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Position Paper

Cross-sectoral Working Group on
Trade Facilitation

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1. Executive Summary

The economic trade relations between Indonesia and Europe are stable on a very high level. Europe is of overarching importance as a trade partner for the whole ASEAN region. Nevertheless, Europe's exchange of products with the major Asian competitors of Indonesia has been more dynamic in the last years. Compared to their competitors from countries like China, India, Thailand and Vietnam, Indonesian companies are threatened losing market shares.

In the last years Europe gradually enhanced its network of bilateral trade relations, leaving only a very few OECD countries out. Compared to this Indonesia has been focusing rather its regional neighbors. Whereas free trade in-between the ASEAN countries is slowly but constantly developing, the trade relations with India and especially China are gaining momentum which is putting pressure at least on some sectors of the Indonesian economy. Under the WTO framework Europe as well as Indonesia generally play a positive role. Both partners deviate from the Most Favored Nation rate in some critical sectors.

Business relations between Europe and Indonesia are highly complementary. Nevertheless, Europe's business development with many other Asian countries has very dynamic in the last years. Compared to this, Indonesia is lagging behind, which is not backed by the general positive economic performance of the country. What has to be done to upgrade the partnership between Europe and Indonesia? As big corporates usually already maintain close business relations, potentials can be identified primarily among SME actors on both sides. These enterprises are sharing comparable challenges: limited access to reliable information, limited own resources (equity and human capacities), and limited access to financial means. Here, supporting initiatives either from the governments and/or the Chambers of Commerce and Industry are needed as well as supply of sufficient means from financial institutions. Finally, awareness-building on both sides seems to be a key to success to gradually direct SMEs to business opportunities in the respective partner country. Promotion activities could be an important factor leading to a (renewed) interest on the Indonesian as well as the European side.

Without this positive engagement from the private sector, political progress towards a potential FTA seems to be an important, but not a sufficient step.

The following sectors can be seen as the most promising ones for enhanced exchange of products and services:

For European actors:

- Infrastructure
- Energy
- Premium pharmaceuticals and cosmetics
- Integration into regional production networks and supply chains.

For Indonesian actors:

- Textiles, apparel and footwear
- Food and agro products
- Furniture.

A broad range of success stories proves that European-Indonesian economic relations are developing in the right, i. e. positive direction. One example may be the National Single Window which will and already does significantly ease customs procedures, hence flow of imported goods, which is crucial not only for European manufacturing companies in Indonesia. Nevertheless, there still are challenges on both sides, primarily arising from non-tariff trade (NTB) barriers as well as technical regulations. Whereas WTO seems to be the right forum to finally debate NBT, technical regulations are accounting for the bulk of all trade obstacles and hurdles, even when there often is no clear differentiation possible between both domains.

Consumer health and environmental protection are determining import related regulations, hampering specifically exports of SMEs on both sides. Approaches, philosophies and standards are not transferable from Indonesia to Europe and vice versa without further ado. This proved to be a major challenge for SMEs, requiring political consideration on both sides. Where can procedures be harmonized or streamlined? Where can consulting and advisory capacities possibly enhanced on both sides? Where can administrative capacities developed? Being aware of the overarching importance of the containment of climate change, 'green' issues will significantly and increasingly affect trade of goods between Europe and Indonesia. The same is true for consumer protection. This is a challenge for business and political actors, not at least as this is in the focus of public attention. Nevertheless, laws and implementing regulations should always take impacts on trade related activities into consideration, especially of Small and Medium Sized Enterprises.

