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Trade and investment with

INDONESIA

2017

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MESSAGE FROM THE EU AMBASSADOR TO INDONESIA

VINCENT GUEREND

Indonesia and the European Union (EU) have a great partnership. This is rooted in strong political links on all major global issues, close intertwined economic and trade interests and expanding people-to-people contacts.

Commercial ties between Indonesia and the EU are an important contributor to our good relationship: Indonesia and the EU's trade is already substantial and beneficial for both sides. The launch of the negotiations for a Comprehensive Economic Partnership Agreement (CEPA) between Indonesia and the European Union, in July 2016, is adding an additional, essential element to this partnership. Once concluded, this Agreement will boost our overall trade and facilitate more investment and exchanges of technology.

This booklet gives an overview of the EU's weight in the global economy and of EU-Indonesia trade and investment relations. With over 25 billion euro in trade in goods in 2016 the EU is Indonesia's third largest trading partner. To this amount we have to add around 6 billion euro of services trade, the fast growing area in international trade. With regard to investments, European companies are increasingly interested in Indonesia with a combined FDI stock reaching a record high of 30 billion euro in 2015.

I am proud that EU business provides and sustains over a million high-quality

jobs for Indonesian workers and that our companies transfer skills and technology to this country. I am also proud of the way EU companies embody a strong social approach towards their most important asset, namely their employees. The EU attaches high importance to corporate social responsibility (CSR) and encourages sustainable business practices by European companies that support inclusive growth.

So there is a lot to gain in a deeper economic relationship and there is plenty of scope to go further. European companies stand ready to increase their already considerable investments in Indonesia, provided that the business climate is welcoming, open and transparent. The improved ranking of Indonesia in the "ease of doing business" ranking is a good illustration that structural reform help to promote economic activity. The European Union strongly supports the reform agenda of the Government.

I hope that this booklet will serve as a valuable reference and will help identify further opportunities to strengthen our trade and investment ties in order to deepen further our already very fruitful relationship.

MESSAGE FROM THE EU COMMISSIONER FOR TRADE

CECILIA MALMSTRÖM



In 2017, the European Union is commemorating the 60th anniversary of the Treaty of Rome, which established the European Economic Community in 1957.

Its premise was simple: we work better when we work together.

This is just as relevant today. The EU remains committed to free and fair trade, openness and a rules-based international order. We're the world's largest exporter and importer of goods and services taken together. We're also the world's biggest recipient and source of foreign direct investment.

And we seek to ensure that trade promotes our values, including high labour and environmental standards.

We also want to strengthen ties with our partners around the world. The commercial and political links between the EU and our partners in Southeast Asia stretch back centuries. They now constitute one of the world's most significant trade and investment relationships.

And the EU and Indonesia are committed to strengthening these links still further. That's why we launched negotiations for an economic partnership agreement between the EU and Indonesia in July of 2016.

We want the agreement to boost trade and investment by:

- scrapping tariffs and reducing other barriers to trade

- opening up trade in services and investment
- making it easier to bid for public contracts in each other's territory
- ensuring free and fair competition
- protecting intellectual property and
- promoting sustainable development.

Indonesia is an active member of the Association of Southeast Asian Nations (ASEAN), the EU's third largest trading partner outside Europe. Since its inception, ASEAN has brought its constituent nations and their economies much closer together.

This year, we celebrate 40 years of formal relations between the EU and ASEAN, and we also seek to strengthen these ties still further. So we have asked our officials to start preparing the ground for a future EU-ASEAN free trade deal, between our two regions.

The EU and Indonesia share the goal of bringing our economies closer together, and I want us to tap the full potential of our partnership. So I welcome this brochure as a first reference for businesses from Europe and Indonesia wanting to seize the opportunities that our respective markets offer.







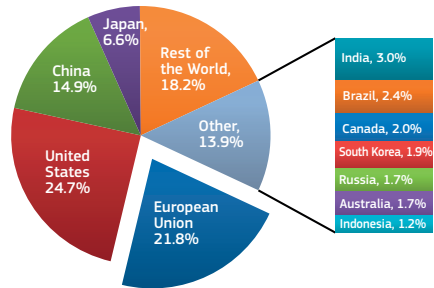
THE EU AS A GLOBAL ECONOMIC PLAYER

The EU is the only grouping of sovereign states that has managed to create an extensive customs union with common commercial policies. Throughout its 60 years of evolution, the EU has successfully developed a strong internal market as well as strengthened its global trading position. As of today, it stands amongst the largest global trading powers, such as the US, China and Japan. In terms of trade in goods, in 2016 the EU accounted for 15.1% of global trade, whilst in terms of services it covered 22.6% of the global trade.

Thanks to its extensive global economic clout, the EU holds important roles within international multilateral organizations such as the WTO, where it represents and speaks on behalf of the entire EU bloc. As one of the most vocal trading powers, it frequently takes the lead on various initiatives and multilateral agreements. Thus, the EU's role proved instrumental during the Bali WTO and Nairobi WTO conferences, which brought about major international trade-related agreements.

The EU's economic growth is highly reliant on its external markets. In 2016, the EU's international trade in goods with the rest of the world (the sum of extra-EU exports and imports) accounted for EUR 3,453

Share in world GDP, 2016 (%)



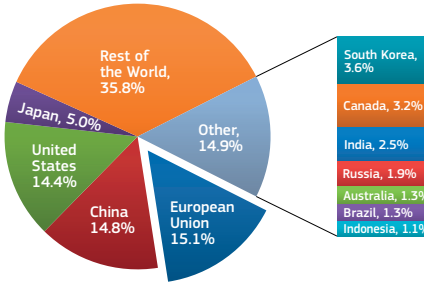
billion, a 5% increase since 2011. Services are also an increasingly important part of international trade and account for more than 70% of EU GDP and employment.

Technology has enabled companies to deliver their services globally, and manufacturing companies now increasingly buy, produce and trade services that allow them to sell their products. This intensifies the ways in which trade boosts the exchange of ideas, skills and innovation. EU trade policy facilitates this exchange and has contributed to double EU exports in services over the last 10 years. Services now make up almost 40% of the value of goods exported from Europe.

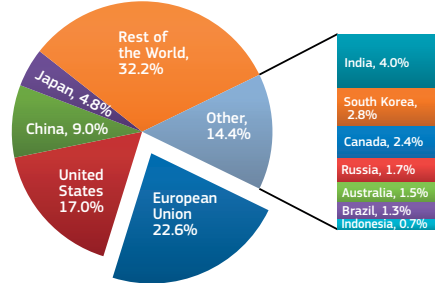
In 2016 EU trade in services with the rest of the world reached €819 billion, an increase of 33% since 2011 (€615 billion). EU imports of services grew faster with 43%, from €480 billion in 2011 to a total of €689 billion in 2016. With a 22% share, the EU remains the world's largest

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Share in world trade in goods, 2016 (%)



Share in world trade in services, 2016 (%)

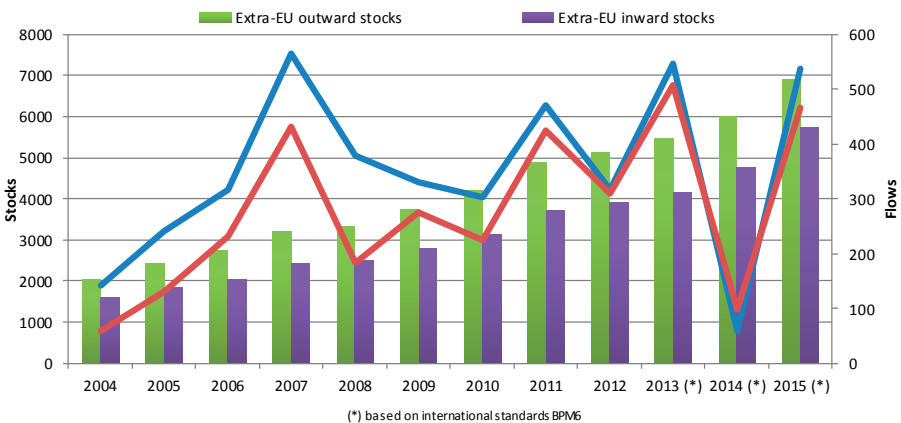


trader of commercial services, leaving the United States (17%), China (9%) and Japan (5%) behind.

Overall, the EU economy registered a trade surplus of EUR 38 billion in global trade in goods, and a surplus of EUR 130 billion

in global trade in services in 2016. In terms of FDI, the EU is the world's leading investor (EUR 6,891.6 billion of outward stocks, excluding intra- EU FDI), as well as the largest holder of FDI stocks (EUR 5,744.9 billion of inward stocks, excluding intra-EU FDI).

EU FDI flows and stocks with rest of the world (billion EURO)



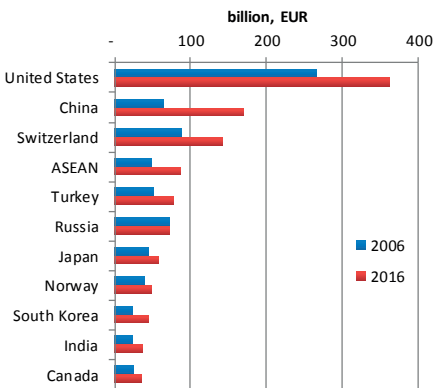
THE EU AS A GLOBAL ECONOMIC PLAYER

The main trading partners that engage in trade with the EU are the US, China, Switzerland, the ASEAN and Turkey. While the largest share of EU goods is being exported to the US, China has recently

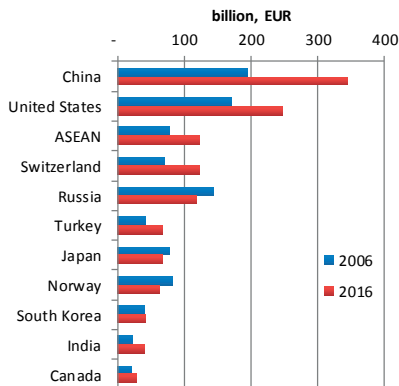
emerged as the largest source of imports to the EU market.

The need of retaining a principal role within the global trade environment drives the EU to improve existing bilateral trade agreements as well as to conclude new agreements. As of today, the EU has concluded major new generation trade agreements with South Korea, Singapore, Vietnam and Canada. It is estimated that the upcoming decade will see up to 90% of global economic growth generate outside Europe. Therefore, it is of key importance that the EU taps into this growth potential by opening up new market opportunities for European businesses abroad. Undoubtedly, a great share of potential could be identified in rapidly-growing regions such as Southeast Asia. A gradual liberalization of markets with ASEAN, could improve the EU's trade and investment relations with its ASEAN partners and simultaneously propel economic growth in individual countries within the ASEAN region, including Indonesia.

EU Trade in Goods by Main Trading Partners - Exports



EU Trade in Goods by Main Trading Partners - Imports



THE EUROPEAN SINGLE MARKET

The European Single Market lies at the heart of the European integration project. Starting with the basic idea for the creation of a free trade area, the EU as of today has managed

to develop an environment where people, goods, services and capital move freely. EU Member States jointly decided to remove a significant number of technical, legal and bureaucratic barriers in order to enable companies to expand their businesses across the EU market. As a result, European consumers have enjoyed a steady decrease of prices, as well as a wider range of available products. The membership of the European Single Market extends beyond the EU, as Iceland, Liechtenstein, Norway and Switzerland are also participating in the

single market under negotiated frameworks.

On the 28th October 2015, the European Commission issued the most recent Single Market initiative. The Single Market Strategy aims at unlocking the full potential of the internal market by improving mobility for service providers, ensuring that innovative business models may flourish. An improved digital agenda should help retailers conducting businesses across borders, and, concurrently ease the access to goods and services across Member States.

Did you know that?

