The proposal also puts forward a new procedure for making out proofs of origin, which places more responsibility on the operators. From 2017, the current system of certification of origin carried out by the third country authorities will be replaced by statements of origin made out directly by exporters registered via an electronic system. This will allow the authorities of the exporting country to re-focus their resources on better controls against fraud and abuse, while reducing red-tape for businesses.

The underlying principles for the new regulation, namely, simplification and development-friendliness, were laid down in a Communication on the future of rules of origin in preferential trade arrangements adopted by the European Commission on 16 March 2005 following a wide-ranging debate initiated by a Green Paper of 18 December 2003. The Communication set out a new approach to rules of origin and envisaged that the first concrete application should be to the GSP.

4. FOR MORE INFORMATION

http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/index_en.htm

XIII CUSTOMS AND TRADE FACILITATION

1. INTRODUCTION

Today, customs are facing new challenges: they must ensure the smooth flow of trade whilst applying necessary controls, guaranteeing protecting the health and safety of citizens. To achieve the correct balance between these demands, customs procedures and control methods must be modernised and co-operation between different services must be reinforced. The modernisation of customs should rely on two pillars: a modern customs code and a comprehensive customs computerised system. Both are necessary in order to achieve trade facilitation correctly and efficiently control their international trade as well as to fight against illicit activities.

Trade Facilitation includes measures to simplify and modernise customs and other import and export procedures and requirements. As part of the ongoing round of multilateral trade negotiations, the Doha Development Agenda (DDA), WTO Members agreed in 2004 to launch negotiations on Trade Facilitation in order to improve WTO rules and technical assistance in this area.

For business, trade facilitation promotes transparency and cuts red tape. For governments, the benefits are also high. Trade Facilitation strengthens security through more effective controls, improves the investment climate and promotes higher customs revenues. Revenue loss from inefficient border procedures in some developing countries may exceed 5% of GDP. Inaction, in terms of not modernising can be very costly. Instead of gaining new opportunities, countries lose existing ones to more reform minded counterparts.

2. INDONESIA'S POLICY

One of Indonesia's main strategies in supporting its trade development is to promote trade facility by ways of energizing licensing service to public, debottlenecking barriers, securing foreign market access, and developing special economic zones.

Indonesia has launched its new online system called Indonesia NSW for its export-import activities. The main purpose for having a Single Window for a country or economy is to increase the efficiency through time and cost savings for traders in their dealings with various government authorities for obtaining the relevant clearance and permit(s) for moving cargoes across national or economic borders. The ASW-INSW (Asean Single Window – Indonesia Single Window) is Indonesia's national commitment within ASEAN cooperation and also to fulfil World Customs Organisation (WCO) recommendation.

A licensing permit system integrated with INSW is called Inatrade that is being developed under principles of transparency, single submission, integration, procedure streamlining and traceability.

In response to the challenge faced by Indonesian exporters, the Government of Indonesia formed a National Team to Promote Export and Investment (PEPI). The forum is expected to hold a constructive dialogue and to seek solutions among stakeholders.

3. EU'S POLICY

To effectively assume the expanded roles, EU customs pursue a continuous dialogue with stakeholders. In this context, consultation with the business sector has been enhanced. Trade associations are regularly invited to seminars and working groups to give their input to the development of new policy and legislative initiatives. For example, the Trade Contact Group, in which all major players in the international supply chain are represented, has been established.

The EU's objectives are to secure a framework of rules that would (1) increase the transparency of and ensure effective consultation on trade regulations; (2) simplify, standardise and modernise customs and other trade procedures; (3) improve the conditions for transit; and (4) make a significant contribution to the development dimension, including through enhancing technical assistance.

A new EU customs legislation was adopted at the end of 2006 concerning security of the supply chain, introducing a framework for better risk analysis of goods crossing EU borders. The regulation is aiming at increased security for shipments entering or leaving the EU and providing greater facilitation for compliant operators. From 1 January 2008, reliable traders (Authorised Economic Operators) respecting high standard security criteria benefitted from trade facilitation measures and from 1 January 2011, the electronic exchange of advance information between traders and customs authorities on all goods entering or leaving the EU was introduced. The regulation also requires customs authorities to exchange information electronically on exports in order to speed up export procedures. This legislation is consistent with the commitments taken by most Customs administrations throughout the world in relation with the adoption in 2005 of the WCO "SAFE framework of standards to Secure and Facilitate Global Trade".

4. COOPERATION

The EU is providing substantial support to ASEAN customs integration through its cooperation programme APRIS II. The project has developed an ASEAN Data Model as required for the ASEAN Single Window. A cargo customs clearance model has been developed and pilot tested in two countries. The protocol designing the ASEAN Customs Transit System and all technical appendices have been completed and endorsed.

Indonesia's Customs and Excise department has been offered to participate in capacity building and technical exchange under the umbrella of the Trade Cooperation Facility starting in 2012.

5. FOR MORE INFORMATION

http://www.insw.go.id

http://inatrade.depdag.go.id/

http://ec.europa.eu/taxation_customs/index_en.htm

http://www.wcoomd.org/home.htm

http://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm

XIV BENEFITS OF TRADE

1. INTRODUCTION

1. More trade means more economic growth. External trade and investment boost economic growth. Trade policy can help this to happen.

2. Trade means more jobs. Trade also leads to higher salaries and improved living standards.

3. Increased trade offers a greater variety of goods, at lower prices, to consumers.

4. Trade helps to reduce poverty. A World Bank study, which used data from 80 countries over four decades, confirms that open trade boosts eco¬nomic growth and that the incomes of the poor rise one-for-one with overall growth. All things being equal, countries with open economies tend to grow faster than those that trade less.

5. Trade allows countries to procure the best products and services for its citizens internationally. This means government and local authorities can spend less public money on the products and services they purchase.

6. Trade and investment flows spread new ideas and innovation, new tech¬nologies and the best research, leading to improvements in the products and services that peo¬ple use.

7. Trade brings people together. It develops and secures economic ties between nations and contributes to political stability.

8. Trade and investment boosts competition as well as competitiveness. It allows businesses to access inputs at the lowest prices, allowing them to compete on the world market.

9. Trade agreements can make it easier to do business. For example encouraging the use of international standards for industrial products reduces the costs of doing business and promotes international trade.

10. Trade makes it easier to exchange innovative or high-technology products. For example, international rules on intellectual property protect knowledge and allow the transfer of technology to other countries.

2. THE BENEFITS OF TRADE FOR INDONESIA

(1) Economic growth performance. Indonesia was able to survive the global financial crisis in 1997 and has maintained a remarkable record of economic growth ever since. Some international institutions have started grouping Indonesia together with the BRIC (Brazil-Russia-India-China), a club of emerging markets whose total GDP is projected to surpass US and UK by 2030.

3. THE BENEFITS OF TRADE FOR THE EU

(1) Economic growth: Completing the ongoing free trade negotiations and making significant further progress in our relations with strategic partners would lead, by 2020, to a level of EU GDP more than 1% higher than it would otherwise be.

(2) Consumer benefits: a wider variety of products and lower prices brings gains to the average European consumer in the range of 600 Euros per year.

(3) Labour effects: More than 36 million jobs in Europe depend, directly or indirectly, on the EU's ability to trade with the rest of the world. Foreign investment is also an engine for job creation: in the EU, more than 4.6 million people work for US and Japan-majority owned companies alone.