2. Economic Relations

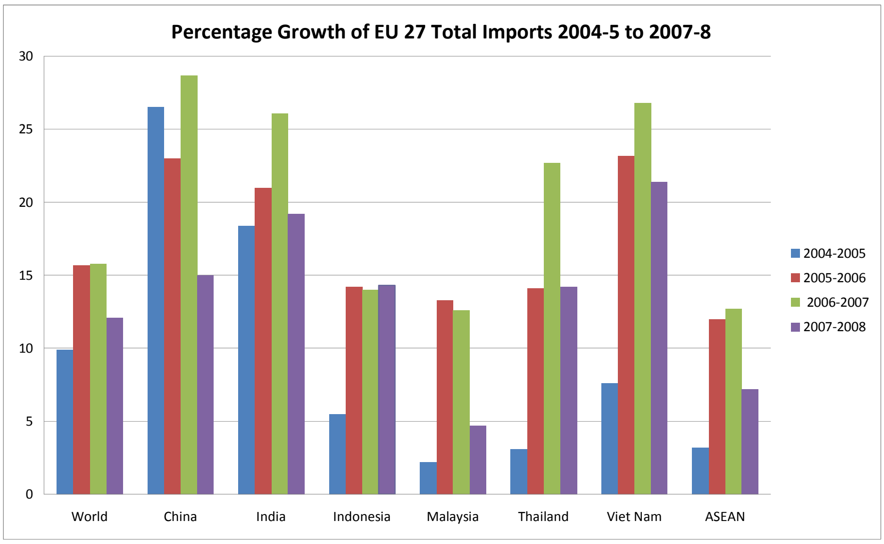
2.1 General Trade Relations

In 2008 exports from Europe to Indonesia were 6 billion Euro and imports to EU from Indonesia including oil and gas were 13.4 billion Euro. The total trade between EU and Indonesia amounted to almost 20 billion euro and grew about 6 percent compared to 2007. However, the EU exports to Indonesia represent less than 0.5 percent of EU's total exports. The potential is considerable.

Product	EU exports to Indones. (EU 27, in Euro)			Product	Indones. exports to EU (EU 27, in Euro)		
	2007	2008	2009		2007	2008	2009
All products	7683228	10564783	8682074	All products	13376471	15482370	13640936
Nuclear reactors, boilers, machinery, etc	1780034	2493928	1970174	Animal, vegetable fats and oils, cleavage products, etc	1714433	2869010	2270189
Electrical, electronic equipment	1355814	2119463	1413089	Electrical, electronic equipment	994476	1066857	1481291
Aircraft, spacecraft, and parts thereof	1057638	847932	1195001	Mineral fuels, oils, distillation products, etc	579135	1116565	976344
Organic chemicals	358637	447921	362538	Ores, slag and ash	1246171	621947	879176
Pulp of wood, fibrous cellulosic material, waste etc	241715	405736	270118	Footwear, gaiters and the like, parts thereof	812236	946470	869960
Vehicles other than railway, tramway	211371	364750	254167	Articles of apparel, accessories, not knit or crochet	673357	798732	771217
Plastics and articles thereof	198527	276629	223448	Rubber and articles thereof	961406	1104204	674892
Articles of iron or steel	138212	300218	209742	Furniture, lighting, signs, prefabricated buildings	803296	759240	640363
Pharmaceutical products	162822	194844	207725	Articles of apparel, accessories, knit or crochet	594868	661401	593687
Iron and steel	147530	241099	199238	Nuclear reactors, boilers, machinery, etc	594897	640627	565232

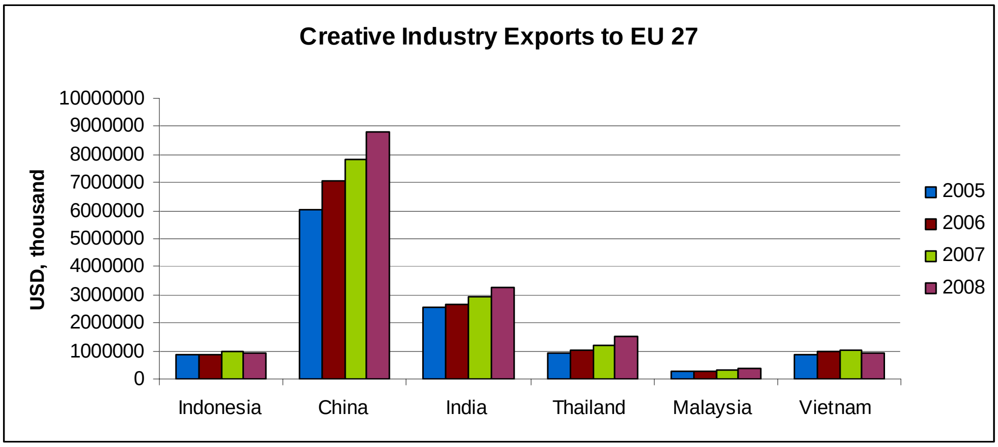
Source: Intrace

Indonesian exporters are facing stiff competition from their major Asian competitors. The following table indicates where Indonesia's growth in exports to EU 27 is slower than compared with exports from China, India and Vietnam to the same region, even when Indonesia performed better than the ASEAN average:



Source: ITC calculations based on COMTRADE statistics

Equally indicative is a snapshot of the development of exports of 'creative industries' from Indonesia to Europe. This comprises of different industries such as furniture, footwear, toys, instruments, design articles, etc. Compared to the major neighboring countries, Indonesia's exports are not growing but even slightly decreasing (2008-2009) which is a worrying tendency, taking into consideration the overarching importance of those products for Indonesian exports:



Source: ITC calculations based on COMTRADE statistics

While discussing EU-Indonesia trade relations it is also important to highlight the increasingly important role EU is playing for and increasingly integrated and open ASEAN (and vice versa). EU trade in goods with ASEAN countries in 2009 had a value of more than € 118 billion, EU exports to ASEAN accounted for € 50.2 billion, EU imports from ASEAN was € 67.9 billion. In 2009, EU-ASEAN trade represented almost 1percent of total world trade. EU is ASEAN's 2nd largest trading partner after China accounting for around 11.2 percent of

ASEAN trade; and ASEAN as an entity represents the EU's 5^{th} largest trading partner accounting to € 118 billion (exports and imports).