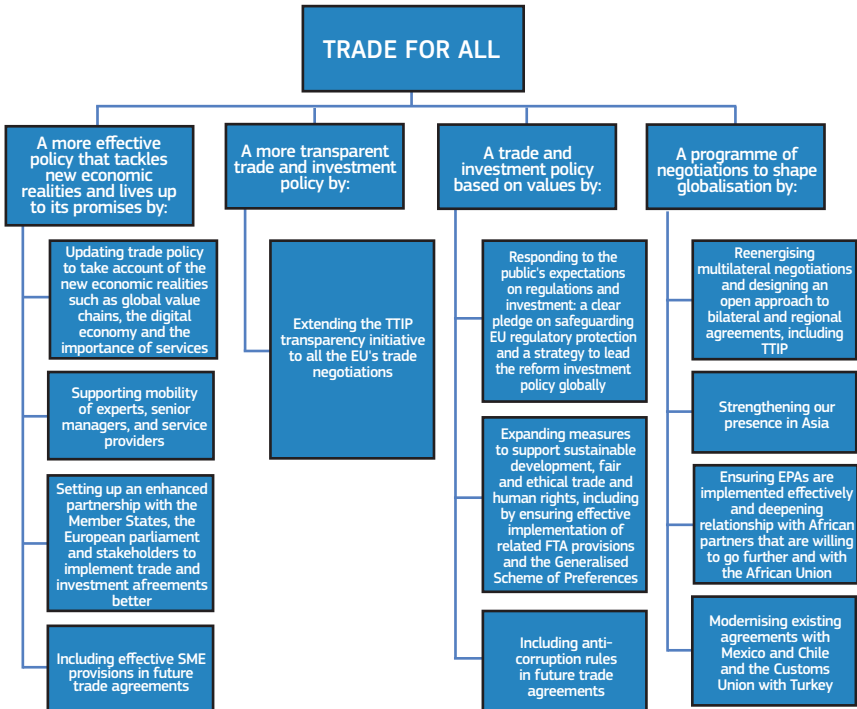
- ▶ The expansion of the Single Market resulted in a rise of consumers from 345 million people in 1992 to more than 510 million in 2016
- ▶ 19 countries within the Single Market use the same currency, the Euro (EUR), which is the world's second most important currency;
- ▶ The EU is by far the world's largest host of FDI stock, accounting for more than EUR 9,000 billion in 2015 (including intra-EU FDI). Also in terms of investments abroad, the EU ranked first in 2015, ahead of the US, as it generated over EUR 537 billion of FDI outflows.
- ▶ Within the last 15 years, trade in goods between EU countries (intra-EU trade) has increased from EUR 800 billion to more than EUR 3,000 billion. As of today, it constitutes a share of 63.2% of the EU's total trade in goods;
- ▶ The Single Market represents one of the most significant symbols of European integration, encompassing many policy areas. These include the European Customs Union, the single currency, the Schengen Agreement and many other policies and laws designed to unite the diverse national economies of Europe into a single unit.

TRADE FOR ALL

THE EU'S NEW TRADE AND INVESTMENT STRATEGY

Trade for All is the new trade and investment strategy, to tackle the challenges that arise from the current global trade environment. It was launched by the EU Commissioner for Trade, Cecilia Malmström, on the 14th October 2015 and builds upon Europe's international role in trade, and the single market. Today, more than 30 million jobs

in the EU depend on exports outside Europe. It is therefore deemed important to follow basic principles that would not only lead to economic prosperity, but would also protect the values and standards that Europeans have managed to develop over time. The strategy aims at improving the EU's trade policy and to make it more effective, more transparent and more in tune with EU values. Overall, it aims at becoming more responsible and to deliver on principal economic goals, such as growth and jobs, without compromising core EU principles.



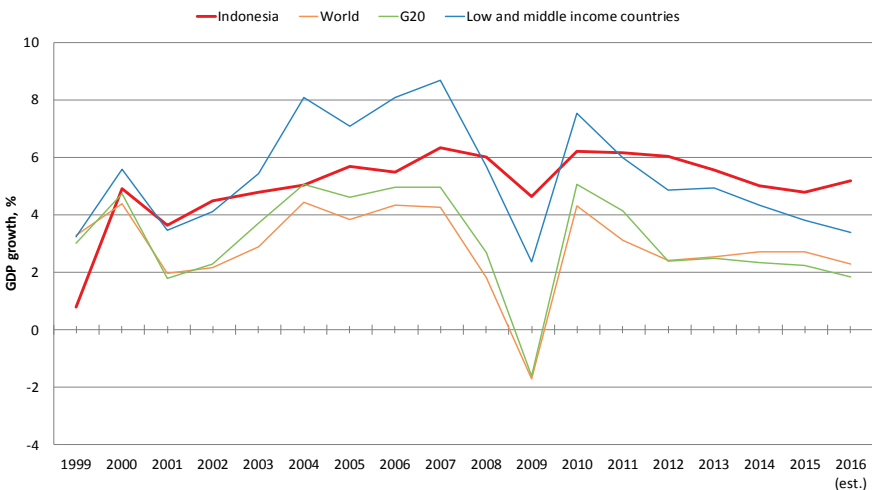


INDONESIA AS A WORLD PLAYER

Indonesia is a member of the G20 and a founding member and the largest economy of the ASEAN (Association of Southeast Asian Nations), accounting for 36% of the economic output of the regional organization. According to the World Bank International Comparison Program (2015), the Indonesian economy was the world's 8th largest by purchasing power parity. Yet it is developing rapidly, Indonesia's economic growth of 5% in 2016 remains among the highest among large emerging market economies.

Following the introduction of democracy and economic reforms in 1998, Indonesia has shown impressive and stable economic growth, and during the global financial crises it outperformed its regional neighbours and joined China and India as the only G20 members posting growth. While the economic growth has somewhat slowed down the last couple of years, there is tremendous untapped potential. With over half the population under the age of 30, the demographics support continued long term growth. The increase in the purchasing power of Indonesia's middle class has also spurred domestic demand for consumer products, such as automotive, food and beverages. According to McKinsey, in 2030 Indonesia could become the seventh largest economy in the world, with 135 million members of

Indonesia's GDP growth after Asian Financial Crisis



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the consuming class and an estimated USD 1.8 trillion market opportunity in consumer services, agriculture, and education. In addition, Indonesia is rapidly becoming a digital nation where social media use is amongst the highest in the world (Jakarta is the most active city in terms of posted Tweets). With over 338 million mobile subscriptions and more than 132 million internet users in 2016, there is a huge potential for innovative digital products and e-commerce.

With a population of about 261 million people and a rapidly growing middle class, a stable democratic political system and a strategic geographical position in the region, Indonesia is a very attractive market. Indonesia is the world's number one producer of palm oil, the world's largest exporter of thermal coal, and home to many other sought-after minerals, such as nickel, gold, copper and bauxite, as well as agricultural commodities like cocoa, coffee, and tea. Indonesia is also a prominent producer and exporter of manufacturing goods such as textile and garments, footwear, rubber, electronics, motorcycles, wooden products, paper, and light machinery. According to the WTO, Indonesia was the 30th biggest exporter of goods in the world in 2015.

The international recognition of Indonesia as a key global player is also reflected in the fact that Indonesia has hosted two important world events: the APEC Summit in October 2013 and the WTO Ministerial Meeting in

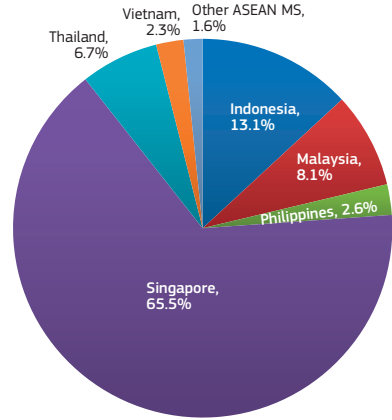


Bali in December 2013, where Indonesia showcased itself as a world powerhouse for trade and investment. In addition, the annual IMF-World Bank meeting is set to take place in Indonesia in October 2018. In recent years, the government of President Joko Widodo has rolled out an ambitious reform agenda to streamline current bureaucratic procedures and increase regulatory transparency in order to increase the ease of doing business. As a result, Indonesia advanced 18 positions on the World Bank's latest Ease of Doing Business survey, moving from rank 109 in 2016 to rank 91 in 2017, making Indonesia one of the top 10 improvers globally.

INDONESIA IN ASEAN

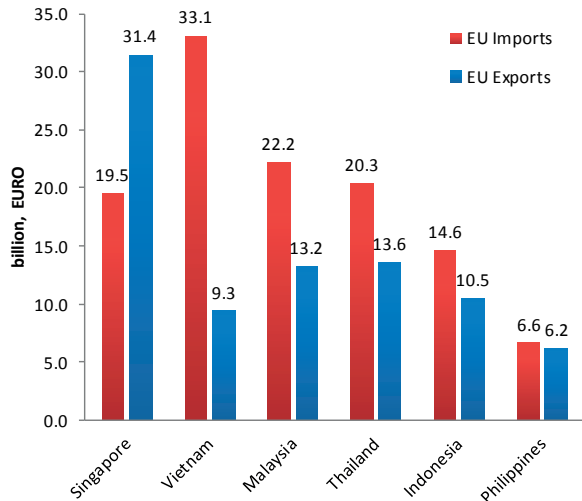
ASEAN, as a whole, ranks as the 5th economy in the world and is the EU's 3rd largest trading partner outside Europe, after the United States and China. Bilateral trade in goods and services between the EU and ASEAN reached €246.5 billion in 2015. To date, Indonesia is the EU's 5th largest trading partner within ASEAN, after Singapore, Vietnam, Malaysia and Thailand. Considering that Indonesia is by far the largest economy in the region, trade and investment levels between the EU and Indonesia are well below the volume that could be expected, yet leaving much room for growth. After Singapore, Indonesia was the second

Share of EU FDI Stock in ASEAN member States, 2015



destination for EU investments in the region, accounting for 30.6 billion (13.1% of the total EU FDI stock in the ASEAN).

EU Trade in Goods with Selected ASEAN member States, 2016





Joko Widodo, on the left, and Jean-Claude Juncker

EU-INDONESIA PARTNERSHIP

EU-INDONESIA PARTNERSHIP

The rapidly developing EU-Indonesia relationship is extensive and important. A thriving economic partnership is paving the way for closer political relationship to the benefit of future generations of Indonesians and Europeans. Today it is a friendship that includes cooperation on education, climate change, emergency response, justice, trade and investment – all based on core shared values, interests and outlook on regional integration, multilateralism, democracy and human rights in open and tolerant societies, the environment and climate change.

Thanks to the opportunities opened up by the Partnership and Cooperation Agreement (PCA) signed in November 2009 and entering into force in May 2014, political, economic and sectorial co-operation has

been strengthened across a wide range of policy fields, including trade, environment, energy, science and technology, good governance, as well as tourism and culture, migration, counter-terrorism, and the fight against corruption and organised crime. Indonesia is the first ASEAN partner to have signed such a partnership agreement with the EU.

A further step in bringing bilateral relations to a higher level was taken in April 2016 when the EU and Indonesia officially announced to start negotiations on a Comprehensive Economic Partnership Agreement (CEPA) that, among others, will enable the free flow of goods, services and investments covering a total market of over 750 million people.