XV INDONESIA – EU PARTNERSHIP AND COOPERATION AGREEMENT

1. INTRODUCTION

Indonesia and the EU signed a Partnership and Cooperation Agreement (PCA) in November 2009. The PCA was the first of its kind between the EU and ASEAN countries. It is now in the process of ratification by both the 27 EU Member States and Indonesia, which should be completed by the end of the year. It opened a new era in bilateral relations of Indonesia and the EU, based on shared principles such as equality, mutual respect, mutual benefit, democracy and rule of law.

The Agreement aims at strengthening political, economic and sectoral cooperation across a wide range of policy fields, including trade, environment, energy, science and technology, and good governance, as well as tourism and culture, migration, counter terrorism and the fight against corruption and organised crime. The Parties of the Agreement undertook to hold a comprehensive dialogue and promote further cooperation between them on all sectors of mutual interest. Their efforts will in particular be aimed at:

a) establishing cooperation bilaterally and in all relevant regional and international fora and organisations;

b) developing trade and investment between the Parties to their mutual advantage;

c) establishing cooperation in all trade and investment-related areas of mutual interest, in order to facilitate trade and investment flows and to prevent and remove obstacles to trade and investment;

d) establishing cooperation in other sectors of mutual interest, notably tourism, financial services; taxation and customs; macro-economic policy; industrial policy and SMEs; information society; science and technology; energy; transport and transport safety; education and culture; human rights; environment and natural resources, including marine environment; forestry; agriculture and rural development; cooperation on marine and fisheries; health; food safety; animal health; statistics; personal data protection; cooperation on the modernisation of the state and public administration; and intellectual property rights;

e) establishing cooperation on migration issues, including legal and illegal migration, smuggling and trafficking in human beings,

f) establishing cooperation on human rights and legal affairs;

g) establishing cooperation on countering the proliferation of weapons of mass destruction;

h) establishing cooperation on combating terrorism and transnational crimes, such as the manufacturing and trafficking of illicit drugs and their precursors and money laundering;

i) enhance existing and encourage possible participation of both Parties within relevant sub-regional and regional cooperation programmes;

j) raising the profiles of both Parties in each others' regions;

k) promoting people-to-people understanding through cooperation of various non-governmental entities such as think-tanks, academics, civil society, and the media, in the form of seminars, conferences, youth interaction and other activities.

Through the establishment of a Joint Committee and a number of sectoral working groups, the PCA will steer cooperation and ensure a comprehensive and more intensive dialogue between Indonesia and the EU. Findings and recommendations from the Joint Committee will feed in the meetings at Ministerial level.

2. COOPERATION ON TRADE AND INVESTMENT

General principles of the cooperation on trade and investment between Indonesia and the EU, laid down in the Agreement include the following:

- The Parties shall engage in a dialogue on bilateral and multilateral trade and trade-related issues with a view to strengthening bilateral trade relations and advancing the multilateral trade system.

- The Parties undertake to promote the development and diversification of their reciprocal commercial exchanges to the highest possible level and to their mutual benefit. They undertake to achieve improved market access conditions by working towards the elimination of barriers to trade, in particular through the timely removal of non-tariff barriers and by taking measures to improve transparency, having regard to the work carried out by international organisations in this field.

- Recognizing that trade plays an indispensable role in development, and that assistance in the form of trade preferences schemes have proven beneficial to developing countries, the Parties endeavour to strengthen their consultation on such assistance in full WTO compliance.

- The Parties shall keep each other informed concerning the development of trade and trade-related policies such as agricultural policy, food safety policy, animal health policy, consumer policy, hazardous chemical substances, and waste management policy.

- The Parties shall encourage dialogue and cooperation to develop their trade and investment relations, including the provision of technical capacity.

3. LINK TO BILATERAL TRADE AGREEMENTS

The EU is of the view that any bilateral trade agreement forms part of the political relationship with third countries and should be integrated in a broader Partnership and Cooperation Agreement. Therefore an appropriate link to the PCA would need to be made in any future trade agreement.

4. FOR MORE INFORMATION

http://eeas.europa.eu/delegations/indonesia/documents/eu_indonesia/eu_idnpca_en.pdf

XVI FISHERIES

In the last decade, the expansion of international trade in fishery products has exceeded the growth in total fish production in the world. This rapid expansion reflects the large increase in consumption of marine products in the EU and US markets as well as many other regions in the world. Among these fast-growing markets, the European Union is not only the world's largest market (accounting for 25 percent of the world's total imports), but it is among the fastest growing markets for high-value imports like shrimp, tuna, bass and bream. The prospects for these markets continue to be favorable. Overall, the outlook for the global fishery market is robust, and EU fish imports are expected to grow by 8 percent annually in the medium-term.

There is considerable scope for Indonesia to increase the amount of fisheries that it exports to the EU market. Indonesia accounted for only 1.4 percent of total EU imports from third countries in 2010. If it were to expand its share of exports to the EU market to the same proportion as the European Union's share of world imports, Indonesia's foreign exchange revenue from its fishery exports would more than double.

For Indonesia, the rapid expansion of the global fishery market and the European Union's strong market for high-value imports offers a number of excellent opportunities.

- Indonesia has a cost advantage in its proximity to large marine and fishery resources and its abundant labor supply, which helps to offset shipping costs to the EU market.

- Indonesia's fishery industry has the chance to reverse the EU market share losses it suffered in the last decade because of external competition from large exporters like Ecuador and China, as well as the internal inertia in addressing testing and accreditation hindrances and trade impediment.

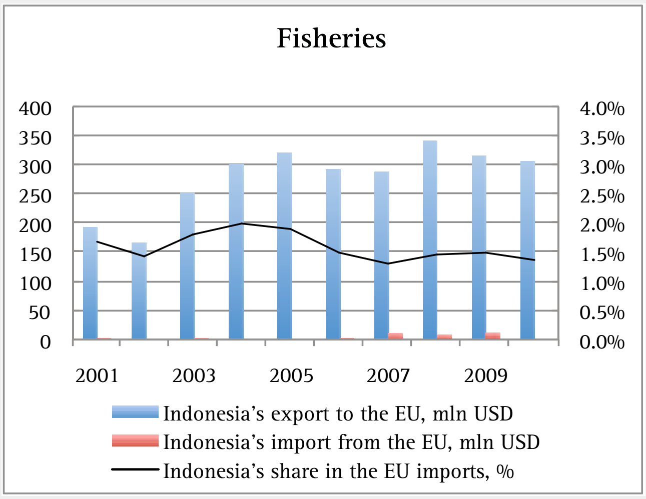
- Secondly, Indonesia's exports could be increased in terms of traditional exports and diversified into various other fish species and processed products that are in high demand abroad, for example, the main exports from aquaculture are shrimp (unfrozen, frozen and canned), crabs (unfrozen, frozen and canned), frog legs (fresh or chilled), ornamental fish (freshwater and mariculture), mollusks (scallops and snails), including capture products like tuna, jelly fish and coral fish as well as fish fat and oil and shrimp crackers.

- A third opportunity lies in aquaculture growth and development, where opportunities exist for community-based economic activities and rural development, along with greater foreign exchange earnings from exported aquaculture products. Given that two-thirds of Indonesia's territory consists of marine and inland waters with an abundance of natural resources, the development of aquaculture and sustainable capture fisheries has the potential to make the fisheries industry a leading engines of growth and development for the country.

