

**UPDATE ON INDONESIA – AUSTRALIA COMPREHENSIVE
ECONOMIC PARTNERSHIP AGREEMENT (IA-CEPA)**

Presented by

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Distinguished Participants,

Ladies and Gentlemen,

It is indeed a great pleasure and honour for me to be able to joint Australia – Indonesia Business Conference 2011 in Sydney. I also would like to express my sincere gratitude and appreciation to the Australia Indonesia Business Council for organizing this important event. It gives me opportunity to share my views and up date on the Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA). As representative of the Ministry of Trade of Indonesia, I am of the view that the AIBC Conference today is very important to provide comprehensive information on bilateral trade and investment relations between Indonesia and Australia.

Before I start with my up-date on this subject, I would like to thanks and appreciation to Mr. Michael Mugliston my partner in the negotiation process, and Mr. Ian Satchwell as discussant to this session for their contribution to the useful exchange of views this morning. I hope this occasion will really meet our needs to increase the level of understanding of our common objective of IA-CEPA.

Bilateral Trade Relations

Ladies and Gentlemen,

Indonesia and Australia's total trade reached US\$ 8.3 billion in 2010 increased by 24.5% over the previous year. Non-oil products dominate trade structure with a share of 78.3%. During period of 2005-2009, the trend of total trade between the two countries continued to show positive growth of 10.7% per year, although it has experienced a contraction of 17.4% in 2009 due to negative impact of global economic crisis. In the year 2010, Indonesia again experienced a trade surplus of US\$ 145.4 million constituted of oil and gas surplus of US\$ 1.9 billion and a deficit of non-oil and gas of US\$ 1.7 billion.

Australia was the 15th largest destination country for Indonesian non-oil exports in 2010 with a share of 1.8%. Indonesian non-oil exports to Australia in 2010 grew 38% with a growth trend in the period 2005-2009 of 11.8% per year. Meanwhile, Australia is still included in the 10 biggest country origin of Indonesian import with a share of 3.8%. The growth of non-oil imports from Australia in 2010 is lower (22.2%) compared to export growth over the same period.

Based on Statistics of Indonesia's data for 2010, the biggest of Indonesian non-oil exports to Australia consist of: *Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin; Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles; and wood and articles of wood; wood charcoal;* amounted to US\$ 439 million, US\$ 114 million, and US\$ 92 million, respectively. Meanwhile, Indonesian non-oil imports from Australia include *cereals, Live animals.*

From Indonesia's point of view, there is complementary between Australia and Indonesia on trade in goods. Indonesia could provide primary and manufacturing products (such as *Crude Palm Oil, cocoa products, Wood Products, Paper and paper board, Rubber tyre* etc), while Australia would gain huge market of Indonesia for their *meat and dairy products, wheat, mineral products as well as services sector (such as recreational travel services, business services)*. In addition to that, Indonesia could expect the benefit of IA-CEPA with the attendance of the Australian investor in mining, agriculture, animal husbandry sectors as well as cooperation and

capacity building program in the field of standards/technical regulations, sanitary and phytosanitary, intellectual property rights .

Background of IA-CEPA from Indonesian Perspective

Ladies and Gentlemen,

Before I delve further into this subject, allow me first to look it from policy point of view in observing IA-CEPA process in order to have a clear picture on the importance of IA-CEPA for our future economic relations. In this regards, I would like to refresh our memory back to 2005. The idea of increasing bilateral trade relations between our countries refer to the commitment of our Leaders for a Comprehensive Partnership between Australia and Indonesia (“Joint Declaration on Comprehensive Partnership between Australia and the Republic of Indonesia” dated 4 April 2005). However, there is no clear reference on that Joint Declaration mentioning about the establishment of free trade agreement between the two countries.

Then I looked to the text of “Trade and Investment Framework” signed by Mdm. Mari Elka Pangestu, Minister of Trade of Indonesia and Mr. Mark Vaile, the then Deputy Prime Minister/Minister of Trade of Australia on the margin of ASEAN Economic Ministers meeting with Australia in September 2005 in Vientiane-Laos. From that text, we learned that there is spirit of our leaders to strengthen further close and enduring relationship through enhanced trade and investment links. Our Leaders aspired to promote mutual interest through future economic partnership and by forging deeper and broader economic linkages through the facilitation and expansion of trade and investment. It was also stated on the Framework that both countries will work to enhance cooperation on trade, investment and business climate issues; forge a closer policy dialogue on economic and investment climate issues; contribute to trade and investment facilitation through minimising impediments, promoting transparency in regulations and reducing costs; promote business competitiveness; and enhance capacity building and bilateral technical assistance in the areas of trade and investment policy and economic governance.