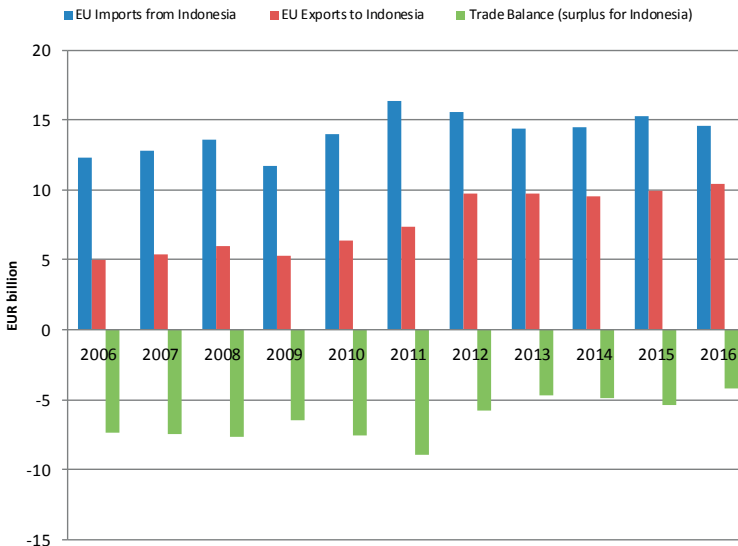
BILATERAL TRADE IN GOODS

Total bilateral trade in goods between the EU and Indonesia reached €25 billion in 2016, with the EU exporting €10.4 billion worth of goods, while Indonesia's exports to the EU amounted to €14.6 billion. This makes the EU the 3rd largest non-oil-and-gas exports destination for Indonesia with almost 11% share of total exports in 2016, just behind the US and China, but ahead of Japan and India. For the EU, Indonesia was the 24th largest import source and the 29th largest export destination in 2016. Germany is the main European trading partner for Indonesia

in terms of total trade in goods, while the Netherlands remains traditionally the largest importer of Indonesian goods; France became the main exporter to Indonesia in 2016.

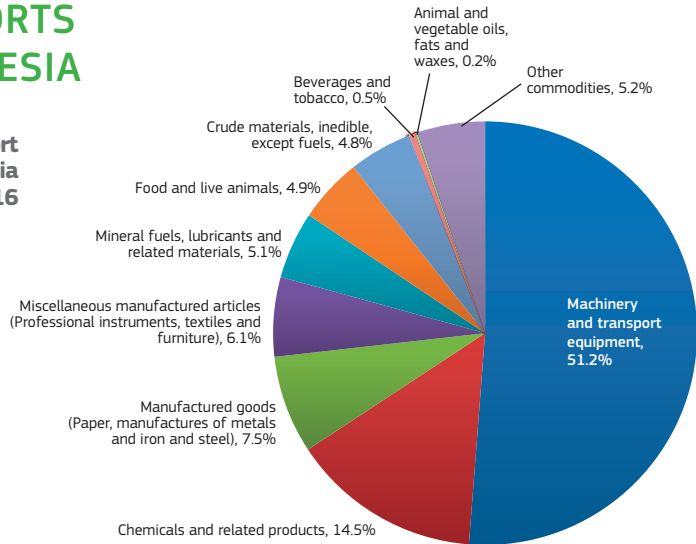
Trade flows between Indonesia and the EU complement each other. Indonesia's exports to the EU are predominantly represented by (semi) manufactured goods, minerals, textiles, and agricultural products. EU products are important for the development of the Indonesian infrastructure and upstream industry as well as for consumer demand. Over half of EU-Indonesia trade consists of intermediate goods. Around 40% of Indonesia's exports to the EU are made up by consumer goods.

EU Trade in Goods with Indonesia



EU'S EXPORTS TO INDONESIA

EU's top 10 Export Articles to Indonesia in 2016

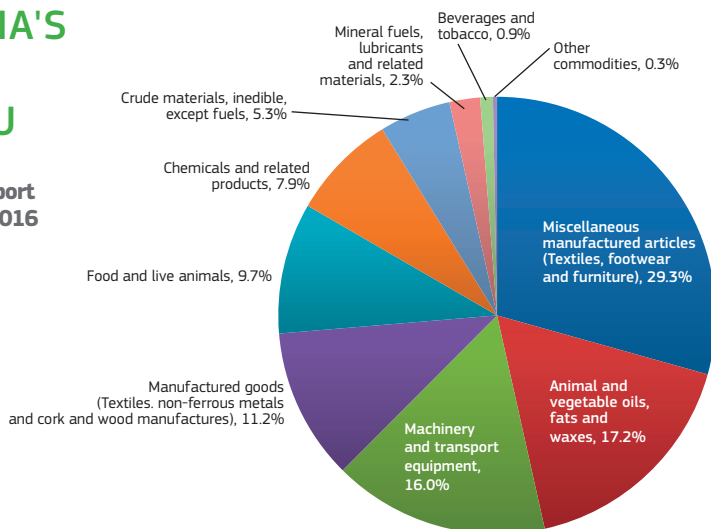


In 2016 the EU's export basket to Indonesia was composed of 92.9% industrial products, 7% agricultural products and 0.1% fishery products. Machinery and appliances are the main EU export products accounting for 28.3% with an export value of €2.9 billion, followed by transport equipment (22.6% or €2.3 billion), products of the chemical or allied industries (12.7% or €1.3 billion), mineral products (5.5% or €579 million), pulp wood, paper and paperboard (4% or €420 million), and optical and photographic instruments (4% or €419 million).

In the machinery sector, non-electrical machinery was EU's main export item to Indonesia, accounting for €1.9 billion in 2016, followed by electrical machinery (€442 million) and power generating machinery (€251 million). Transport equipment exports were dominated by aircrafts and parts thereof, which reached a value of €2 billion or 19% of total EU exports to Indonesia, an increase of 408% in the past five years.

INDONESIA'S EXPORTS TO THE EU

Indonesia's 10 Export Articles to EU in 2016



Indonesian exports to the EU in 2016 were composed of 69.1% industrial products, 28.4% agricultural products and 2.6% fishery products. Main Indonesian exports to the EU included animal or vegetable fats and (palm) oils (17.2% or €2.5 billion), machinery and appliances (13.9% or €2 billion), textiles and textile articles (11.6% or €1.6 billion), footwear, hats and other headgear (11% or €1.6 billion), and plastics, rubber and articles thereof (6.9% or €1 billion).

In the agricultural sector, palm oil and its derivatives were the main export products to the EU, valued at €2.3 billion, accounting for almost 16% of Indonesia's total export value to the EU in 2016. Fatty acids and waxes, unroasted coffee and tea, tropical

fruits, nuts and spices make up another significant part of Indonesian agricultural exports to the EU.

One of Indonesia's oldest industries, the textile and garment industry is another vital sector for the Indonesian economy and still growing today. Indonesian exports of textile and garment to the EU reached €1.7 billion in 2016, which is 11.6% of the total value of Indonesian exports to the EU. In addition, footwear, hats and other headwear are good for more than €1.6 billion or equal to 11% of aggregate exports to the EU.

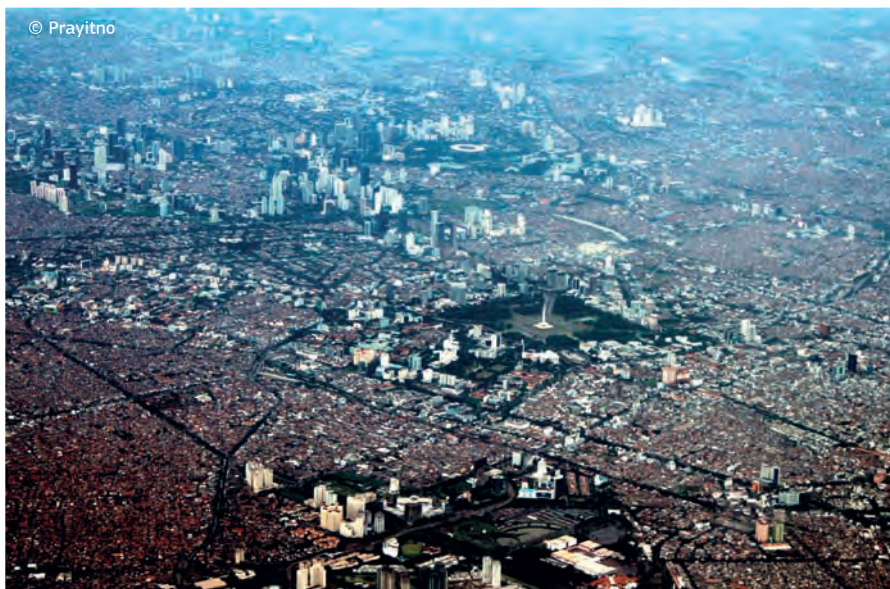
In 2016, electrical machinery and equipment (mainly consumer electronics) exports to the EU reached €1.6 billion, and have been showing an upward trend over the last five years.

TRADE IN SERVICES

The global service sector is expanding rapidly and contributes more to economic growth and job creation worldwide than any other sector. Services play a crucial role for both developing as well as developed country economies. The service sector accounts for 75% of the GDP of the EU and for 45% of the GDP of Indonesia respectively. Indonesia's trade in services with the EU has increased during the last seven years. Indonesian service exports to the EU amounted to EUR 2.1 billion and imports from the EU reached EUR 4 billion in 2015.

Indonesia has a comparative advantage vis-à-vis the EU in labour-intensive services, such as tourism, transportation and construction. New export opportunities are emerging in communication, IT and business services. Indonesia exported mostly services related to tourism and transport to the EU, while the EU mainly exported services in the field of business, IT and transport to Indonesia.

The service sector is increasingly important to the Indonesian economy. It accounts for 53.6% of total employment and 2 million new jobs were created in services in 2015 alone. Since 2001, the service sector has grown on average by 6.8%, faster than the industrial and agricultural sector.



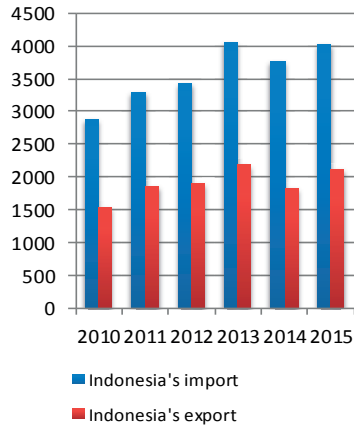
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Indonesia thus offers substantial potential of investments in the service sector.

The service sector experiences a shortage of supply in ten out of the twelve services sectors, most notably in the environmental and transport services. According to the World Bank, this shortage is mainly due to the level of restrictions in the sector. Similarly, this shortage is associated with relatively low level of productivity in the service sector and the overall economy since services are increasingly important as inputs to production. Increased openness to services is thus expected to benefit not only the service sector but also the Indonesian economy as a whole.

Indonesia - EU trade in Services
(2010-2015, EUR million)



FOREIGN DIRECT INVESTMENT (FDI)

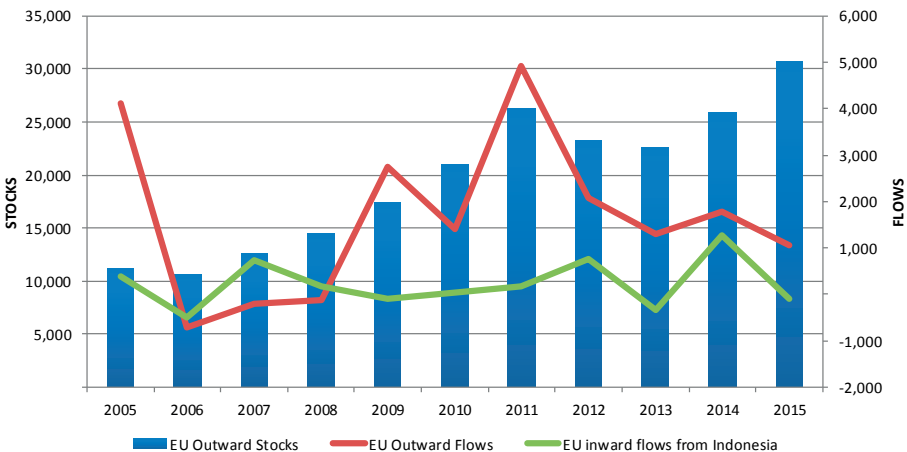
FDI flows from the EU to Indonesia have remained more or less stable over the 2013-2015 period. Inflows of FDI from the EU reached EUR 1 billion in 2015. FDI stocks have almost tripled since 2005, reaching its highest historical level of EUR 30.6 billion in 2015. The EU therefore remains in the top four sources of foreign investors and the leading non-Asian investor (Source: Eurostat).