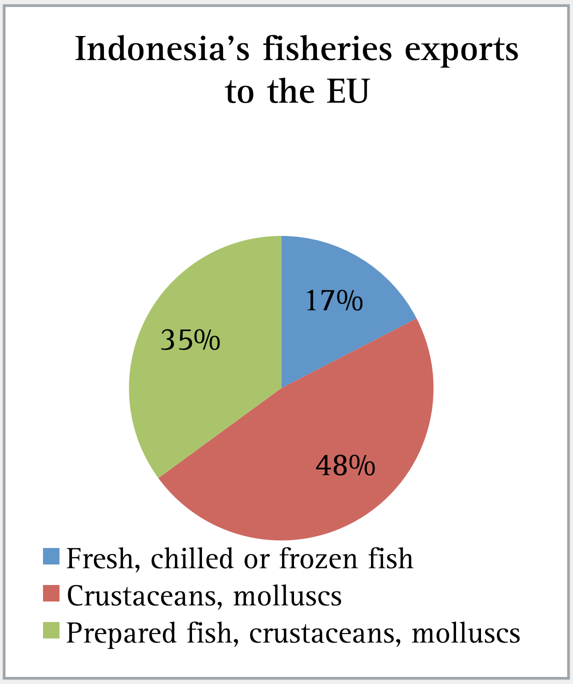
The fishery market is highly price competitive, and some countries have a competitive advantage because of preferential tariff rates under free trade arrangements (FTAs) with the European Union, like those under the unilateral instrument of GSP plus, or the Everything But Arms (EBA) arrangement that include duty-free and quota-free access for products originating in Least Developed Countries (LDCs). Indonesia is a GSP beneficiary with preferential duties on fisheries.

For EU fishery imports, the average MFN tariff rate is 10.8 percent, with a range of 0 to 23 percent; the average GSP rate is 7.1 percent, with a range from 0 to 19.5 in the case of some products like fresh, chilled or frozen sardines, some tunas like long-finned and yellow-fin tuna, and skipjack or stripe-bellied bonito. For crustaceans, an ad valorem tariff of 11.1 percent applies to third countries, with a range of 6 to 18 percent; the preferential tariff rate for GSP recipient countries is 5.1 percent, with a range of 2.1 to 14.6 percent. Between 2003 and 2008, Indonesia was the beneficiary of an annual tariff quota of 2,832.5 tons of canned tuna exports to the European Union. The duty applicable was 12 percent. Since 2009, the applicable tariff has reverted to that of the most-favored nation (MFN) at a rate of 20.5.

The Ministry of Marine Affairs and Fishery (MMAF) has been appointed by the European Union as the Competent Authority for fishery products in Indonesia. The efforts of the MMAF in recent years to improve the quality relevant elements have been very successful and have lead to a drastic reduction in the number of rapid alerts issued by the European Union.



Source: Eurostat.



XVII AUTOMOTIVES

Indonesia's automotives industry has potential to become a big player on the world market. During the last 5 years, Indonesia's market and production of cars and motorcycles has grown around 7-8% a year.

Indonesia is in a very strong position to become the largest car manufacturer in ASEAN because of its strong domestic demand, skilled labour, and growing component industry. The large size of the Indonesian population and the low level of car ownership in the country suggest there is a lot of potential for expansion for the automotive industry. For example, in 2007, only one in every thirty-five people in Indonesia owned a car, compared with one in fourteen in Thailand and one in seven in Malaysia.

Automotives industry in Indonesia consists of several assemblers of various types of cars and motorcycles and hundreds of component producers. Indonesia is a production base for multi-purpose vehicles and light commercial trucks. Domestic manufacturers serve as the assemblers for foreign, primarily Japanese, motor vehicle companies. In general, the main activity of Indonesian automotive companies is assembling, either intermediate goods (parts of motor vehicles) or final goods (cars and motorcycles).

Investment in production facilities, geared in part towards the export market, has become increasingly common. Vehicle export volumes, primarily to Malaysia, Thailand and Japan, are relatively low, but are beginning to rise, as Indonesia's importance as a production base within the Southeast Asian region increases. Toyota Astra, a subsidiary of Japan's largest carmaker Toyota, accounts for about 90 percent of the Indonesian car exports.

European carmakers are under-represented in Indonesia. Indonesian auto industry consists of mostly Japanese manufacturers. According to the Association of Indonesia Automotive Industries Gaikindo there was only one European car manufacturer in Indonesia, Mercedes-Benz, who belonged 100% to German Daimler AG and manufactured Mercedes-Benz cars in Indonesia (annual capacity 20,000 units). Japanese cars also dominate the domestic motor vehicles market. Out of the 750 000 cars sold in Indonesia in a year, only 5000 are European (mostly Mercedes Benz and BMW).

The future of cars lies in environmentally friendliness and energy saving. Indonesia plans to follow in the footsteps of Thailand by offering incentives for the production of fuel-efficient cars. European car manufacturers have the know-how and state-of-the-art technology for modern car production and they are willing to invest in Indonesia.

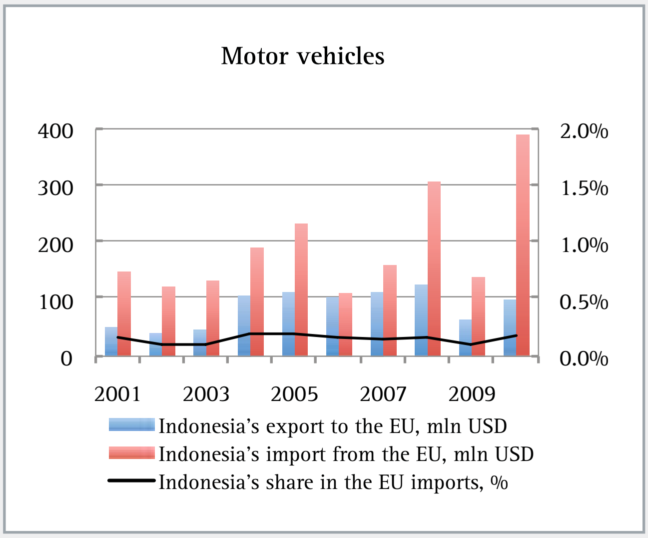
The European Automotive Industry is a leader in the global automotive market, with integrated automobile operations that combine research, design, development, production and sales. It has a dense worldwide network of joint ventures, production and assembly sites. Europe is the world's largest vehicle producer with an output of over 15 million passenger cars, vans, trucks and buses per year, or 25% of worldwide vehicle production (China produces 23%, NAFTA 14%, Japan 13%, South Korea 6%, and Indonesia 0.9% of the world's total). Leading in high-quality products, the industry sells and produces vehicles in all major world markets.

The automotive sector is Europe's largest private investor in R&D. According to the EU Industrial Investment Scoreboard, the sectors 'automobiles and parts' and 'commercial vehicles and trucks' represented R&D investment of 46 billion USD in 2008. In 2008, almost 6,300 patents were filed by the European automotive industry. They made up 55% of all automotive applications at the European Patent Office. 23% of automotive applications came from Japan, 16% from the US, 1% from China/Taiwan and 1% from South Korea.