Once again, there is no sentence on that Framework which could be interpreted as a “mandate” to establish a FTA or to start the negotiation.

The desire of both countries to have a free trade agreement began to emerge on the Trade Ministers’ Meeting in June 2007. On that meeting, our trade ministers agreed to explore the benefit of bilateral agreement to increase and expand trade relations between Indonesia and Australia. On July 2007, our Head of States agreed in Bali to conduct Joint Feasibility Study on Free Trade Agreement format (IAFTA) to analyse the benefit and obstacles on the bilateral economic relations. The Joint Feasibility Study involved representatives of governments, private sectors and academics of both countries. They started their works in December 2007 and finished it in February 2009. In this regard, I would like to quote some recommendations from the study, among others:

- An FTA would build on the gains made under AANZFTA, thereby facilitating faster regional economic integration, which is one of the main goals of AANZFTA. In addition, an FTA would provide a solid platform for strengthened engagement and cooperation across a range of non-economic issues.
- It would be important to ensure that bilateral commitments in these areas build upon commitments Australia and Indonesia have already undertaken in other fora, particularly AANZFTA. The architecture of a bilateral FTA between Australia and Indonesia would be the subject of negotiation between Australia and Indonesia.
- Should both governments decide to enter into FTA negotiations covering goods, services, investment and capacity building it is recommended that negotiations commence as soon as practicable.

In order to commence negotiations “as soon as practicable” as recommended by the Joint Feasibility Study, we met in a very informal consultation in August 2009 in Canberra to start discussion on the possible “mandate” as a legitimate basis for negotiation. We also discussed draft of - at that time we call it - “Indonesia-Australia

Free Trade Agreement: Pre-Agreement Fund (IPAF)” proposed by Australia. Discussion on the drafts and exploring appropriate time for our governments to formally launch the negotiation took more than a year. During this time, more emphasis and attention were given to economic cooperation and the concept of partnership. Then, our Trade Ministers agreed to expand IAFTA becoming Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) covering not merely trade liberalization but also Economic Cooperation and Capacity Building element. Finally, during the visit of Prime Minister Julia Gillard to Jakarta on 2 November 2010, our Head of States agreed to jointly announced the commencement of Negotiations on An Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA). They agreed to progress to a comprehensive economic partnership covering economic cooperation, trade and investment issues. President Yudhoyono and Prime Minister Gillard further agreed that negotiations should take into account the Joint Feasibility Study and conduct the negotiations constructively, positively and with flexibility recognizing the different levels of development of the two countries. Both leaders noted that Australia has established a technical assistance and economic cooperation facility to support the negotiations. The two Leaders shared the view that the two countries need to take into account the result of negotiations on the Agreement Establishing the ASEAN – Australia – New Zealand Free Trade Area, and consistency of the bilateral comprehensive economic partnership with the WTO provisions.

As I mentioned earlier, Australia has established a technical assistance and economic cooperation facility to support the negotiations. In this regard, the initiative of Australia to establish an Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA) Pre Agreement Facility is very much appreciated. The objectives of the Facility will be to strengthen economic relations between Australia and Indonesia; support enhanced trade and development outcomes; bring about sustainable, long-term impact; and support environmentally sustainable export sectors. In my view, that Facility can be constituted as one of Australia’s initiatives as a developed country in implementing Aid For Trade provided for a developing country like Indonesia. It seems to me that the objectives of the Facility is close to the idea of aid for trade programe which is mentioned that *“Because trade is a broad and complex activity, Aid for Trade is broad and not easily defined. It includes*

technical assistance — helping countries to develop trade strategies, negotiate more effectively, and implement outcomes.....”

Preparation for Negotiation

Ladies and Gentlemen,

I am fully aware that to enter into a trade negotiation particularly negotiation for trade liberalization needs well preparation, including a well coordination of national delegation and a process of dialogue and inputs from all stakeholders in society ranging from the private sector, NGOs, Parliamentary members and society at large. There is a dialogue process, there is an input process and there is a public education process. Because of the consultative nature of the process – things may take a bit longer, but it is a necessary process to get acceptability by all.

For your information, the Government of Indonesia has conducted several activities as part of public consultation on IA-CEPA. The Indonesian Ministry of Trade organized at least 6 seminars in Jakarta, Surabaya, and Makassar, involving domestic stakeholders such as the Indonesian Chamber of Commerce, Sectoral/trade associations, Individual Companies, Academics, etc. We invited inputs from private sectors as well as government institutions.

Conclusion

Ladies and Gentlemen,

In closing, it is my hope that the IA-CEPA will add significant weight to our efforts to hasten the greater prosperity and mutual benefits for our countries.

Thank you.