EU companies particularly invest in sectors with high value added products or activities. EU investments in Indonesia are predominantly allocated in

manufacturing (especially chemicals and pharmaceuticals), paper and printing, infrastructure, and mining.

The value of European investments in Indonesia has increased, with 2014 being a top year for European investments peaking USD 3.7 billion. The major increase in investments comes from Belgium, Germany, Luxembourg and Spain. The tertiary sector has experienced an unprecedented boom with USD 1.1 billion of European investments in 2016 compared to USD 713 million in 2012. Similarly, the value of European investments in the primary sector has doubled in four years, reaching USD 835 million in 2016.

FDI from the EU to Indonesia, Stocks and Flows (2005-2015)
(EUR million)

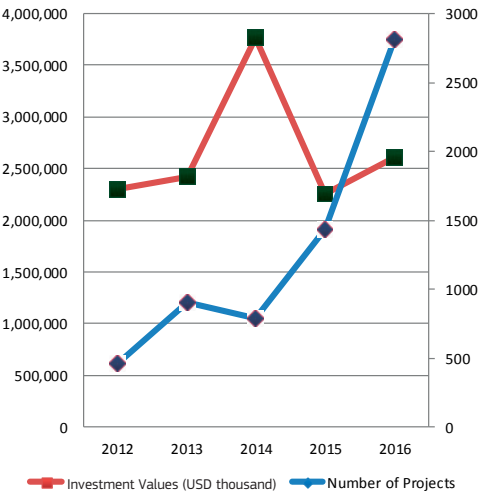


Trade and investment with **INDONESIA**

European Investment Projects in Indonesia

Number of Projects and Value in USD thousands

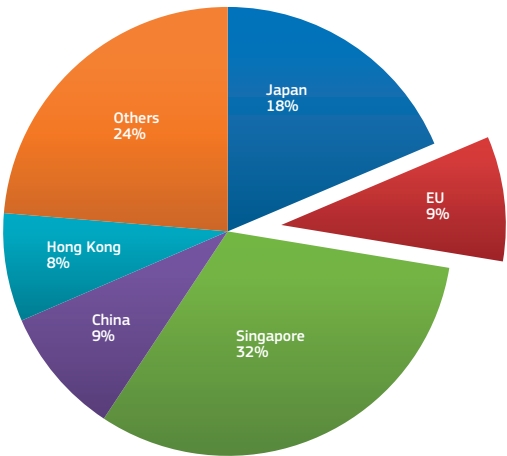
(Source: BKPM)



2016 investments	Projects	Investment (USD million)
Singapore	5,874	9,178.70
Japan	3,302	5,400.90
China	1,734	2,665.30
EU	2,814	2,606.24

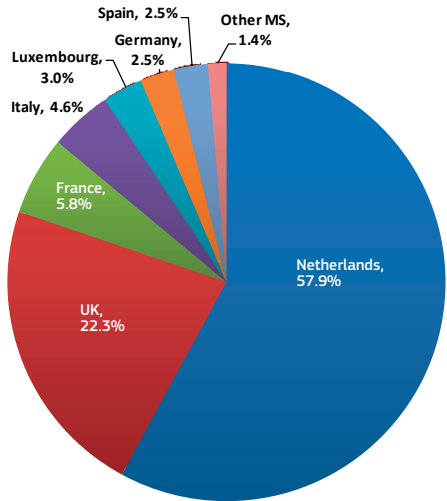
Top sources of FDI in Indonesia, 2016 (% of total)

(Source: BKPM)



Even more impressive, the number of European investment projects has increased six times in four years only. Overall, the number of European Investment projects increased from 457 in 2012 to 1,904 in 2016. As the investment value remains stable in recent years, the increasing number of projects suggests the tendency of European investment to participate in smaller projects that offer faster return period amid greater economic uncertainty in the country. The number of projects has particularly increased in the tertiary/services sector, as the graph below indicates. The number of European investments in industrial projects has similarly increased from 116 in 2012 to 697 projects in 2016.

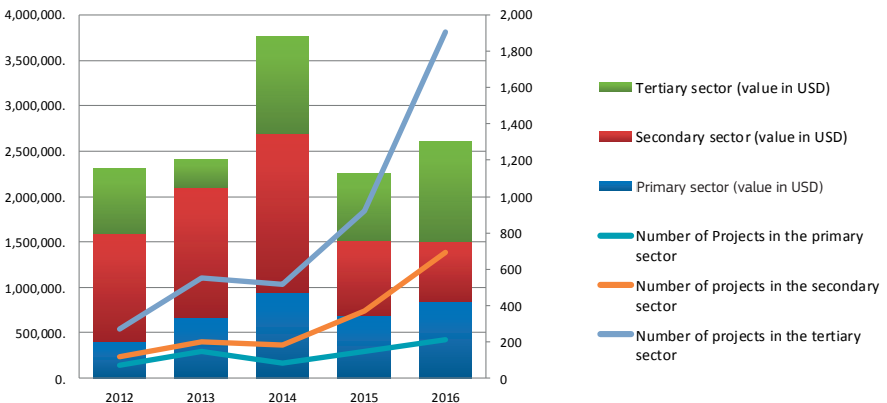
Share of EU FDI in Indonesia, 2016



European Investment Projects by sector

Value in USD and Number of projects

(Source: BKPM)



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© European Union

Bilateral trade in goods between the EU and Indonesia amounted to €25 bn in 2016, with EU exports worth €10.4 bn and EU imports worth €14.6 bn. The EU is Indonesia's fourth partner. Indonesia is the fifth EU partner in ASEAN and in the same year, it ranked 29th in the overall EU trade worldwide.

EU investments have brought significant benefits to Indonesia:

Technology Transfer and Higher Added Value. FDI from the EU has brought technological spillovers, as European companies usually use the most modern technology available in the world.

Labour Absorption and Human Capital Development. Investment from the EU to Indonesia has also helped

to develop human capital. European companies prioritise human capital development through different training programmes in Indonesia and abroad.

Development of Local Markets.

As a result of foreign competition, the domestic Indonesian market enjoys higher productivity, more efficient resource allocation, lower prices, and wider choice for consumers.

Environmental and Social Benefits.

European companies spent USD 500 million on global CSR initiatives in 2011 alone. In addition, the EU is one of the world leaders in green initiatives.

Outlook of doing business in Indonesia in 2018:

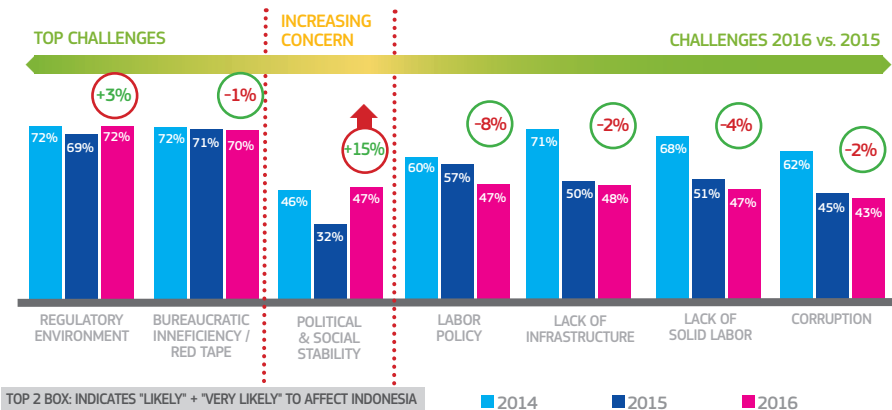
The Joint European Chambers Indonesia Business Confidence Index 2016 shows this positive outlook on investments opportunities in Indonesia. In the next twelve months (from January 2017 onwards), 49% of the European companies have a positive Business outlook in Indonesia. The sectors that are most attractive are infrastructure and construction together with travel and

tourism. 78% of the companies expect higher revenues, 60% higher profits and 59% more workforce.

In regards with the macroeconomic outlook, 43% have a positive outlook on investment climate and 40% on fiscal policy. In terms of geographical distribution in Indonesia, the investments are expected to be more evenly distributed among provinces. Medan is expected to attract an extra 20% investment, Bandung 21% and Surabaya an extra 41%. 26% of the companies consider expanding their business in Indonesia in the next 12 months. Finally, 33% of corporate respondents are positively impacted by the government stimulus packages.



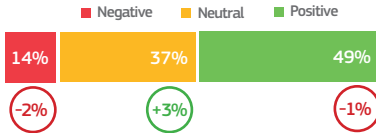
BUSINESS IN INDONESIA IN NEXT 12 MONTHS



Trade and investment with INDONESIA



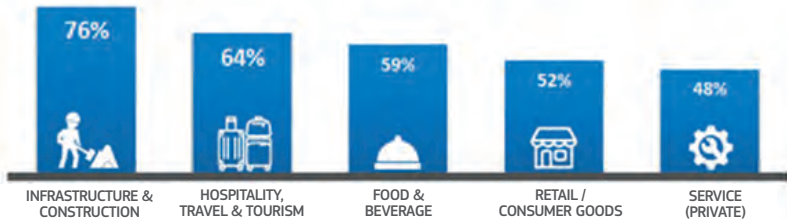
OUTLOOK FOR BUSINESS IN NEXT 12 MONTHS



EXPECTATION FROM BUSINESS IN NEXT 12 MONTHS



OUTLOOK FOR BUSINESS IN NEXT 12 MONTHS



BUSINESS OUTLOOK

- **Business outlook** remains positive
- **Infrastructure, Hospitality, and F&B** are the **key business sectors** in 2017
- Business expansion targets are **Surabaya, Bandung & Medan**



FACTORS AFFECTING BUSINESS

- While the **Macroeconomic outlook** shows a **positive trend**, **political environment is lower** than 2016
- In line with that, **political & social stability** is a significantly increasing concern, while main challenges are still **regulatory environment & bureaucratic inefficiency**
- Investors are adopting a **"wait-and-see"** attitude to investing in Indonesia



BUSINESS CONFIDENCE INDEX

- **Business Confident Index** remains stable and balanced between the positive outlook and increasing political concerns



GOVERNMENT POLICY

- **Better perception** towards **Government Policy & Regulations**
- There is **opportunity for growth** by utilizing more targeted **revamped economic stimulus packages**



Market at Bastiong Port, Kota Ternate,
The Moluccas (Maluku), Indonesia

MARKET AND INVESTMENT OPPORTUNITIES

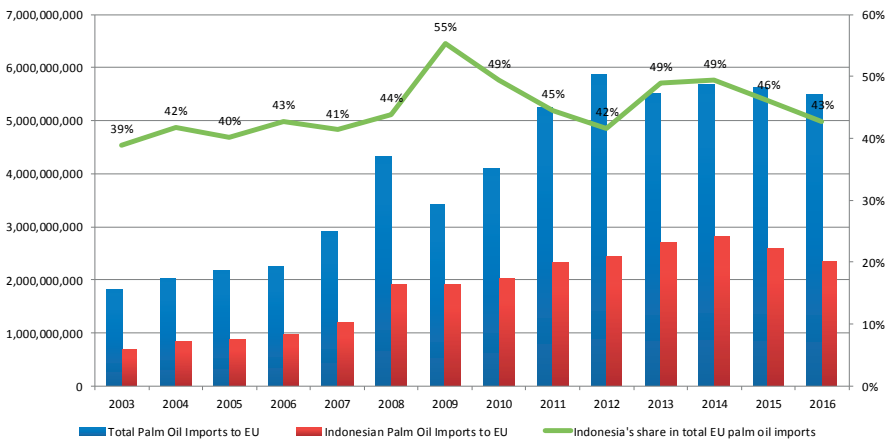
INDONESIA: WORLD'S LARGEST PALM OIL EXPORTER

Palm oil is a key export commodity for Indonesia, accounting for more than 50% of the global output of palm oil (32.5 million tonnes, 2015). Indonesia is the world's largest producer of palm oil, and major exporter of crude palm oil (26.4 million tonnes, 2015) and its derivatives. With a total plantation area reaching 11.3 million hectares, most of Indonesian palm oil is produced by private companies (55%), followed by local farmers and state-owned plantations. **The Indonesian Ministry of Agriculture expects crude palm oil production to grow to 41.32 million**

tonnes in 2020. It is estimated that the palm oil sector provides direct employment to 4.2 million and indirect employment to 12 million people in Indonesia.