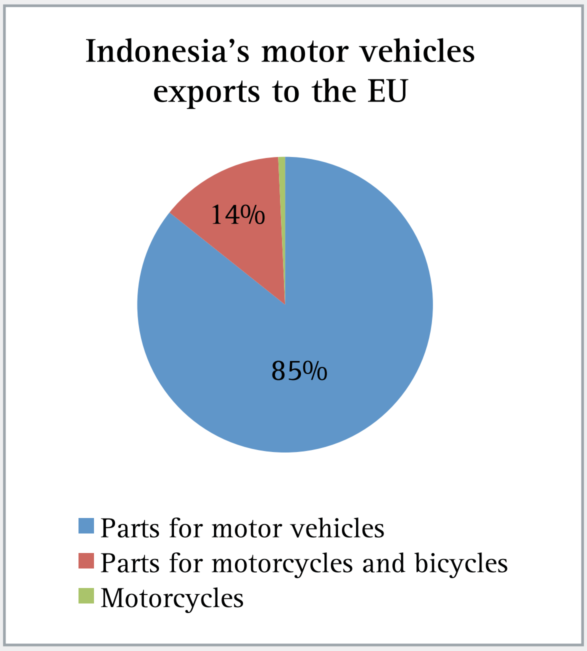
Volkswagen has expressed interest in making Indonesia its production base. Volkswagen officials have stated that they would build a factory in Indonesia in 2012 for a full car manufacturing, while in 2010 they already started assembling its MPV, Touran, in cooperation with Indomobil.

In addition, German premium brand Audi has chosen Indonesia as its next Asian production base, after China and India. Audi expects car sales in the country to grow by 15% in 2011, and the premium segment to double by 2015. Assembly of the A4 1.8-litre TFSI and A6 2.0-litre TFSI has already started, in cooperation with local firm Garuda Mataram Motor, a subsidiary of the Indomobil Group. Audi is aiming to achieve assembly of 2,700 units by 2015.

In 2010 the EU imported 58 billion USD of motor vehicles and vehicles parts. The EU mostly imported cars from Japan, Turkey, USA, and South Korea. Indonesia's share in the EU imports was only 0.2%.



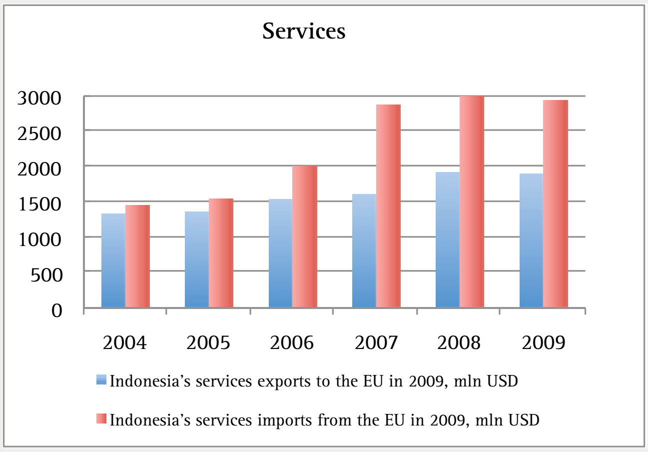
Source: Eurostat.



XVIII SERVICES

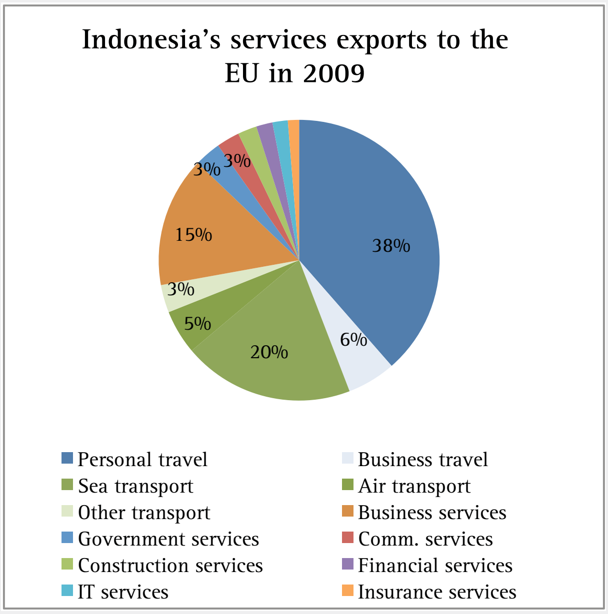
Rapidly expanding services sector is contributing more to economic growth and job-creation worldwide than any other sector. The services sector accounted for three-quarters of the gross domestic product for the European Union (EU) and 53% for Indonesia in 2010.

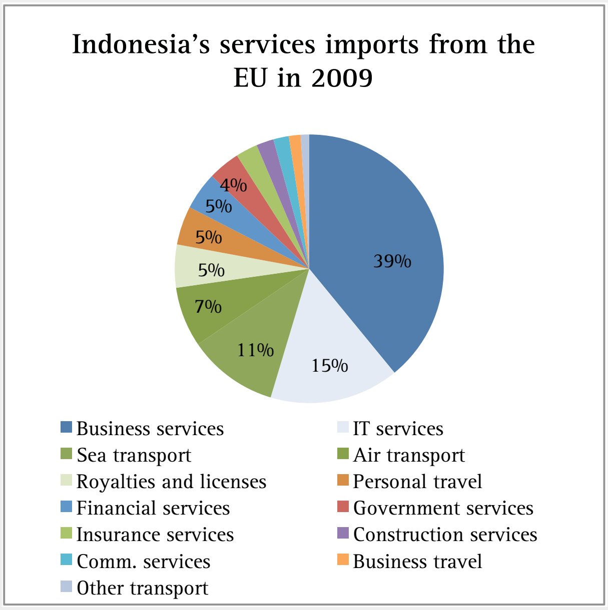
Indonesia's trade in services with the European Union has increased during the last 6 years, but the trade deficit has widened due to an increase in the imports of different business services from the EU. Indonesia's services' exports to the EU amounted to 2 billion USD and imports from the EU reached 3 billion USD in 2009. Indonesia has remarkable potential to increase its services exports to the European Union and convert the trade deficit into a trade surplus.



Source: Eurostat.

Indonesia has a comparative advantage vis-à-vis the European Union in labour-intensive services: tourism, transportation and construction. New potential export opportunities are also emerging in communication, IT and business services. In 2009 Indonesia mostly exported to the EU tourism and transport services, when the EU mainly offered to Indonesia business, transport and IT services.





Source: Eurostat.

Indonesia could increase its export revenues from tourism, both leisure and business travel. Indonesia attracted 7 million foreign tourists in 2010 that spent around $1,000 each. Around 59% of all visitors travelled to Indonesia for holiday, while 38% for business purposes. Three quarters of Indonesia's visitors came from the Asia-Pacific region, with Singapore and Australia among the top countries of origin. Only less than 1 million Europeans visited Indonesia in 2010, spending around 1500 USD each.

Maximising export revenues from tourism is dependent on the necessary and efficient infrastructure being in place. Tourists rely on efficiently operating transport, telecommunications and financial services. Indonesia needs to develop these essential services for the benefit of tourism but also other sectors. European investors are interested in infrastructure development in Indonesia and Indonesia could benefit from their knowledge and financial resources. The archipelago of more than 17,500 islands has beaches, mountains and dive-spots among its diverse attractions, but tourism infrastructure outside Bali is often poor. Indonesia is also well behind its tiny neighbour Singapore, which attracts around 10 million tourists a year, and Malaysia, which sees around 20 million foreign tourist arrivals every year.