2.2 Regional Linkages

One central pillar of the the European Union with now 27 member countries is the customs union. EU has a common external tariff and goods can be traded largely without any customs procedures among the member countries as soon as they are ready for free circulation. This facilitates intra-EU trade of imported goods. As traders, importers and trading houses usually are situated in the larger European economies with their traditional trading hubs (such as Rotterdam, Antwerpen, Hamburg and Bremen) they often are entry points for the whole European market.
Furthermore Europe is linked by a customs union to Turkey, and Europe signed a large number of bilateral FTAs with the remaining European, African and South American countries. These agreements offer preferential treatment to those goods originating in the respective contractual states. The past has shown that Europe's FTAs usually lead to a significant rise in bilateral trade exchange, such as in the cases of South Africa, Morocco, Mexico and the Southeast European countries.
The latest FTA has been signed just a couple of weeks ago with Korea which is insofar remarkable as it is the first OECD country taking this step.

Indonesia has a number of special bilateral economic relations, which are primarily embedded in the country's ASEAN integration.
The traditionally dense relations to **Japan** still play a crucial role, even when exports to Japan decreased in 2009 compared to 2008 ($12.81 billion down to $ 10.72 billion). The Japan-Indonesia Economic Partnership Agreement JIEPA is the core framework for this cooperation. There is an ongoing dialogue between the two governments on how to further enhance the bilateral relations, and the private sector strongly feeds into this.
Among Indonesia's export to Japan are resource-based commodities, such as oil, gas, coal timber and metals; while Japan's export to Indonesia is mostly industrial goods. Behind Singapore, Japan still is the largest Asian investor in Indonesia, even when China is catching up.

Through **ASEAN** Indonesia is economically connected to the major Southeast Asian economies. Following the role model the European economic integration, ASEAN announced the creation of the ASEAN Free Trade Area (AFTA) in 1992. The objective was to progressively eliminate tariff and non-tariff barriers among the member countries. AFTA comprises of a number of measures aiming to facilitate trade, including among others the ASEAN Single Window, ASEAN Agreement on Customs, and the Common Effective Preferential Tariff (CEPT).

Starting from 1st of January 2010, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand can import and export 99.11percent of their goods among themselves on the basis of a zero tariff.

Comparable to the European example, Indonesia is benefiting from free trade policies subsequently implemented by ASEAN. So far Indonesia is affected by the following core ASEAN-related Free Trade Agreements: ASEAN-Australia-New Zealand FTA (ANZFTA), ASEAN-Korea, ASEAN-China, and ASEAN-India (under negotiation).

Started as an **ASEAN-China** comprehensive economic cooperation in 2004, the relationship went on until the beginning of 2010, which was the start of the ASEAN-China FTA (ACFTA). The agreement covers 6,682 tariff lines in 17 sectors, including 12 in manufacturing, and five in agriculture, mining and maritime sectors. According to ASEAN Secretariat, this bilateral agreement might increase ASEAN's export to China by 48 percent and China's export to ASEAN by 55 percent.

The elimination of trade barriers with China will have both negative and positive effects for Indonesia. As a matter of fact, at least three sectors in Indonesia have effectively been hit: footwear, electronics and textiles. As parts of the Indonesian government feared more sectors to be negatively affected, there have been calls for renegotiations. In the last months, the number of incoming investment from China seems to rise, which could be a first positive impact from ACFTA.

2.3 International Commitments

Indonesia is like the European Union a founding member of the WTO and member of the so-called G20, the twenty largest economies of the world. Other than Indonesia, the EU has to take account of the nation states' prerogatives in certain policy areas, even when the external economic relations are one of the core activities of the European Commission, following the Treaty of Amsterdam.

Although Indonesia still is a young democracy, it takes its international commitments seriously and is prepared to bridge the interests between the developing (Southeast Asian) nations and the more advanced economies. This has been the rationale for Indonesia acting among the G20 nations. This can also be seen in the WTO fora where Indonesia always has been a defensive and moderating factor.
Even when one has to acknowledge the positive role EU is prepared to take over in WTO, there still are certain European issues complicating progress in trade negotiations. Hence, it seems as Europe and especially some single member countries could play a more pro-active role in overcoming the stalemate of the Doha Round.