The EU continues to be an open and welcoming market for palm oil with imports in constant rise over the past decade. Indonesia has the major share in EU total palm oil imports (43%). Almost half of total imports of palm oil from Indonesia enter the EU duty free. The EU is the second largest market for Indonesia's palm oil exports, just behind India. In 2016 EU imports of palm oil and its derivatives from Indonesia was valued at EUR 2.3 billion, making it Indonesia's number one export commodity to the EU with a share of almost 16% of Indonesia's total export value to the EU.

EU Palm oil Imports from Indonesia



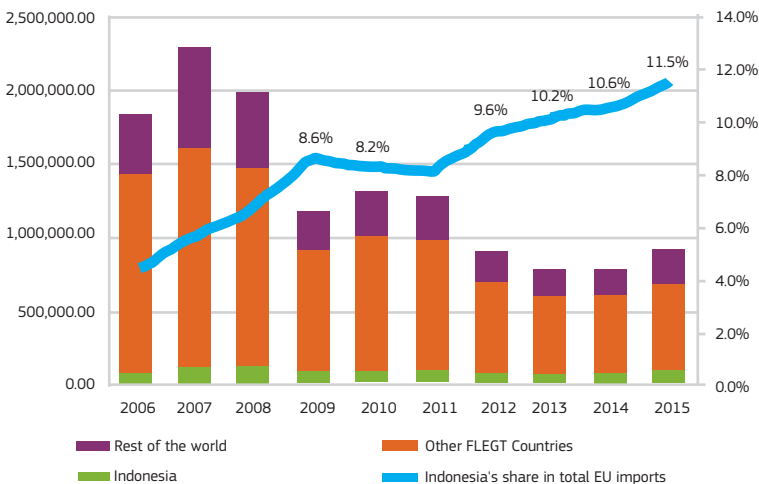
FLEGT: EU AND INDONESIA STIMULATE FAIR TRADE IN WOOD

Around 60% of Indonesia's territory is composed of forest which makes the country furthermore one of the biggest exporters of timber worldwide. Indonesia hosted an international conference in 2001 on illegal logging, potentially devastating for the country, and contributed to put the issue on the global agenda. This conference showed that illegal logging was not an issue only for producer countries but also consumer countries. The EU subsequently adopted

its Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003. The Action Plan included a range of measures to be adopted by Member States and the EU to tackle illegal logging at the international level. Indeed illegal logging has devastating effects on some of the world's most valuable remaining forests, the people living in them and those who rely on their resources.

In order to promote the fight against illegal logging internationally, the EU has entered into a series of Voluntary Partnership Agreements (VPA). Negotiations between Indonesia and the EU on a VPA started in March 2007. The VPA was agreed upon on May, 4th 2011 and entered into force on May, 1st

EU tropical Wood imports





© European Union

Ms Retno Marsudi, Indonesian Minister for Foreign Affairs and Ms Federica Mogherini, High Representative of the EU for Foreign Affairs and Security Policy during the 1st EU-Indonesia Joint Committee and FLEGT License ceremony, Brussels, 28 November 2016

2014. The first FLEGT licensing started in November 2016. Indonesia was the first country able to issue its own FLEGT licences and gain access without further control to the EU market as all products licenced with FLEGT meet European standards.

Despite a decline in overall imports of tropical wood to the EU, Indonesia's share in imports of tropical wood to the EU have increased to almost 12% of total

tropical wood imports to the EU in 2015, while in 2006 this was less than 5%. Furthermore, data from the Indonesian Ministry of Environment and Forestry show that since the implementation of FLEGT, Indonesia's monthly exports of all wood products to the EU have increased 23% on average. Successful bilateral efforts have paved the way for businesses to trade licenced wood.

E-ECONOMY: BIG AND GROWING

Indonesia's e-commerce market is on track to be one of the largest in Asia. A 2016 study by tech giant Google and Singapore based investment company Temasek, revealed that e-commerce is by far the largest opportunity in Indonesia, with an annual projected growth rate of 39%. The study found that in 2015, 18 million Indonesians fell into the category of online buyers, and it is estimated that **in 2025 Indonesia will represent 52% of all e-commerce activity in Southeast Asia.**

An interesting feature of the Indonesian e-commerce market is the growth of **mobile-first consumers**. The vast majority of online-shoppers use their smartphones instead of a desktop computer, creating a unique opportunity for retailers to focus on utilizing the full

potential of mobile functionality. In a country where half of the population still lives in rural areas, e-commerce specifically allows consumers from rural and semi-rural areas to source hard-to-find goods.

These exceptional circumstances prove to be a breeding ground for innovative start-ups, and create opportunities for European investors. The Indonesian transportation and life style start-up **GO-JEK** for example, reached a market valuation of USD 1 billion within two years, and transformed the traditional transportation market by creating new demands and new types of consumers. Another successful Indonesian App, **HaloDoc**, offers online medical advice to people in remote areas and crowded urban communities. Medical reports and also prescribed drugs are delivered within a few hours, thanks to the synergies with apps such as GO-JEK or GRAB.



© Paul Bradbury/Ojo Images/F1 online

GROWTH IN INDONESIA'S CIVIL AVIATION MARKET

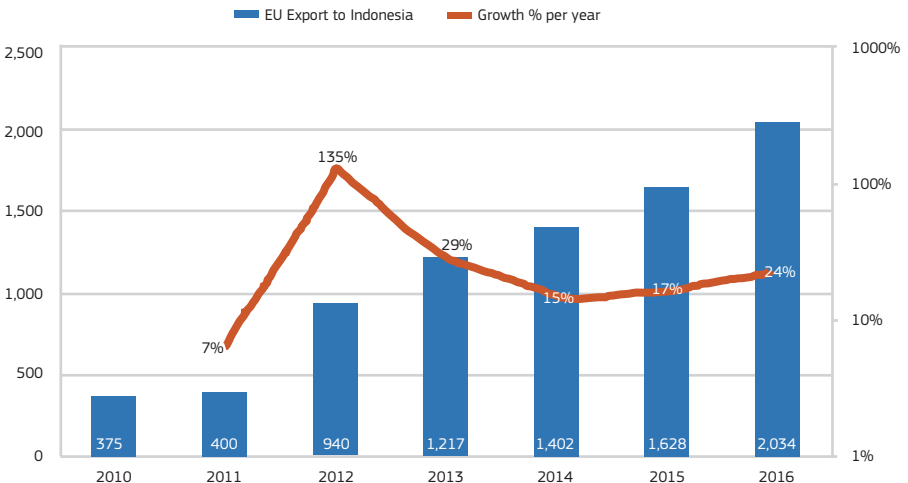
The Indonesian civil aviation market ranks among the fastest growing in the world, making Indonesia the 12th largest aviation market globally. **The number of air passengers is projected to continue growing at annual average growth of 5.7%, while the volume of air cargo transportation is growing at 8.6% annually.** According to the International Air Transport Association (IATA), Indonesia's aviation sector is poised to triple by 2034,

reaching 270 million passengers per year. Indonesia's strong aviation sector growth, its strategic location, and its archipelagic make up create enormous potential for the transportation industry.

INDONESIA: WORLD'S SECOND EXPORTER OF FISHERIES

As the world's largest archipelago in the world, it is not surprising that the fisheries sector in Indonesia is a key sector for the country. **With a combined marine capture and aquaculture production reaching 20 million tonnes a year,**

EU exports of aircrafts and parts thereof to Indonesia





© European Union/ Ricky Martin/CIFOR

Traditional fisherman in the village of Gede Pangrango, West Java, Indonesia

Indonesia accounts for 10% of world production, making it the world's second largest producing country after China. In 2016 the sector contributed almost 2.6% to Indonesia's GDP, and provided around 6 million jobs and a living for 2.6 million households.

The EU in return is increasingly dependent on imports of fishery products to meet its domestic consumption and is the already

world's largest importer of fishery products, accounting for 25% of the world's imports and making it a particularly relevant market for the Indonesian fishing industry. Yet, there is still much space for growth, as in 2016 fisheries imports to the EU from Indonesia were valued at EUR 374 million, which is only 1.6% of the total EU fisheries imports.



TELECOMMUNICATION

The Indonesian telecommunication sector grew by 10% on average between 2011 and 2015. The sector is expected to grow above 10 % in 2017. The government decided recently the construction of USD 1.5 billion optical fibre cable project across the country. As capacities are growing, this will create opportunities notably to expand the low smartphone and internet penetration (40% of the population).



INSURANCES

The Insurance sector is still largely underpenetrated and the performance is lagging behind other ASEAN countries. The insurance penetration (premiums to GDP) stood at only 1.6% in 2015, far behind of the 8.3% in Singapore.



HEALTHCARE

The Healthcare services sector is rapidly growing as the middle class expands and income per capita increases. The implementation of universal health care programme provides a big incentive for local and international industries to decide to invest. Pacific Bridge reported that the pharmaceutical market is currently expanding by an estimated 12.5% annually with similar growth expected to continue until 2018.



TRAINING AND EDUCATION

Training and Education is also expected to grow rapidly. According to the British Council, Indonesia will become the fifth largest education system by 2020 with a total of 7.7 million students. By 2030, McKinsey estimates the demand for private education to reach USD 40 billion.



TRANSPORT AND LOGISTICS

The transport and logistics services sector is similarly promising as Indonesia has some of the highest logistics costs in the world according to the World Bank. President Widodo's ambitious strategy to increase Indonesia's connectivity will certainly boost this sector. This plan includes the construction of 3,600 km of new roads, 15 new airports, 24 new seaports, expanding the railway network and improving public transportation in 29 cities.



BANKING

The Indonesian Banking sector is among the most profitable in the world. Return on equity of the four largest Indonesian banks is at 20.4% and the sector's average net interest margin is of 5% (double of that of Singapore and Malaysia). In recent years, the industry has enjoyed a compound annual growth rate of 16.9% in its assets. Moreover, the

banking sector benefits from one of the most liberal regimes in the region. Overall, the financial market is highly profitable, capitalised and constantly deepening.



TOURISM

The tourism sector is the most important trade services sector for Indonesia. It contributes to 4% of GDP and provides more than 9% jobs in 2015. The government wants to bring this figure to 8% of GDP by 2019. However, the sector is highly underdeveloped outside Bali and Java. The government has also identified tourism as a key sector for development. It introduced free visa for 47 countries in 2015 and eased foreign ownership restriction in many sub-sectors such as restaurants, hotels, museums and meeting-incentives-convention-exhibition.



EU COMPANIES PRESENCE IN INDONESIA

EU companies particularly invest in sectors with high value added products or activities. Investment by EU companies underpins over 1 million high quality jobs in sectors such as infrastructure, manufacturing, pharmaceuticals, ICT, transports, and other services. These companies also bring cutting edge technologies - helping Indonesia to climb the value added chain. EU companies embody a strong social approach towards their employees, attach high importance to corporate social responsibility (CSR), and encourage sustainable business practices that support inclusive growth. Below are some examples of the presence of EU companies in Indonesia.