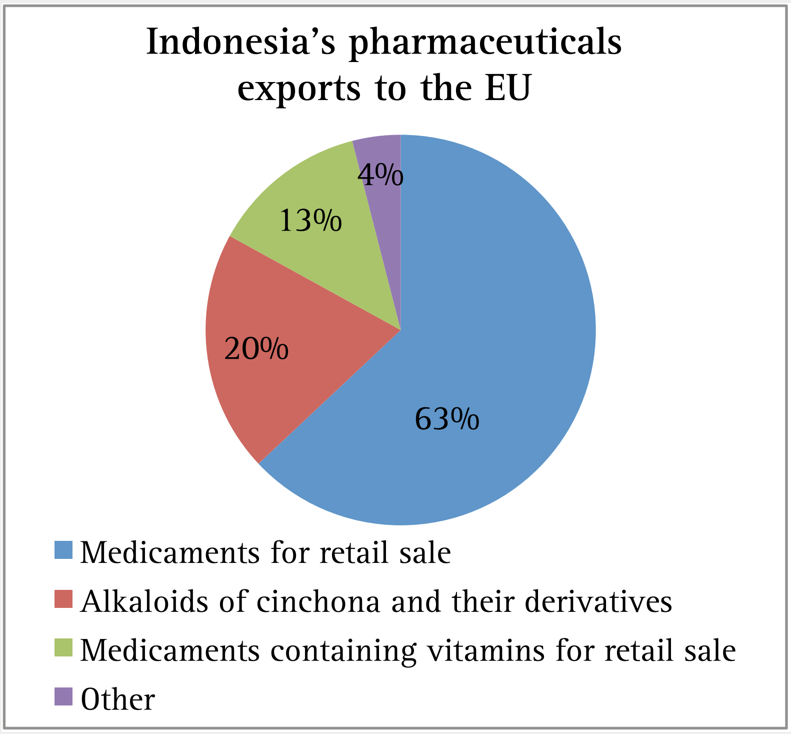
Air traffic between Indonesia and Europe is expected to increase. Garuda Indonesia has managed to re-establish its foothold in the European air cargo market in 2010 and plans to expand its network in Europe in the coming years.

Transportation sector in Indonesia benefits from strong economic growth and trade flows. The EU is the most important foreign investor in the transportation sector in Indonesia, providing 50% of total FDI. During the last seven years, the EU has invested 3.2 billion USD (1.2 billion USD in 2010) in the transportation, storage, and communication sector of Indonesia.

XIX PHARMACEUTICALS

There is remarkable scope for cooperation between Indonesia and the EU in the pharmaceutical sector. Combining vast natural and human resources of Indonesia with the know-how and technology of European investors would result in an increase in the competitiveness of pharmaceutical companies in Indonesia.

The EU is a big and growing market for Indonesian pharmaceutical products. EU pharmaceuticals market is the world's second largest after the USA. Around 590 billion USD was spent on medicines in 2007 in Europe and this amount will likely continue to increase as the population ages. Overall, in 2007, the market for prescription and non-prescription medicines for human use in the EU was worth 189 billion USD at ex-factory and 293 billion USD at retail prices. The EU market (extra EU imports) has substantially grown, 2 times during the last 10 years. Around 80% of pharmaceuticals imports to the EU come from Switzerland and the USA. Indonesia only provided 0.02% of EU imports in 2010.



Source: Eurostat.

Herbal medicine is one area where Indonesia could create a competitive advantage in the EU market, following increased interest in 'alternative medicines' in the EU (and growing imports of related products), coupled with a well developed industry in Indonesia and availability of resources. Typical ingredients for common recipes include varieties of ginger; spices such as nutmeg, cardamom, cumin and cloves; certain chillies; and fruits like papaya and banana. The availability of raw materials to make traditional herbal medicine is relatively abundant in Indonesia. The results of studies conducted by the Indonesian Institute of Science showed that 30,000 of the 40,000 available species of world medicinal plants are found in Indonesia.

Many countries in Asia, like India, Singapore, and Thailand benefit from medical tourism. Indonesia could also become a medical tourism destination in the future, if it would invest in good quality medical service with the help of FDI.

The market size of pharmaceutical products in Indonesia is estimated to be around US$ 3.9 billion in 2010, with an impressive average annual growth of 10% in the last five years. The country possesses huge manufacturing capabilities. The Indonesian pharmaceutical industry consists of chemical-pharmaceutical and non-chemical traditional (herbal) medicine manufacturers. The market consists of 170 local companies including four state owned companies and 32 foreign companies. Out of the estimated 32 multinational pharmaceuticals companies operating in Indonesia, there are around 20 European companies with an active presence.

Indonesia has exported pharmaceutical products for a long time. Indonesia mainly exports quinine and its derivates as well as herbal medicines. Exports of quinine and its derivatives mainly go to Germany, USA, Singapore, UK, Vietnam, Spain, and Canada. Exports of herbal medicine mostly go to Pakistan, Iran, and Hong Kong.

XX AGRI-FOODS

In Indonesia the processed foods industry has steadily increased its contribution to the total output value of the Indonesian economy. Its share of the economy's total value added rose from 13 percent to more than 16 percent during the decade. Its impact on the growth and employment of other sectors has been large because of upstream and downstream linkages to primary sector and input activities and service-related industries. The commodity composition of exports is fairly evenly distributed among cereal, flour and starch preparations; vegetable and fruit preparations; and other types of food preparations.

The geographic composition of Indonesia's exports of agri-foods is highly concentrated on the ASEAN regional market. Around half of industry's exports are directed at neighboring countries, especially the Philippines, Malaysia, Singapore, Vietnam and Thailand. The EU and U.S. markets each absorb about 15 percent of Indonesia's agri-food exports. The share of exports destined for countries in Europe, the United States and Japan is small compared with the size and agri-food absorption of those markets. The European Union, for example is the world's largest market for these types of products.

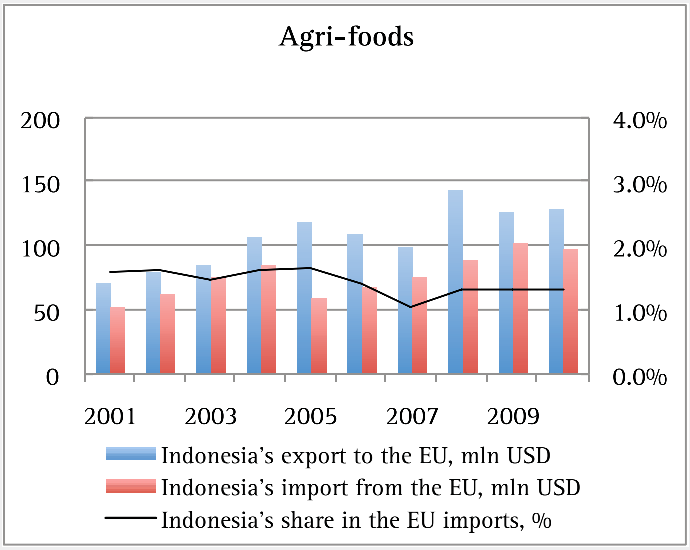
In Europe processed foods are becoming an increasingly important part of consumer expenditures as people look for more convenient ways to store and prepare food. Consumers spend 12 percent of their income on food consumption and domestic production supplies about 90 percent of the EU market. The main sub-sectors are processed fruits and vegetables, cereal-based products, processed meats and dairy products. EU demand for quality agri-food products is growing rapidly, and sourcing from non-EU producers is outpacing intra-EU sourcing.