Under the WTO framework, all members have agreed to grant **MFN titles** to others (Most Favored Nation). This privilege means that the country recipient will enjoy equal trade advantages from the giving country. Trade advantages can be in form of low tariff and import quotas. There are exceptions, such as preferential treatment for developing countries, regional free trade areas and customs unions. Indonesia as a developing country and member of ASEAN, makes use of this exception. Indonesia applies MFN tariff rates lower than 10 percent on a majority of goods. MFN rates for some industrial sectors will be lowered, such as imported vehicles tariff by considering the WTO's regulation of maximum of 40 percent in difference (built up vehicles and pre-assembled). Indonesia has 30 percent disparity at the moment. Products with higher tariffs or unbound include automobiles, iron, steel, and certain chemical products.

Indonesia's MFN tariffs have decreased sharply over the past decade and a half, with the simple average tariff falling by two-thirds between 1989 and 2006 to 6.95 percent, a relatively low figure by both developing country and Southeast Asian standards. Notwithstanding the fall of the simple average tariff, its standard deviation has increased since 2004, indicating increased tariff dispersion. This increase in dispersion reflects an overall decrease in tariff rates combined with the maintenance of high rates on selected goods such as alcoholic beverages and motor vehicles.

EU's average ad valorem MFN tariff is 6.7 percent, with the highest rates applying to agricultural products. However, there are wide ranging preferential trade arrangements with non-ad valorem rates applying to about 10 percent of all tariff lines, mainly for agricultural products. These same products are in many instances subject to tariff quotas.

3. Potentials for Enhanced Cooperation

3.1 Complementarities of Goods and Services

There is considerable potential to build on the trade relationship between the EU and Indonesia. Business relations are highly complementary with EU companies focusing on areas where they have technological or design capacities, such as capital goods and specialised consumer products with a high degree of product differentiation. On the other side, Indonesia exports resource-based products and labour intensive manufactured goods to Europe. This is where Indonesia's export-oriented industry has its comparative advantages.

Nevertheless, one has to acknowledge that trade between Europe and other Asian economy has been more dynamic in the last years (see above). At the same time, European companies are losing relative market shares, especially compared with their competitors from different Asian countries again. This indicates that the existing potential remains underexploited, with the Indonesian economy obviously being attractive for foreign exporters, importers as well as investors.

With Indonesia integrating into regional production networks there will be a need to upgrade equipment and enhance productivity. Following rising incomes, increased urbanisation and other demographic developments the niche markets for European exporters of premium and branded consumer products will potentially experience strong growth.

With Indonesia's export performance having been partly weak partly stable during the last decade, the export ratio still lags other major economies in Southeast Asia. While the reasons shall not be discussed at this point, one has to acknowledge that European imports from several Asian economies have been more dynamic in the last years, as previously mentioned. Hence, Indonesia's competitors seem to be more successful in promoting their products and potentials to European buyers.

However, latest studies of the EU prove that there still are great potentials for enhanced trade between Europe and Indonesia, especially due to the complementarities of the two economies.

3.2 Upgrading the Partnership

Assuming that the big corporate actors on both sides already maintain excellent relationships to the other side, growth potentials for trade can primarily be seen among the Small and Medium Enterprises (SMEs). In Europe as well as in Indonesia SMEs face a comparable set of challenges: limited access to reliable information, limited own resources (equity and human capacities), and limited access to financial means.

For **Indonesian SMEs** the following factors are keys to success:

- **Information**: Thanks to the EU's initiatives (such as Export Help Desk) information about technical aspects of market access are relatively easy to gather. Compared with this, the availability of market related information is much more limited. Market studies and appraisals as well as competent contact points are hardly accessible. In this context it should be mentioned that the scarce resources of the Indonesian Government for SME support vis-à-vis Europe should be invested more purposeful, taking the experiences of external parties into consideration. Despite from state-driven projects, the initiative from the private sector could potentially complement those activities, like in the case of the European Chambers Abroad, who are largely self-financed private bodies. A comparable setting could also be an option for the support of Indonesian exports to Europe.

  Generally, foreign trade promotion should be acknowledged as a key priority of the Indonesian Government. Whenever there are political delegations traveling to Europe, SMEs should be invited to join.
- Indonesia has not been successful in **establishing a proper brand** for products 'Made in Indonesia' so far. Whereas the last respective steps of the Ministry of Trade and BKPM seem to be consequent and well-thought-out, Indonesia's competitors already successfully positioned themselves and their industries. Products 'Made in India', 'Made in Taiwan" or 'Made in Malaysia' are well-known and enjoy international recognition. Especially Thailand and Malaysia could serve as role models how to successfully implement a marketing strategy for national products and industries. This strategy has to be seen as a long-term project, independent from day-to-day politics.
- Establishing new trade relations requires **financial means**. No new export/import business can be started without proper initial investment. The cur-

rent Indonesian banking interest rates and the lending policies are not sufficient to meet demand from SMEs. The Indonesian Government should boost its efforts to ease the access to external funds from the banking sector.