PT HOME CREDIT INDONESIA

Established in 2013, PT Home Credit Indonesia, a subsidiary of the Czech Republic-based consumer finance company Home Credit Group, has been expanding on the Indonesian market and is currently the biggest provider of multipurpose financing in Indonesia with more than 35% market share (APPI data as of April 2017) in the consumer durables market. Home Credit presence in Indonesia is in more than 6,500 shops in more than 40 cities and towns in Indonesia and employs more than 6,000 people (data as of 31 May 2017). In 2016, the company disbursed IDR 1.9 trillion – an equivalent of EUR 126 million¹ – to more than 450,000 clients. Mobile phone financing represents the highest contribution to this finance amount (60%), followed by cash financing and other electronics and furniture. In 2017 the company targets to disburse new financing of IDR 5.9 trillion or EUR 394 million, and to operate throughout Indonesia except Papua by the end of 2017.



PT UNILEVER INDONESIA TBK

PT Unilever Indonesia Tbk marking its presence for 83 years in Indonesia this year and continue to invest in Indonesia. Unilever already signed investment commitment with value around EUR 447 million for 2016-2020 period. The latest investment was the state-of-the-art new head office worth EUR 90 million located in BSD Tangerang. This 50,000 sqm building accommodates up to 1000 employees with complete facilities and applying the principle of green building, with energy

saving practice and the availability of green open spaces. Unilever's commitment to sustainability is also shown by the development of CreaSolv® Process factory, where flexible plastic waste can be recycled into plastic raw material by using a circular economy approach.



IKEA

IKEA has been present in Indonesia for more than 23 years, through IKEA Trading who has been sourcing and exporting Indonesian made products to the global market. In 2014, IKEA opened its first



IKEA store in Alam Sutera near Jakarta. Today, the store welcomes approximately 4,000 customers per day. The IKEA business in Indonesia is operated under a franchise agreement granted to PT Hero Supermarket Group Tbk. In Indonesia IKEA employs 368 direct co-workers in addition to 540 indirect employees that work at the IKEA Alam Sutera store. The investment for establishing the first store was within the planned investment budget, while the annual sales volume is ahead of plan. IKEA is planning to open more stores in Indonesia in the future.

The Alam Sutera store was developed on a build and operate model. The total investment for land purchase, construction and company pre-opening costs amounted to almost €100 million. Return on investment was projected within 7 years. Actual return on investment is running significantly ahead of plan.



PT VERTICAL AKSES ASIA

Vertikal Akses Asia (VAA) was founded in 2013 to be the exclusive distributor for Cale Access AB in Indonesia. Cale is a Swedish company that produces on-street parking solutions, namely pay-

and-display electronic parking terminal and its supporting systems. VAA-Cale was the first to introduce and implement an on-street electronic parking system in Indonesia, starting in Bandung in 2013. As of December 2016, more than 750 units of parking terminals have been installed in the capital city Jakarta, Bandung, and Palembang. The parking terminal itself is manufactured in Sweden with some parts articles produced in EU member states such as Slovakia and Germany. VAA-Cale's main clients are the local city governments. Cale's parking terminal has been listed on the government e-Catalogue for direct purchase by any government institutions. This has been the main contributor to the fast process of procurement and ease of market penetration. Currently, VAA comprises of 20 employees with offices in Jakarta, Cibubur, Bandung and Palembang. VAA-Cale started in 2013 with an investment of €500 thousand. As of the end of 2016, netted sales have reached €6.2 million, of which €5 million was earned from government procurement through the e-Catalogue. For the next three years, VAA-Cale plans a €10 million further investment to expand the business.



ENVITEC-BIOGAS

Early 2017, Envitec-Biogas has established a joint venture to generate renewable power from palm oil mill waste in North Sumatra. The modern design will also process solid material and double the electricity output compared to conventional biogas plants. As Europe's market leader in this sector the company is now investing in its Indonesian presence. This will bring know-how, technology and leadership to unlock hundreds of megawatt of renewable energy potential and to improve the sustainability of palm oil production, one of Indonesia's key industries.



BASF

BASF started its investment in Indonesia in 1976 and today, its products and solutions range from petrochemicals, monomers, intermediates, dispersions and resins, care chemicals, nutrition and health, performance chemicals, catalysts, construction chemicals, coatings and performance materials to crop protection. The head office for BASF Indonesia is located in Jakarta and it has four production sites; Cengkareng and Merak (dispersions & resins), Cikarang (construction chemicals) and Cimanggis (care chemicals). BASF Indonesia employed 662 employees in the country as of end 2016. In November



Trade and investment with **INDONESIA**



© BASF SE 2016

2015, BASF completed a surfactant capacity expansion project at its Cimanggis site to increase capacity for surfactants for personal care and home care applications. In 2016, BASF posted sales to customers in Indonesia of about €470 million.

To support the Indonesian government's aim to be self-sufficient in rice production, BASF partners with GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) in the "Better Rice Initiative" (BRIA) project to help farmers produce rice more efficiently and increase yield. At BRIA demonstration plots, farmers have experienced up to 20% yield increase and 37% increase in income due to less usage of fertilizer and latest technology from BASF, for example, in 2015, BASF launched Seltima® to

offer farmers a highly effective solution to protect their plants from fungal diseases while preserving the aquatic environment. Solutions and applications that BASF develops for the construction industry focus on time, energy and cost savings during the construction process and improving the durability of concrete structures to lower maintenance costs.



L'ORÉAL

In the cosmetics sector, L'Oréal has established its first factory in Indonesia in 1986 after it had entered the market in 1979. In 2012, it created its largest factory in the world with the aim of catering domestic and ASEAN markets. Its staged investment is estimated to USD 130 million. It has now 845 permanent employees. It is estimated that it created up to 100.000 jobs through business partners, suppliers and CSR programs. L'Oréal places Indonesia as one of the top priority markets along China and India with approximately 3 million new consumers every year. Significant investments continue to be made by L'Oréal including the movement of Head Office to a sustainably certified office in Jakarta, the launch of R&I Evaluation Center, the expansion of warehouse and the opening up of LPK

PATH hairdressing school in partnership with Yayasan Cinta Anak Bangsa. In the area of CSR, since 2004 L'Oréal Indonesia has supported the progression of female in science through 3 key programs: L'Oréal-UNESCO For Women in Science (awarding talented young scientist), L'Oréal Sorority in Science (scholarship for underprivileged science students) and L'Oréal Girls in as Science (science competition for high school students), and also launching Beauty for A Better Life program since 2014 to provide free hairdressing trainings to underprivileged women in order to improve their livelihoods.



© mdkristia1976



GAMELOFT

Gameloft is a French video game developer and publisher with studios around the world. It has been present in Indonesia for 7 years. It invests every year on average EUR 1 million of capital investment and generates revenues of EUR 5 million every year. Indonesia has been attractive as costs are relatively low and offers a massive talent pool with great potential. Gameloft received significant support from the local community and was able to scale up fast in Indonesia. Within 2 years, the company grew from 5 to 500 employees in Yogyakarta, a city home to many universities. Gameloft has grown continuously since 2010 when opened the Indonesian branch. It has now two studios in Yogyakarta and one in Jakarta. Overall, it has around 700 employees, mostly young professional and fresh graduates. The workforce of Gameloft is its biggest asset and regularly organises workshops and internships for university students. Many fresh graduates that started their careers in Gameloft have later been offered jobs by Indonesia's top employers, showing the value of the experience they have gained. Gameloft is also engaged with its social environment.

It created a partnership with a local NGO focused on children and particularly education. With their help, it donated computers to schools and organized several courses. Gameloft also sponsors community events and local festivities.



DECATHLON

Decathlon is a French company and one of the largest sport retailers in the world. It established in Indonesia in 2016 on the premise that Indonesia is to become the 4th largest economy by 2050. Indonesia's population, political stability and the sustainable 5% growth it experienced have been particularly attractive for the group. Its plan is to invest around EUR 500 million in the next ten years with the creation of up to 100,000 directly and indirectly jobs. Its first shop is to open before the end of 2017 in the suburb of Jakarta. It currently employs 40 people and contributes indirectly to around 2,000 workers. Decathlon has been one of the first companies to benefit from an assistance of BKPM, the Indonesian investment agency. According to its director General, Jeremie Ruppert, BKPM has been particularly "supportive" and has contributed to create a good level of confidence. The strategy of Decathlon in

Indonesia is to develop the retail activity online and offline throughout the country and to develop the "made in Indonesia" for its global and local supply.



B. BRAUN

After being a distributor for almost 40 years, the German pharmaceuticals firm B. Braun inaugurated the company's first infusion solutions factory in Indonesia in June 2017. The land for the factory had been purchased in 2009 and construction started in 2013. B. Braun's factory will produce infusion solutions and injectable medicine with an initial capacity of 15 million bottle units per year. This will be upgraded to 150 million units per year over the next several years, as the company establishes the facility as a production hub for the Asia Pacific market. The growing domestic demand for the firm's medical products as well as Indonesia's efforts to implement a universal healthcare system were decisive factors for the more than €80 million investment involved. The new factory will ensure adequate supplies for local health facilities, reduce the country's reliance on imports and boost exports of valued-added pharmaceutical goods.



Rice crop

EU INDUSTRY, CSR AND SUSTAINABLE BUSINESS

The EU attaches high importance to corporate social responsibility (CSR) and encourages sustainable business practices by European companies around the world. CSR refers to companies taking responsibility for their impact on society and the environment. CSR becomes increasingly important to the competitiveness of enterprises and can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, or innovation capacity.

The EU promotes CSR in accordance with internationally recognised principles and guidelines, in particular the recently updated OECD Guidelines for Multinational Enterprises, the ten principles of the United Nations Global Compact, the ISO 26000 Guidance Standard on Social Responsibility, the ILO Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the United Nations Guiding Principles on Business and Human Rights. This set of core principles and guidelines represents an evolving global framework for CSR.

The EU aims at disseminating the internationally recognised CSR guidelines and principles more widely. It encourages EU businesses to ensure their positive impact on foreign economies and societies. By promoting respect for social and environmental standards, EU enterprises can foster better corporate governance and inclusive growth in developing countries.

EU companies work on CSR for a number of reasons:

- ▶ **There is often a direct benefit to profitability.** Companies that pay attention to training opportunities and well-being of employees tend to enjoy more loyalty and respect from their employees helping to ensure high productivity and product quality. In addition, efforts to minimise emissions and reduce the carbon footprint do not only benefit the environment but also cut costs and give rise to new opportunities related to the development of future technologies.
- ▶ **There is a benefit to company image and reputation.** Consumers pay increasing attention to responsible behaviour by corporations. In the age of internet, corporate misbehaviour has become more visible than ever allowing consumers to adapt consumption patterns to the extent to which corporations meet legal, ethical and economic responsibilities. Good corporate citizenship can hence have a direct impact on a company's profitability. A responsible corporate image among trade unions, NGOs, investors, local communities, and other stakeholders enhances both standing and influence of enterprises.
- ▶ **By adapting CSR values, companies go beyond their corporate values.** Corporate governance has come under scrutiny recently. As a result, corporate or business ethics has become more prominent and European companies have grasped the necessity of applying ethical principles to problems arising in the business environment.

Indonesia and its society benefit from the importance that EU companies place on CSR and good corporate citizenship in a number of ways:

SUSTAINABLE EMPLOYMENT

EU companies adopt a special social model and approach towards their employees. They have realised that employees are the greatest asset to their companies and invest across the board in the training and skills development of their employees. While such training ensures the continued growth of the companies, it also opens up opportunities for the employees themselves. A number of EU companies provide certification for such trainings and give scholarships to employees to continue their education at under- or postgraduate level, enhancing chances for employees to climb the career ladder within their company or seek lucrative employment opportunities across the industry.

