Asia is directed by the European Commission and implemented by the European Union Intellectual Property Office (EUIPO). IP Key South-East Asia is designed to support the interests of the EU by helping countries address specific emerging challenges in the area of IP. IP Key SEA aims to support the level of IPR protection and IP enforcement in the region and to facilitate market access to international trading partners, especially EU businesses and innovators.

<https://ipkey.eu/en/south-east-asia>





EU High Representative for Foreign Affairs & Security Policy/ Vice-President of the European Commission, Josep Borrell visited Jakarta on 1-4 June 2021 for meetings with Indonesia and ASEAN



EU HRVP Josep Borrell and EU Delegation staff during the inauguration of the new EU Delegation's premise in Jakarta, June 2021



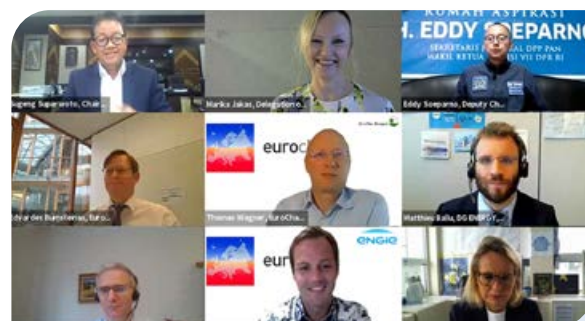
EU Ambassador met with the Minister of Communication and Informatics of the Republic of Indonesia on 13 April 2021



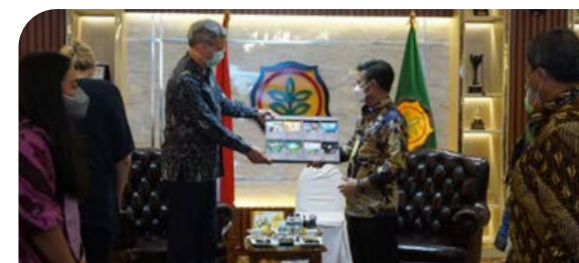
EU Ambassador held talks with the Minister of Trade of the Republic of Indonesia, 10 March 2021



EU Ambassador handed over EU input on Indonesia's New and Renewable Energy Bill to the Chair of Commission VII of the Indonesian parliament, 7 June 2021



Webinar on the Future of Renewable Energy in Indonesia, Experience Sharing with the EU, 15 October 2020



EU Ambassador held talks with the Minister of Agriculture of the Republic of Indonesia, 21 May 2021



Virtual public lecture by the European Commission to the cadets of the Transportation Colleges entitled "Current Transportation Condition in the European Union and Its Challenges", 3 July 2020



Launch of Gayo Arabica Coffee Week (as an Indonesian Geographical Indication) with Minister of Trade of the Republic of Indonesia, 21 September 2020



EU Ambassador met with the Presidential Chief of Staff of the Republic of Indonesia, 13 October 2020

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