- **SMEs need guidance and advise** to successfully start export/import initiatives. The Chambers (KADIN) are the right partners to offer this kind of technical support as they are close to private business and to the international business community as well. The regional Chambers (Kadinda) should be supported in their efforts to establish Business Support Desks. Every help and assistance from European parties thereupon is most welcome.
- Indonesian distributors and importers of European products could play a stronger role as **agents for the whole ASEAN region**. So far, constraints in logistics, infrastructure and once again financial means are hampering these potentials.
- **The trajectory of 'self-reliance**' and 'self-sufficiency' still plays a strong role in the public and the political debate. In this regards, imports are perceived as hampering national industries. This anachronism is not in line with the needs and constraints of a globally interconnected economy. Furthermore, it limits especially the ventures of SME companies who are depending on smooth flow of raw materials and preliminary products. It is a political task to carefully change the discourse accordingly.

For European SMEs the following factors are keys to success:

- Local knowledge and understanding of the export market
- Representation in the target market
- Reliable and effective partnerships with local company (-ies)
- Persistence in activities, in many cases, for success in Indonesia a long term commitment is required from the company
- Do your homework before entering market – for this local consultants and Chambers of Commerce and Industry could be supporting
- Access to export financing

As European SMEs start looking at Indonesia as a potential export/investment market, there is a need for more and better access to information about Indonesia, especially the market structure and opportunities Additional information include the regulatory frame-

work, here information is easier to obtain, even though sometimes less transparent processes also affect the operations of the company. The regulatory framework is available from Chambers and consultants in the local market.
Furthermore, stronger self-promotion of Indonesia as a target market is required, since countries like Vietnam and China currently attract the attention of EU companies.

Finally, one has be to aware that there are endogenous limitations for enhanced trade between Indonesia and Europe. The physical distances are one factor, but also internal restrictions and limitations in SMEs. For European SMEs, Indonesia is a relatively complex market and vice versa. Therefore, in many cases 'newcomers' may be advised to start with an 'easier', maybe neighboring market first with Singapore being the obvious choice for many EU SMEs.

Towards a FTA?

Seeing that other countries have gained mutual benefit from FTAs with Indonesia, the EU seems to be willing to do the same. Currently, there are limiting factors on both sides: the effects of the economic crisis in many European countries, and the negative perception of free trade in Indonesia. Both retard the needed discussion on how to set the framework for enhanced trade and investment.
The recently signed agreement (Partnership Cooperation Agreement, PCA) underlines the commitment from both sides to sign an FTA. There is demand among the European business community for starting with the negotiation process. Indonesia has been performing significantly well in the past five years, despite the global and European crisis. Many sectors have been improving, as well as the socio-economic factors, such as investment climate, general political stability and economic growth. This will positively impact the European side to 'rediscover' Indonesia, which is gaining self-confidence on the other side.
In a regional perspective EU has been active and in December 2009 EU Member States gave the green light for the Commission to pursue FTA negotiations with individual ASEAN countries, beginning with Singapore, i.e. the EU's foremost trading partner among the ASEAN countries. The door for other ASEAN countries willing to negotiate a comprehensive FTA remains open. At the same time, the EU has not lost sight of its ultimate goal of achieving an agreement within a regional framework.

3.3 Key Potentials

Despite the already intense exchange in goods and partly services between Europe and Indonesia, further potentials can be identified. In this context it should be mentioned that Indonesia is aware of its need to attract significant Foreign Direct Investment helping to meet the ambitious growth targets for the next years. This again offers opportunities for European companies, either as investors or as suppliers of investment goods.
Promising sectors are:

- Infrastructure. The Jakarta Declaration signed on 17th April 2010, was the kick-off for the establishment of a regional infrastructure fund (RIF) and a private-public partnership scheme (PPP). These are important instruments opening infrastructure policies. The EU is currently planning to establish an Asian Investment Facility (AIF). AIF will offer loans with low interest for Asian countries to develop the infrastructure. AIF could be a proper facilitator for EU and Indonesia.
- Energy. The Indonesia Investment Coordinating Board (BKPM) estimates the need for investment in energy generation to be around US$ 160 billion over a period of five years with the purpose of building 50.000 MW in power generation (water, solar, geothermal, etc). Especially in renewable energies, European companies have Unique Selling Points to offer.
- Premium pharmaceuticals and cosmetics
- Integration into regional production networks and supply chains: The economic integration in Asia has led to a focus on the development of regional production networks.