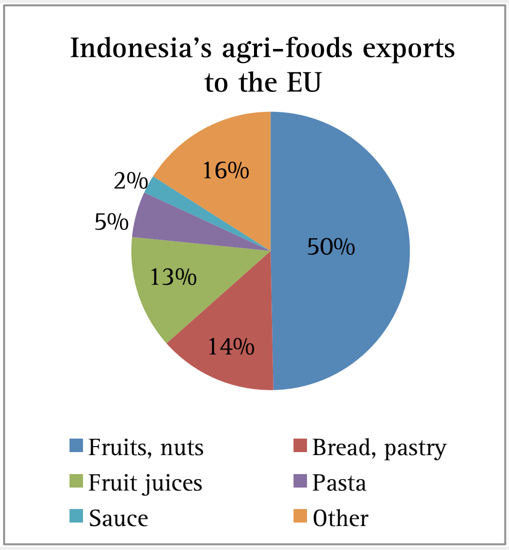
The European Union's fruit subsector is the most dependent on foreign supplies (about one-fourth of domestic utilization). For that reason, imports of fruits tend to predominate in the EU imports of processed agri-foods. Fruit and vegetable juices are the largest processed agri-food imported into the European Union, accounting for over 18 percent of all agri-food imports. The fruit and vegetable juice subsector has one of the fastest growing markets in the European Union, and Indonesia has an abundance of tropical fruits and vegetables that places it in a privileged position. At present, Indonesia's exports are small compared to its potential.

Another potential export article from Indonesia to the EU is processed meat. Processed meat imports into the European Union have grown by an average annual rate of 13 percent a year, outpacing all other food groups by a significant margin.

An important growth area is organic food ingredients and food products. Europe has been unable to supply its population in this sub-sector.

Five countries dominate third country competition in the EU market for agri-foods: Brazil, Turkey, China, United States and Thailand. Together these countries account for one-half of the European Union's imports of food products from non-EU suppliers. As a country having a similar profile to that of Indonesia, Thailand has been highly successful in expanding its exports to the EU market because of its good infrastructure, favorable government policies towards foreign investment, tax incentives, and successful promotion of SME food processors. Indonesia's share of the EU market is modest and there is considerable room for growth. However, trade balance with the EU has been positive over the years.





Source: Eurostat.

Two-way trade of agri-foods between Indonesia and the European Union generally takes place in different types of products. Each trading partner is specializing in the types of products in which it has a comparative advantage.

Duty rates for Indonesian exporters shipping processed agri-food products to the EU markets vary across individual products within each category. For meat preparations, an ad valorem tariff of 16.9 percent applies to third countries, and a preferential tariff rate of 12.4 percent applies to Indonesia. For processed cereals and starches, an ad valorem tariff of 6.4 percent + 24.6 EUR/100 kg and a non-preferential tariff quota applies to third countries, and a preferential tariff rate of 7.4 percent applies to Indonesia. For preparations of vegetables, fruit, nuts or other parts of plants, an ad valorem tariff of 10.9 percent applies to third countries 14.4 percent (no preferential rate).

XXI ELECTRONICS

Electronics is Indonesia's largest contributor of foreign exchange earnings from manufactured exports. It accounts for nearly one-fifth of total manufacturing exports, with consumer electronics leading industrial electronics by a two-to-one ratio. The industry contributes around 6 percent to Indonesia's gross domestic product.

Development of the industry dates back to the 1970s when the Japanese established joint ventures with Indonesian firms to access the domestic market in the period of import-substitution policies. When Indonesia adopted an export-oriented industrialization strategy in the 1980s, foreign electronics companies used the country as one of their export bases, benefitting from low production costs in Indonesia.

Strengths of Indonesia's electronics industry include:

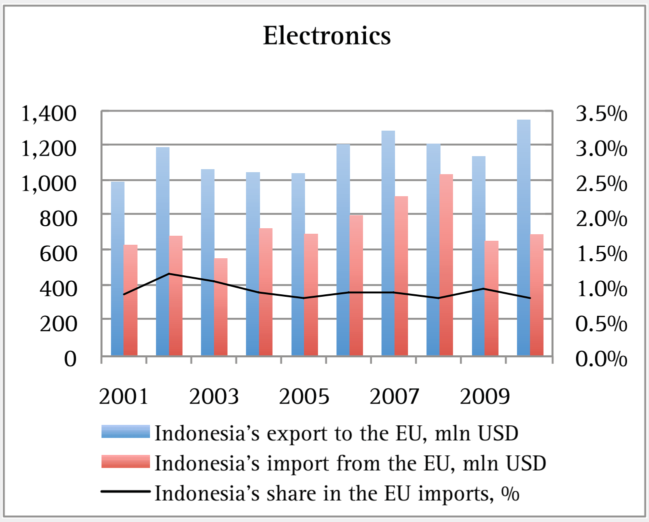
- Well functioning supply chains governed by international companies.
- Competitive cost structure relative to EU producers.
- Flexible production systems.
- Availability of several laboratories with increasing capabilities.

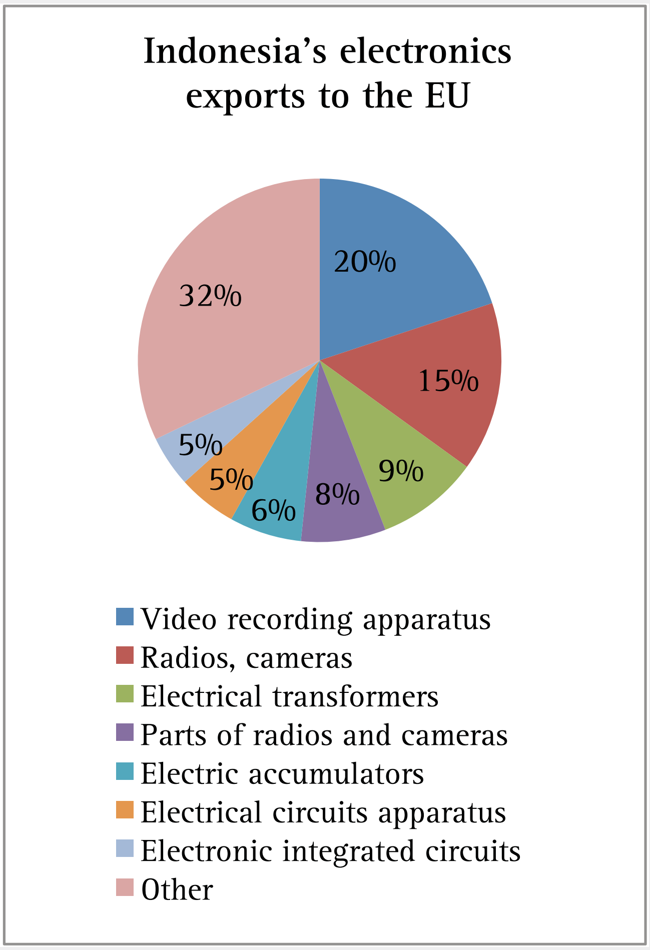
The EU market offers good opportunities for Indonesia's electronics as EU consumer demand for electronic products is strong and growing in all sub-sectors and there are relatively low market access requirements for third country products.