Moving up the skills ladder and addressing skills gaps is particularly relevant for Indonesia's economy after establishment of the ASEAN Economic Community (AEC) in 2015 that enables the freer movement of skilled workers. As a joint report by the Asian Development Bank (ADB) and the International Labour Organization (ILO) highlights, the occupations projected to grow fastest are **high skill** and nearly half of the increased demand for high-skill employment until 2025 would be in Indonesia.

As part of the commitment to their employees, EU companies pay salaries that are markedly above the provincial minimum wages and provide private protection schemes on top of compulsory social contributions set by the government through JAMSOSTEK (BPJS Ketenagakerjaan). Supplementary health and life insurance as well as pension schemes are common practice among European companies. Furthermore, several EU companies provide incentives for employees through long service awards, religious bonuses above government regulation and paid overtime. Siemens Indonesia even has a soft loan facility in place, allowing employees to obtain loans without interest.

COMPANY DEVELOPMENT

The contributions of EU companies to Indonesia go beyond their own employees and also target local communities. Many European enterprises run philanthropic programmes aimed at engaging with the local communities and supporting local empowerment through community activities such as renovating schools and public facilities or teaching initiatives at local schools (on matters including hygiene, sustainable land use and farming, waste management, and energy efficiency).

COMMUNITY DEVELOPMENT

EU companies recognise the notion of self-entrepreneurship or self-help as a core principle of their empowerment initiatives. The British beverages giant **Diageo** has invested around 13.8 Billion Rupiah in the last five years in the development of Indonesia's social entrepreneurship sector through a programme called Community Entrepreneurship Challenge that has benefitted more than 28.000 people in 200 communities across Indonesia from Aceh to Papua. It supports entrepreneurs that drive real improvements in communities. **Lafarge Indonesia** collectively conducts its CSR programme through its CSR department and the Committee of Community Development in Lhokgna and Leupung sub-districts. The programme focuses on four main areas: education, health, economy and social/religion. The comprehensive programme includes 900 scholarships to students from Lhokgna and Leupung sub-districts, vocational trainings, loan facilities for villagers, and access to capital for SMEs.

To promote and introduce local-made products, the Swedish furniture giant **IKEA** works in partnership with Yayasan Dharma Bhakti Astra (YDBA) through a Memorandum of Understanding. In

the partnership, throughout 2017, IKEA provides a special area for SMEs under YDBA within the IKEA store, called "Teras Indonesia". This spot is used as a place to display and sell the SMEs products every first Friday, Saturday and Sunday of the month, and the sale exhibitions throughout the year also follow IKEA store's theme.

In addition, EU companies are committed to disaster relief and management. In the aftermath of the 2004 tsunami, EU companies helped the recovery of affected communities and engaged in disaster donation campaigns. The German logistics provider **DHL** offers humanitarian assistance through its GoHelp disaster management initiative that draws on the company's global presence, logistics network and the know-how of its employees. Following the earthquake in Indonesia in 2009, DHL deployed a disaster response team on the ground for 14 days.

ENVIRONMENTAL PROTECTION

An overwhelming majority of European companies is not only committed to people but also to the planet. EU enterprises seek to reduce the adverse impact of their business operations on the environment by cutting carbon dioxide emissions, managing waste and

promoting efficient water use. Traditionally, European companies make use of the latest technologies, which allows for a cleaner production through sophisticated filter technologies, as for instance shown by the development of CreaSolv® Process factory by **Unilever**, where flexible plastic waste can be recycled into plastic raw material by using a circular economy approach. Furthermore, EU enterprises are in the forefront of technological innovation and can provide technological solutions to environmental challenges in fields such as renewable energies and transport. Through its 'Environmental Portfolio' **Siemens** promotes energy efficiency from generation to use. The portfolio includes ten technology fields along the entire value chain of electrification and offer innovative products, solutions, and services in every field.

The German chemical producer **BASF** partners with GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) in the "Better Rice Initiative" (BRIA) project to help farmers produce rice more efficiently and increase yield. At BRIA demonstration plots, farmers have experienced up to 20% yield increase and 37% increase in income due to less usage of fertilizer and latest technology from BASF, for example, in 2015, BASF launched Seltima® to offer farmers a highly effective solution to protect their plants from fungal diseases while preserving the aquatic environment.

SUSTAINABLE SUPPLY CHAINS

As a result of global supply chains and the division of labour, suppliers have a significant impact on the sustainability performance and the sustainable development of society. It is therefore essential that business partners fulfil the same environmental and social standards that EU companies set for themselves. The **BMW Group** for instance introduced its Supplier Sustainability Standard that applies to more than 12,000 suppliers in 70 countries and requires compliance with internationally recognised human rights, as well as labour and social standards. In order to promote a consistent implementation of its sustainability principles, the German automobile manufacturer offers seminars, training and lectures for its suppliers and has projects in place to improve resource efficiency in the supply chain. To create incentives, the most innovative suppliers are recognised with the company's Supplier Innovation Award.



Borobudur

EU – INDONESIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT

Indonesia is the 6th country within ASEAN 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). As of July 2016, the EU has completed negotiations for bilateral agreements with two of them: Singapore (2014) and Vietnam (2015). Bilateral Free Trade Agreements between the EU and ASEAN countries will serve as building blocks towards a future EU-ASEAN agreement, which remains the EU's ultimate objective.

The President of the Republic of Indonesia Joko Widodo visited the European Institutions on April, 21st 2016. President Jokowi met with the President of the European Council, Donald Tusk, the President of the European Commission, Jean-Claude Juncker, and the President of the European Parliament, Martin Schulz. During his visit, President Joko Widodo announced an agreement with European officials on the Scoping Papers for the negotiations on CEPA.

On July, 18th 2016, the official negotiations were launched for CEPA. A first round of negotiations was held in Brussels in September 2016. The second round took place in Bali in January 2017 and the third round was held in Brussels in September 2017. Negotiations are led by Ms Helena König, Director for Asia and Latin America, and Pak Iman Pambagyo, Director for International Trade Negotiations at the Ministry of Trade.

Discussions have taken place in a friendly and constructive atmosphere. A wide range of topics are included and being discussed including trade in goods, rules of origin, sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), customs, trade facilitation, government procurement, intellectual property rights, services and investments.

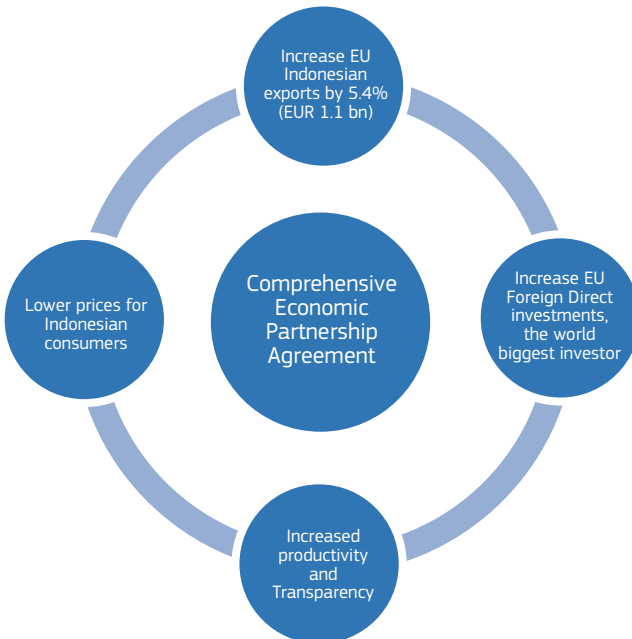
KEY IMPACTS AND BENEFITS OF EU-INDONESIA CEPA

The EU and the Indonesian economies are highly complementary. The difference in GDP per capita and economic endowments ensures the complementarity of trade between the two partners. A Comprehensive Economic Partnership Agreement between the EU and Indonesia will be highly beneficial for the two parties.

Indonesia benefits from the EU's General Scheme of Preference (GSP)

program which grants lower tariffs to developing countries in order to support their economic development. Currently, around 70% of Indonesian exports to the EU benefit from lower than 5% tariffs. Inevitably, this preference granted to Indonesia will be removed as Indonesia has been growing significantly and is expected to become an upper-middle income country. The CEPA would help Indonesia, through the elimination or reduction on agreed tariffs to anticipate and face this change in the best conditions.

The Centre for Strategic and International Studies, an international independent



Trade and investment with **INDONESIA**

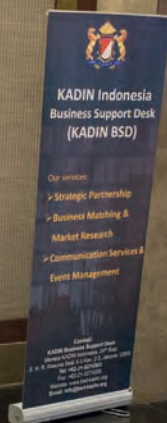


Jakarta-based think tank, published in 2015 a study on the impact of an EU-Indonesia CEPA. It concluded that with a CEPA that provides for an elimination of tariffs on all goods, Indonesian exports could increase by 5.4%, an increase equivalent to EUR 802 million. In the absence of a CEPA, the withdrawal of GSP would see a drop in Indonesia's export of 12%, the equivalent of EUR 2.4 billion. Similarly, the absence of a CEPA would lower the competitiveness of Indonesian exports vis-à-vis the exports from ASEAN countries that have concluded an FTA with the EU. This would create an additional fall of 8% in Indonesian exports, the equivalent of EUR 1.6 billion.

An enhanced agreement on services would also benefit both economies. While the EU is expected to benefit from surpluses in trade of services, Indonesia would certainly take advantage of the

high quality of the European service industry. The access to a wide variety of services would help Indonesian companies and consumers access them at lower prices, favour a transfer of knowledge and increase productivity of Indonesian services and manufacturing firms.

Finally, an enhanced agreement on investment would be beneficial to the two partners. There is a positive correlation between foreign direct investments and the level of Indonesian exports. These investments could help Indonesia develop a production base that would plug the country into the Global Value Chain, and particularly attract labour-intensive manufacturing jobs. To secure these investments, the CEPA shall include provisions that help increasing the predictability and transparency of the investment regime.



EU – INDONESIA COOPERATION

INSTITUTIONAL COOPERATION

Indonesia is the first economy of ASEAN, representing 42% of regional GDP. However, the country only ranks fifth in the EU trading partners among ASEAN Member States. The EU and its Member States have therefore supported Indonesia with a range of projects designed to assist integration into the international trade system.

Aid for Trade is financial assistance specifically targeted at helping countries develop their capacity to trade. It includes support in building new infrastructure, improving ports or customs facilities and assistance for authorities and companies to meet health and safety standards for exports to foreign markets. The EU is the world's biggest source of aid for trade. Indonesia is benefiting from EU support both at the national and the ASEAN regional level.

EU trade support programs to Indonesia – country level:

The **EU-Indonesia Trade Cooperation Facility (TCF - EUR 12 million - 2013 to 2016)** was a four-year program completed in November 2016 which aimed at strengthening the capacity of

government institutions to improve the trade and investment climate. One of the major focuses was to improve trade capacity by helping the Ministry of Trade to create consistent and transparent practices in trade dispute remedies, analysing trade barriers in foreign markets, strengthening technical and legal capacity in trade negotiations, and developing trade policies designed to stimulate export growth.

The **EU-Indonesia Trade Support Programme II (EUR 15 million – 2011 to 2015)** facilitated deeper integration of Indonesia into the international trade system. The programme supported compliance of Indonesian exports with international standards.

The **EU support programme to Public Finance Management and Revenue Administration (PFM-II – EUR 10 million – 2014 to 2018)** has improved the effectiveness of public finance management in Indonesia. The programme acknowledges that enhanced public finance is critical for creating stable conditions for trade and investment activities.