For Indonesian companies promising export-related sectors are:

- Textiles, apparel and footwear are traditional core export products of Indonesia. As neighboring countries proved to provide cheaper products in the past, Indonesia is facing stiff competition. Nevertheless, sales arguments such as quality and reliability, social responsibility and environmental protection could be anchor points for enhanced exports.
- Food. The European Union is increasingly depending on imports of food products, incl. fishery to meet its domestic consumption needs. In 2009 for instance the European Union imported US$17 billion worth of fishery products (representing 2.5 times the volume of domestic production) and 11.5 billion worth of agri-foods. Due to availability

many of those products come from tropical countries. In many products Indonesia is competing with other Asian countries.

- Furniture. Design and material are the key Unique Selling Points of Indonesia's well-established export products. Nevertheless, regional competitors are taking-over market shares. Furthermore, raising awareness among European customers for environmental protection poses a challenge for products 'Made in Indonesia'.

4. Success Stories and their Impact

4.1 NSW Implementation

The implementation of the National Single Window (NSW) in Indonesia is an improvement which will affect a majority of the companies active in Indonesia in their import-export activities. NSW is an electronic application streamlining and speeding up customs clearance of imported goods. Therefore, it is in the interest of the business community that the implementation becomes a success and an efficient solution for the flow of goods to and from Indonesia. During the implementation process it has become evident that a great challenge lies ahead for Indonesia, with a large number of government agencies at different levels of preparedness being connected to the system. Strong actions are currently underway to smoothen the implementation and good results have already been seen. However, further improvement of the INSW is needed, particularly in relation to BPOM, Quarantine (Animal, Plant and Fish) and Customs.

4.2 Trade Promotion

World Expo Shanghai China 2010 hosted an Indonesian Pavilion from 1st of May to 31st of October 2010. It is the most expensive Expo in history and also the largest World's Fair site ever at 5.28 square km. This year's Indonesia pavilion competes with more than 190 countries and 50 international organizations having registered to participate in this event. China expects to receive almost 100 foreign leaders and millions of people from across the world to come and visit the World Expo. More than 70 million visitors are expected to visit the expo. Until recently, Indonesia Pavilion has been greeting more than 4 million visitors from all over the world, making the pavilion a great success.

In a remarkable move to address a high-level target group, Indonesia organized a **promotion event at Harrod's**, the elite shopping centre in London. The budget for this exhibi-

tion (5.5 billion IDR) was allocated as a Public Private Partnership through the Ministry of Trade, Ministry of Culture and Tourism, Bank BNI, PT Sarinah (Persero), and others.
The promotion event, hold during April 2010, was the first time ever that Indonesia had such a high-class platform for a whole month in a European country. The exhibits were Indonesian dishes as well as typical superior handicraft and culinary products. Promotional activities included, among others, batik demonstrations, posters, a typical Indonesian food festival, and a fashion show. The product and tourism show was well received by the British public and already led to follow-up sales of Indonesian SME companies.

4.3 Export Helpdesk

The European Union is the world's largest single market and one of the most important trading partners for developing countries. Despite the efforts of open access and even a largely tariff and quota free access for most developing countries, some technical and very specific requirements remained hurdles for exporters to fully benefit from the export opportunities provided. However, it was identified that most of these can be overcome when the information on how to access the EU market is more widely available. Building on these considerations, the Export Helpdesk was created in 2004 as a single point of access for online information about exporting to Europe. The Export Helpdesk is an online service, provided by the European Commission, to facilitate market access for developing countries to the European Union. It is a free service providing among others the following online: Information on EU and Member States' import requirements as well as internal taxes applicable to products; information on import tariffs and other import measures; information on EU preferential import regimes benefiting developing countries; trade data for the EU and its individual Member States.

5. Issues and Challenges

5.1 Customs

Indonesian exporters rarely get in contact with European customs procedures as the import handling usually is taken care of by the local European partner/importer or its authorised agent (depending on the contractual arrangements, normally applying INCOTERMS). This division of labor is highly advised anyhow as the European customs procedures are gradually transfered to online applications which makes it efficient on the one hand, but also more complex for external trade partners on the other.

On the Indonesian side, red tape for importers and exporters have been long-time issues. With the new customs law (Law 17/2006) improvements have been made. The customs examination process has also been sped up facilitating cargo processing and expanding the role of bonded zones aiming to accelerate the registration and application process for excise facilities. Article 5 of the law allows importers and exporters to submit customs clearance documents electronically. However, this practise is not fully implemented yet.

The **National Single Window (NSW)** aims at accelerating the flow of goods and improving the competitiveness of logistic and Indonesian export (see above). The trial period in Tanjung Priok, Jakarta started in November 2007; participants for the trials were selected food & beverage and pharmaceutical companies, including a number of European companies. Implementation started one month later, whereas implementation in other ports has been ongoing during 2008, with the final goal being the integration to the ASEAN Single Window. First experiences show that NSW proves to be an important step into the right direction.