The European Union is a net importer of electronic components, with imports volume of US$240 billion in 2010. The European Union is Indonesia's largest export market for consumer electronic products, followed by the US and ASEAN. Indonesia's exports of consumer electronics are concentrated on a few basic types of products. About 70 percent of exports are in the form of sound-recording and video-recording apparatus. Television and radios account for around 10 percent of exports each. There is a small amount of refrigerators and heating units exported. Other minor exports are electric shavers and dishwashers.

Indonesia's share of the EU consumer electronics market has been stable in recent years, and there is considerable scope for increasing Indonesia's market share. Recently, the industry's output has begun to surge again as multinational electronics enterprises relocate their production from China due to rising labour costs.

Chinese products dominate the EU market of consumer electronics. Almost 60 percent of all non-EU imports originate from China. Although Indonesia is the seventh largest non-EU supplier of consumer electronics in the EU, its market share is relatively small. Indonesia primarily supplies video recording equipment (25% of total EU imports), radio and television transmitters (18%), and radio and television parts (11%).





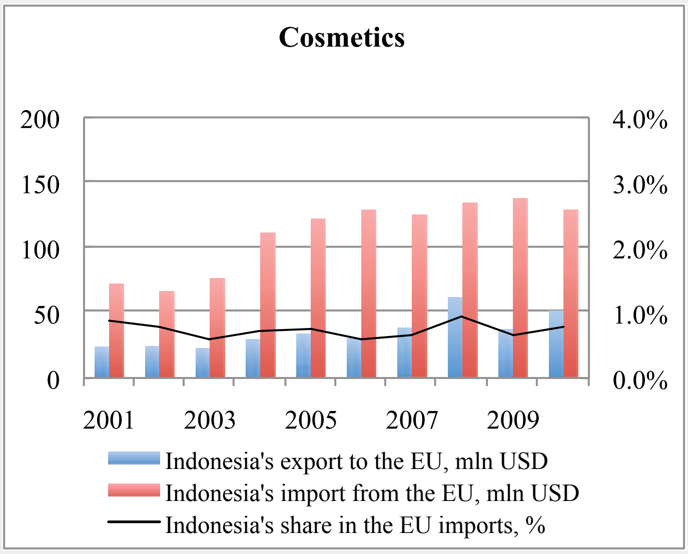
Source: Eurostat.

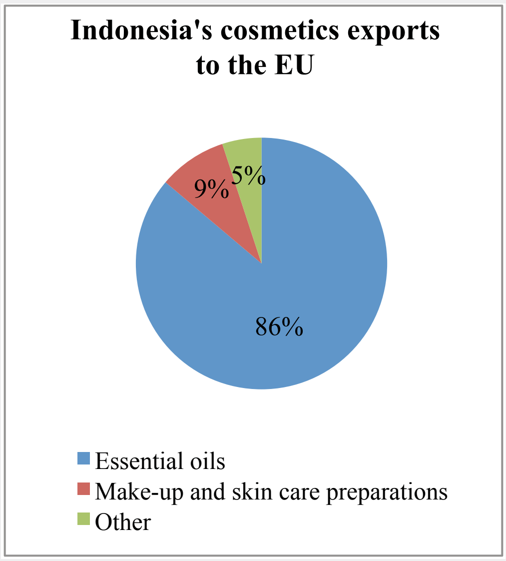
XXII COSMETICS

One of the fastest growing segments of the global cosmetic market is products with natural ingredients. Recent data suggests that EU and US consumption of cosmetics that use natural ingredients is growing by 8 percent a year, compared with a growth of 5 percent for all types of cosmetics. Indonesia has one of the most biodiverse environments in the world, with access to a large variety of natural cosmetic ingredients. The county has a long tradition of producing natural cosmetics using its vast plant resources. Approximately 700 companies produce a wide variety of cosmetics.

Exports of the industry in Indonesia are concentrated in the ASEAN region, and are mainly in the form of essential oils and beauty makeup preparations. In the area of end-use products, Indonesia exports beauty make-up preparations in the form of perfumes and toilet waters, and hair products. In the area of ingredients used in the production of natural cosmetics, Indonesia mainly exports essential oils of geranium, which accounts for over 70 percent of essential oils, resinoids and terpenic by-products, and essential oils of vetiver, which accounts for most of the remaining exports in this category.

Indonesia only exports 10 percent of its natural cosmetic products and ingredients to the European Union, even though the European Union is the world's largest market. The cosmetic market of the European Union is nearly as large as the combined markets of the United States and Japan. Common growth patterns are occurring throughout the European Union in sun care products to protect against rising concerns about skin cancer. In addition, the aging population of Europe is generating growing demand for anti-aging creams and anti-cellulite skin care products. There is also growing demand for natural and organic products across all age groups.





Source: Eurostat.

Because of strong and rising consumption of cosmetic products in the European Union, imports have grown rapidly in the last ten years, averaging nearly 10 percent a year. The largest product categories are make-up and skin care products. The European Union imports nearly US$7 billion worth of cosmetics annually, three-fourths of which come from China, Switzerland and the United States. A mere 0.8 percent comes from Indonesia. Nonetheless, the growing concern of end-users about the presence of possible harmful 'synthetic' ingredients offers Indonesia a considerable opportunity to improve its presence in the EU market and elsewhere.

For Indonesian exporters shipping cosmetic products to the EU markets, the following are the specific market access requirements:

1. Tariffs: For cosmetics, an average MFN rate of 2.5, and an average preferential tariff rate of 0.2 percent apply to Indonesia.

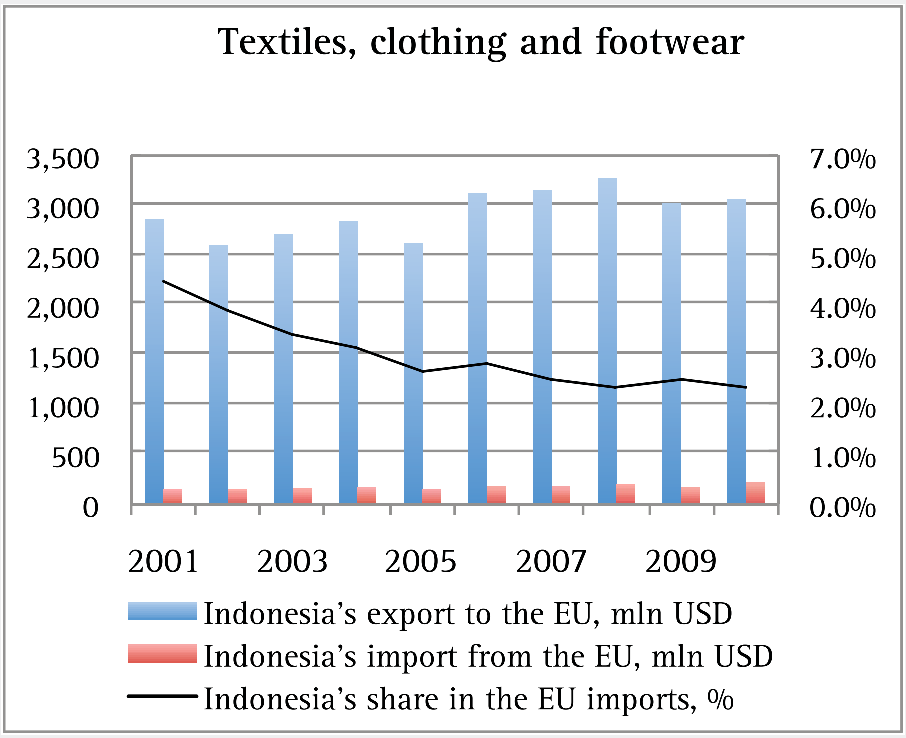
2. Specific requirements on technical standards applicable to cosmetic products cover (a) health and marketing conditions for cosmetic products; (b) marketing requirements for dangerous chemicals, pesticides and biocides (when intended to be used in plant protection products and/or biocides), and prohibition of products containing fluorinated greenhouse gases (when used with aerosols for entertainment and decorative purposes containing hydrofluorocarbons); and (c) rules of origin.