EU trade support programs to Indonesia – regional level:

ARISE Plus programme (2017 – 2022), expected to start activities in the fourth quarter 2017, is a follow-up on successful regional programs. Through ARISE Plus, the EU supports ASEAN in the areas of trade related regulatory and policy frameworks, intellectual property rights, standards, customs and transport, civil aviation, as well as capacity building of ASEAN Secretariat. The programme has a regional level dimension (EUR 40 million, 2017-2022) and country-level trade-related assistance components to support the CLMV countries, the Philippines and Indonesia. ARISE Plus is fully aligned with the ASEAN Economic

Community Blueprint 2025 and will serve as the framework for several EU-ASEAN projects based on European models, for example, on customs integration, standards harmonisation, and food safety. Additionally, ARISE Plus has three key deliverables for the private sector including the **ASEAN Trade Repository (ATR)** and the **ASEAN Solutions for Investments, Services and Trade** (ASSIST - initiated respectively in 2015 and 2016). Indonesia Trade Support Facility (2017 – 2022) is a program under ARISE Plus specifically dedicated to Indonesia. It is endowed with a budget of EUR 10 million. The specific objective is to boost trade performance and competitiveness.



The Asian Trade Repository (ATR)



ATR is a web-based portal to enhance transparency of trade and customs laws and procedures of all ten ASEAN member states.

<http://atr.asean.org>

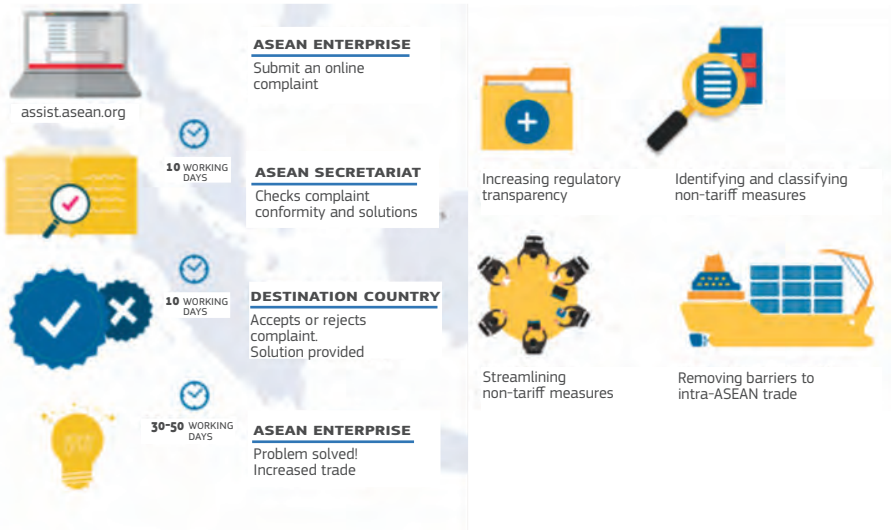


The ASEAN Solutions for Services, Investment and Trade (ASSIST)



ASSIST is web-based mechanism for ASEAN-based enterprises to refer trade-related cross-border issues within the framework of the AEC.

<http://assist.asean.org>



Expected Results of the ARISE Plus Indonesia Trade Support Facility :

Result 1: Enhanced institutional capacities to implement and coordinate strategic policies related to trade and investment sectors.

Result 2: Improved trade-related competencies to implement the EU-Indonesia CEPA and the WTO Trade Facilitation Agreement.

Result 3: Export Quality Infrastructure and National Quality Assurance system are implemented in line with international best practices and standards, thus increasing export competitiveness.

Result 4: Improved capacities of national and local stakeholders to develop Geographical Indications (GIs) to enhance the local economy and employment opportunities in regions.

Result 5: Improved awareness and knowledge of the domestic industry including SMEs in participating to Global Value Chains.

Within the scope of the Instrument for Co-operation with Industrialised Countries (ICI), the EU promotes co-operation with other industrialised and high-income partners. Under the name ICI+, the programme was extended to developing countries and there are currently two complementary components of the five-year ICI+ project in Indonesia: the European Business Chambers of Commerce in Indonesia (EuroCham) and the EU-Indonesia Business Network (EIBN). A total of five million Euros is granted to the programme aiming to improve access to the Indonesian market and providing market information and business support services to European companies looking to enter the Indonesian market.



eurocham

European Business Chamber Of Commerce (EuroCham), established in September 2004, is the principal European business organisation in Indonesia. Representing more than 180 companies and entities, EuroCham actively promotes European business interests in Indonesia. EuroCham aims to be the Voice of European Business in Indonesia by improving market access and partnering with the Government of Indonesia and the European Union.

Since its establishment, EuroCham has served at the forefront in addressing crucial and important business issues, including trade and investment matters. Continuous information sharing and a proactive advocacy dialogue are the contributing factors for EuroCham to be acknowledged as the Government of Indonesia's partner and other stakeholders as well. These efforts are executed through 12 working groups and 4 member forums, all of which are representing European business interest in their respective industry.



The EU - Indonesia Business Network

was initiated in August 2013 as a five-year program co-funded by the European Commission, and is the product of a partnership between the five largest European bilateral Chambers of Commerce in Indonesia (EKONID, EuroCham Indonesia, IFCCI, INA, BritCham) and two counterparts in Europe (EUROCHAMBRES and CCI Barcelona). The aim of EIBN is to enhance and diversify European business

trade and investment in Indonesia, while promoting the country as a gateway to ASEAN. EIBN seeks to contribute to a more coherent and effective EU strategy for supporting and attracting European businesses, specifically SME's, both those already in Indonesia and those expanding their activities. EIBN establishes a platform for exchange of best practices, information and knowledge. Its activities include awareness raising, organizing workshops, info sessions and dialogues to enhance trade and linkages between the EU and Indonesia plus other ASEAN member states, and providing expertise in business advisory services to support EU companies' market entry.

EIBN achievements since its establishment

- ▶ Coordinated over 40 market information events in 22 EU Member States.
- ▶ Published 17 sector reports on Indonesian industries.
- ▶ Published a 3-book Business Guide on how to do business in Indonesia.
- ▶ Assisted over 800 European companies with business enquiries.
- ▶ Supported over 123 companies and organization with concrete market access business service.



SIAL INTERFOOD EXHIBITION 2016

The EIBN team led the participation of a delegation of European food and beverage (F&B) companies at 2016's SIAL InterFOOD Exhibition in Jakarta. As part of this mission, 14 participating EU companies were represented in a European Pavilion giving them the opportunity to present their products to Indonesian end-consumers and multipliers. The Pavilion featured diverse European products including wines, cheese, beer, coffee, pasta and olives, besides others, from 10 EU Member States. Beyond the Pavilion, EIBN organized successful B2B meetings which gave the European companies

the opportunity to meet potential local importers distributors and retail companies. Parallel to the 4-day-event, EIBN had the honour to welcome the EU Commissioner for Agriculture and Rural Development, Mr. Phil Hogan, at the Pavilion. EIBN also successfully organized numerous B2B meetings for over 35 EU companies from the agricultural, food and beverage sectors accompanying the Commissioner and his Agribusiness Mission to Indonesia. EIBN's European Pavilion itself became the centre of attention during SIAL InterFOOD 2016 as it won the exhibition's Award for Best Design.



The EU-Indonesia Business Dialogue (EIBD) is an annual forum of business leaders and government representatives working consistently on emerging opportunities in trade and investment. The on-going work on sectoral and cross-sectoral aspects is the basis for the EIBD Conference. This is uniquely coupled with a more formal government-to-government

dialogue, enabling business leaders to have a direct impact on governments' policies. CEOs of Indonesian companies can meet high-level representatives of European Companies to discuss strategic co-operation and development for the Indonesian, wider Asian and European markets. Furthermore, European business leaders have a unique opportunity to evaluate the potential of the Indonesian market and to speak with industry leaders. The first EIBD was launched in 2009 in Brussel as an initiative of the EU and the Indonesian government. Since then it takes place in Indonesia, and has welcomed



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Phil Hogan, Member of the EC in charge of Agriculture and Rural Development, went to Jakarta.

During his stay, he participated in a roundtable on "Future collaboration among European and Asian farmers organizations and policy makers". The second day, the commissioner intended in the conference of the Comprehensive Economic Partnership Agreement (CEPA): Enhancing EU – Indonesia Partnership. A New Framework for Trade and Investment Relations", which has been presented during the 6th EU-Indonesia Business Dialogue (EIBD).

plenty of high ranked EU and Indonesian officials. In 2014 for instance, H.E. Herman van Rompuy, President of the European Council delivered a keynote speech. In 2016 the 7th edition of EIBD was organized with the theme CEPA: Enhancing EU – Indonesia Partnership: A New Framework for Trade and Investment Relations, and included the presence of the Indonesian Vice President, H.E. Mr. Jusuf Kalla and the EU Commissioner for Agriculture and Rural Development, H.E. Mr. Phil Hogan.



The EU-ASEAN Business Council (EU-ABC) is the primary voice for European business within the ASEAN region, formally recognised as such by the European Commission and the ASEAN Secretariat. Independent of both bodies, the Council has been established to help promote the interests of European businesses operating within ASEAN and to advocate for changes in policies and regulations which would help promote trade and investment between Europe and the ASEAN region.

The EU-ABC works on a sectorial and cross-industry basis to help improve the investment and trading conditions for European Businesses in the ASEAN region through recommendations to policy makers throughout the region and in the EU, as well as acting as a platform for the exchange of information and ideas amongst its members and regional players within the ASEAN region.

The EU-ABC conducts its activities through a series of advocacy groups focused on particular industry sectors and cross-industry issues. These groups, usually chaired by a multi-national corporation, draw on the views of the entire membership of the EU-ABC as well as the relevant committees from our European Chamber of Commerce membership, allowing the EU-ABC to reflect the views and concerns of European business in general. Groups cover, amongst other areas, Insurance, Automotive, Agri-Food & FMCG, IPR & Illicit Trade, Market Access & Non-Tariff Barriers to Trade, and Financial Integration.

The EU-ABC publishes regular position papers and has regular interaction with ASEAN Ministerial bodies, including Economic Ministers and Finance Ministers.



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Business Information Sources



eurocham

European Chamber of Commerce in Indonesia – EuroCham

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www.eurocham.id



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Export Helpdesk | **www.exporthelp.europa.eu**

The Export Helpdesk is an online service provided by the European Commission to facilitate market access for developing countries towards the European Union. With 500 million consumers, the EU is an attractive market for any exporter. With the new version, the Export Helpdesk is easier to use

Can the Export Helpdesk provide lists of EU importers' names and addresses?

The European Commission which provides the website of the Export Helpdesk is responsible for trade policy in the European Union but not for trade promotion, which is a competence of the EU Member States. It is therefore suggested to consult the respective Chambers of Commerce, whose reference you can find in the Business Contacts Section.

WHO can enjoy the benefits of the Export Helpdesk?

Exporters from developing countries, including Indonesia, can take advantage of this online service.

WHAT CAN YOU FIND IN THE EXPORT HELPDESK?

► Requirements and taxes

- requirements you must meet to export to and market goods in the EU
- internal taxes applicable in every EU countries
- product-specific legal or market requirements

► Import tariffs

- import duties
- preferential regime which applies to your country
- preferential and non-preferential tariff quotas
- import licenses
- anti-dumping measures

► Preferential arrangements

- EU's main trade agreements with developing countries
- documents that must accompany your exports
- rules of origin exporters must meet

► Trade statistics

- trade flows between the EU and third countries by year and for any product (group) with a 2- to 8-digit code
- imports and exports - expressed in value and/or quantity or supplementary quantity (liters, pieces, etc.)

► Business contacts

- EU Institution, Customs and Taxation Organisation
- chambers of commerce and industry (EU, Member States and International)
- professional associations (EU and International)
- voluntary and private standards