5.2 Trade Regulations

Non-tariff barriers to trade (NTB): Indonesia has been a relatively low-tariff country by developing country standards and has been rather successfully implementing its tariff liberalization program, but since 2001, new NTBs have emerged. WTO reported in 2007 that Indonesia has increased import license requirements that restrict and distort trade (WTO Policy Review 2007). Removing barriers to trade will enhance economic integration and support economic growth in Indonesia.

A lack of consistency and a single authority over trade policies has contributed to this proliferation of NTBs. While the Ministry of Finance sets tariffs, NTBs are under the authority of line ministries without consistent co-ordination or consideration of their economy-wide impact. The increase in NTBs following the decentralization process started in 2001 is in contrast to the government's commitment to reduce tariffs, hence to facilitate external trade.

On the EU side, import surveillances applied to some imported goods such as textiles, steel products, and agricultural products including cereals, rice, sugar, milk products, beef

& veal, fresh fruits, and vegetables. Tariff quotas are applied to all agricultural products and managed either at the border or through import licensing.

Safeguard measures are used to protect domestic industries from international competition by holding back international trade temporarily. In 2009, Indonesia issued a regulation to protect the domestic steel industry from illegal steel import. Under this new regulation that will be effective until December 2010, all imported steels need to be verified at the loading ports before being shipped to Indonesia. However, this regulation will not affect the steel imports in bilateral agreement, such as Japan Indonesia Economic Partnership Agreement.

In order to encourage economic development, the EU gives **tariff preferences** to a great number of developing countries. 26 percent of the Indonesian exports to EU (2006) benefited from preferential treatment, with 60 percent of these products being totally duty free. This number could be increased if Indonesia made use of all of its privileges under the Generalized System of Preferences (GSP), as roughly 43 percent of its exports to Europe are entitled for preferential treatment.
The main Indonesian export products under GSP are telecommunication, TV and sound equipment, garments and footwear products. On the other hand, one has to mention that some of Indonesia's Asian competitors also qualify for GSP treatment, such as India, Thailand, Vietnam and Malaysia. Hence, GSP is not a trade or sales advantage sui generis for Indonesia.

The **Carnet ATA** (Admission Temporaire, Temporary Admission) is a document facilitating temporary imports of professional equipment, fair exhibits and promotion material. Through a chain of guarantors, the bearer is released from the duty to pay or deposit import dues.
Carnet ATA is a standard paper which is applied in nearly 70 countries all over the world, partly since decades. In Asia, Carnet ATA is applied among others in Australia, China, India, Japan, Korea, Malaysia, Singapore, etc. It is highly desirable to have this system implemented in Indonesia also as it eases day-to-day business activities, esp. of SMEs.

Local Content Requirement: In 2009, the Indonesian regulatory agency for oil and gas (BPMIGAS) imposed a new local content requirement (LCR) in E&P (Energy and Petroleum)

industry. The current LCR of 20 percent was increased to 35 percent at minimum for all contracts held by joint ventures representing foreign drilling companies. The inadequacy means immediate disqualification from operators tender, which has caused the majority of tenders failed. According to IADC (International Association of Drilling Contractors), Indonesia has violated the WTO agreement in this area.
Also in 2009, the new electricity law is established. As a result, PT PLN no longer is the only supplier and distributor to end-customers. Instead, the license is also given to private companies, with priority to state-owned company, like PLN. Nonetheless, this new law requires the companies to put local content requirement first at certain number.

Recently, Indonesia has been lobbying international partners to request technological support to achieve increase in local content in automotive industry for 60 percent in the next five years. The Indonesian Minister of Industry emphasized the implementation of so-called MIDEC (Manufacturing Industry Development Center) covering 13 sub sectors, such as: metal working, mold and dies, welding, export and investment promotion, small and medium businesses, automotive, textile, electronics, petro-and oleo-chemical. The main purpose of theses MIDEC is to assist supporting industries.

5.3 Technical Regulations

Technical measures act as a base of approving national standards, quality control testing, certification of inspection and synchronization of international standards with national standards. According to the WTO Secretariat, there are about 140 technical requirements applied by the European Community and individual member state governments.

Sanitary and Phytosanitary (SPS). Measures primarily aim at protecting consumer health. Products concerned are inter alia live animals, meat products, fresh and chilled or frozen fish, vegetables, oils and cut flowers. The EU legislation on food safety protects human health and consumers' interests. Animal feed regulations ensure the protection of both human and animal health as well as environmental protection. Importers of food and feed products must register the product source and country of origin in order to comply with traceability requirements. They must also report any residues, pesticides, veterinary medicines and contaminated food. Special rules apply to genetically modified food and feed as well as foodstuffs for particular nutritional purposes. Food and feed safety also incorporates marketing and labeling requirements. The European Commission can implement protective measures when there is a possibility that a product can represent a serious risk to human or animal health or the environment. In some cases, enforcement of these measures includes the suspension of imports.