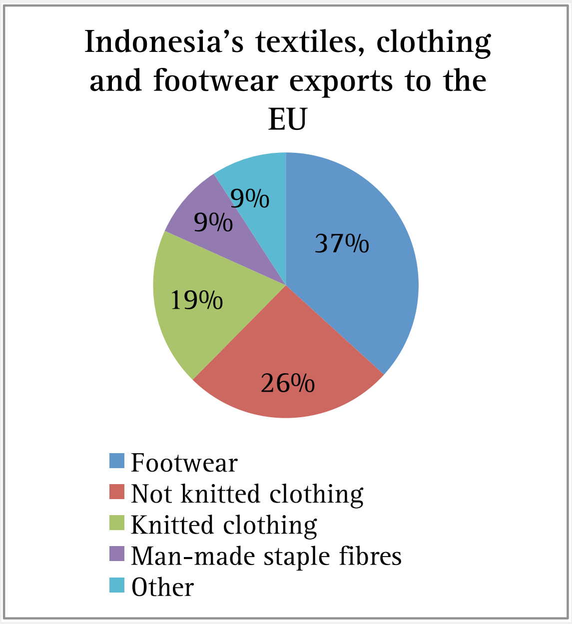
XXIII TEXTILES, CLOTHING AND FOOTWEAR

The textile, clothing and footwear industry is expected to remain a major contributor to Indonesia's economy. Indonesia still has a comparative advantage in labour-intensive industries. Some companies have already shifted their production from China to Indonesia due to rising labour costs. Indonesian Textile Association expects Indonesian share on the global textiles market to rise from 1.8 percent in 2011 to 2.5 percent in 2014. The competitiveness of certain textiles in Indonesia, such as fibre and yarn, has recently increased.

Indonesia's textile and clothing industry is vertically integrated and involved in almost every sector of the textile supply chain – from the production of man-made fibres, particularly polyester, nylon and rayon; man-made and cotton yarn spinning; and weaving and knitting; to dyeing, printing and finishing; and apparel manufacturing. Indonesia's textile and clothing industry consists of around 3000 companies. Indonesia is one of the world's largest synthetic fibre manufacturers.

Indonesia is among the TOP10 textiles and clothing importers in the EU but still, there is scope for increasing its textiles and clothing exports to the European Union market. In 2010 the EU imported 111 billion USD of textiles and clothing, and 19 billion USD of footwear. Each person in the EU is estimated to use an average of 34 kilograms of textiles a year (around 6 kilograms in Indonesia).





Source: Eurostat.

In 2010 exports to the EU represented 19 percent of Indonesia's total textile exports of around US$11 billion. Trade liberalisation with the European Union would enable Indonesia's textile producers further expand their market share in the European Union. Potential export products include garments for men, women and children, but also industrial textiles for automotives industry, and special clothes for medical and construction workers. Indonesia could also benefit from specialisation on a certain segment of textiles and clothing. For example, clothes for Moslems or with ethnic design could help to increase its share on the global market.

Indonesian Footwear Association's (Aprisindo) official Binsar Marpaung said in Jakarta Post on March 18th, 2011 that the Indonesia's footwear industry could see its exports to the EU jump 20 percent if a FTA was implemented. The EU was the second-largest export destination for Indonesia's footwear products in 2010. Exports to the EU contributed to around 35 percent of Indonesia's total footwear exports of $2.4 billion.

The European Union is also source of technology, know-how and chemicals for Indonesian textile companies. The EU continues to dominate global markets for up-market and high quality textiles, clothing and footwear. Technological upgrade would lead to higher competitiveness and market share in the world.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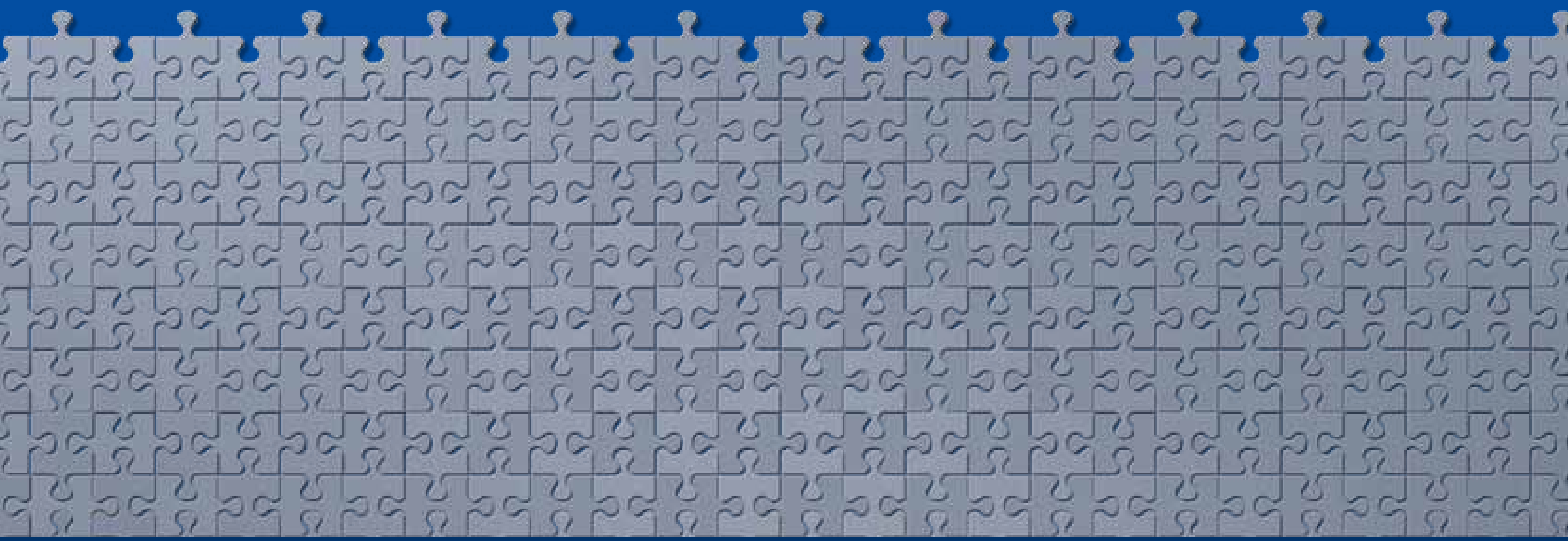

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