Labeling Regulations. Indonesian regulations require of certain imported products to go through licensing procedures. There are two licensing approaches: automatic and non-automatic. Automatic import licensing means that the approval of applications is accepted in all cases. Non-automatic licensing is applied to control some restrictions, such as quantitative measures under legal WTO framework.

Marking, packaging and labeling of tobacco products, wine and spirits, cosmetics and hygiene articles must comply with the Indonesian standards. Imports of food products must be labeled in Indonesian with the name of the food and/or brand name. For alcoholic liquors specific rules do apply.

The Indonesian Government will support the operation of the national eco-labeling institution, such as all wood-based products in the world markets are required to come from timber estates.

The **EU** labeling requirements aim to protect consumers' health and provide information to end users. Imported products must comply with labeling requirements in order to be marketed within the European Union. The EU eco-label is a voluntary label affixed on products. It plays a significant role in improving key environmental aspects and advising consumers about the environmental impact of its products.

The general requirements on packaging aim to protect the environment and consumer health. They cover recycling materials, packaging waste prevention, size, nominal quantities and capacities, and the composition and constituents of materials that come in contact with foodstuffs.

Manufacturers and distributors are required to inform consumers of any potential product risks. They must also notify the appropriate authorities of hazardous products. The General Product Safety Directive applies to sectors like cosmetics, pharmaceuticals, and industrial products (for example, chemicals and electrical equipment). Inedible products that could be confused with food by their appearance, smell or packaging cannot be marketed, imported or manufactured in the European Union.

Indonesian standards related to health, safety and consumer protection are applied to domestic and imported products alike, which fall under The National Agency of Food and Drugs Control (BPOM). There is also ASEAN Cosmetic Directive that has provision for the safety of cosmetics. This provision includes ingredients, quantitative restrictions (metal), substances and labeling procedure.

SNI is the only nation-wide standard that is legally binding in Indonesia. It currently covers around 6700 products. SNI is used to increase the national standard so that it qualifies for international standard. Additionally, as a non-tariff instrument, SNI affects imports as well, like any other standard. In the automotive sectors, the Indonesian Association of Tires Manufacturers assumed that there has been switching in tires' post tariff to avoid the SNI. This was indicated by the two post tariffs not requiring SNI had a significant increase in import. Consequently, the Ministry of Industry has asked the Customs to verify every tire that enters the local market whether they meet the SNI or not.

EU's Technical Standardization targets not only health and safety requirements but also conformity assessment procedures. This 'New Approach Directives' are therefore different from the 'Old Approach Directives', which still apply for foodstuffs, motor vehicles, chemicals, cosmetics, detergents, biocides and pharmaceutical sectors.
Producers can affix the CE marking on their products to indicate compliance with the essential requirements of all applicable directives and their completion of the conformity assessment procedure. This process enables them to place their products in the EU market. Each Member State is responsible for checking whether the products use the CE marking correctly. Surveillance of the use of the CE marking on products is conducted through documentary checks and/or physical inspections.

EU Cosmetics Directive: Based on Council Directive 76/768/EEC of 27th of July 1976 on the approximation of the laws of the Member States relating to cosmetic products (Cosmetics Directive). The Directive sets out a list of substances which cannot be included in the composition of cosmetic products and a list of substances which cosmetic products may contain only under the restrictions and conditions laid down. Containers and/or packaging must bear certain required information. This information must be in the national or official language or languages of the respective Member State.

Environmental Protection: The EU considers the protection of environment a central priority, and all relevant EU policies therefore incorporate environment protection standards. There are four primary areas of concern: climate change, nature and biodiversity, environment and health, and sustainable management of natural resources and waste. These areas of concern may affect Indonesian exporters particularly in the following aspects:

- *Chemicals:* Imports of certain dangerous chemicals and persistent organic pollutants (POPs) are subject to control measures. The Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) system was implemented in December 2006, and it applies to all chemicals. The European Chemicals Agency (ECHA) is responsible for the implementation of REACH in a manner that ensures consistency in the management of chemicals across the European Union.
- *Classification, Packaging and Labeling of Dangerous Substances and Preparations:* The European Commission requires the identification, labeling and packaging of the intrinsic chemicals hazards in manufactured or imported products.
- *Plant Protection Products and Biocidal Products:* The European Commission authorizes the placing of a plant protection product in the EU market, and biocidal products are subject to specific entry requirements.
- *Packaging Waste:* Another concern is the packaging waste of imports. The European Commission establishes requirements about the composition and re-use of packaging of products to be marketed in the European Union. Packaging must have appropriate markings to identify the purpose and nature of its packaging materials.
- *Waste Electrical and Electronic Equipment (WEEE):* Prevention of hazardous waste and the promotion of reuse, recycling and other forms of recover in electrical and electronic equipment.