How RI Plans To Benefit From EFTA Trade Deal

Tanggal	: Rabu , 21 April 2021
Media	: The Jakarta Post
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Muatan Berita	: Netral
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The Jakarta Post/Jakarta

The House of Representatives has recently approved a draft trade deal with the four-member European Free Trade Association (EFTA) that is expected to facilitate foreign investment and liberalize trade in goods and services, particularly commodities such as palm oil and raw metals.

The Indonesia-EFTA Comprehensive Economic Partnership Agreement (IE-CEPA) was approved by the House on April 9 and has been called Indonesia's doorway to the wider European market. The non-European Union trade bloc consists of Iceland, Liechtenstein, Norway and Switzerland.

Shinta Kamdani, deputy chair of the Indonesian Chamber of Commerce and Industry (Kadin), said the agreement was expected to benefit Indonesian businesses that sold gold, nickel, crude palm oil (CPO), coffee, tea, footwear, fisheries products, wood furniture, webbing products and creative economy items.

"While our trade with the EFTA is small relative to our trade with the EU, the EFTA still holds a strategic position in Europe, even though [the member states] are not EU member states," Shinta told *The Jakarta Post* on April 14.

Norway and Switzerland have committed to eliminating 91.04 percent and 81.74 percent, respectively, of their tariffs on imports from Indonesia, accounting for 99.75 percent and 99.65 percent of their total imports from the country, according to a 2019 fact sheet published by the Trade Ministry.

The partnership with the EFTA is the first of its kind involving Indonesia and European countries. The parties signed the agreement in 2018 after seven years of negotiations.

But with the pandemic battering global trade, the value of Indonesian exports to the EFTA was down 80.46 percent year-on-year (yoy) to US$29.96 million in January and the value of imports from the EFTA was down by half to $46.9 million, according to Statistics Indonesia (BPS).

The trade accounted for 0.19 percent of Indonesia's exports and 0.35 percent of its exports by value in January.

The country's overall trade in goods has picked up in recent months, with exports up 30.47 percent yoy in March to a decade-high $18.35 billion and imports up by 25.73 percent yoy to $16.79 billion, BPS data shows.

Trade in services

The IE-CEPA also covers trade in services, offering opportunities for educational, professional, environmental, tourist, financial, fisheries technology, renewable energy and logistics services, among others, according to Shinta.

"The biggest benefit of the EFTA markets is not the export market but the cooperation opportunities in the service sectors and investment," said Shinta.

Under the agreement, Indonesia has committed to liberalizing 95 subsectors across 11 service sectors, excluding recreational, cultural and sporting services, said Investment Coordinating Board (BKPM) foreign investment partnership director Fajar Usman on Nov. 27, 2020.

Last year, the pandemic led to a 48.69 percent annual decline in Indonesia's service exports and a 34.66 percent decline in service imports, according to BPS data.

Investment opportunities

Aside from trade, Indonesia has committed to liberalizing 182 subsectors for investment, most of which are under manufacturing, followed by agriculture, hunting and fisheries, mining and quarrying, electricity, gas, steam and air conditioning, as well as waterworks and waste management, according to Fajar.

Last year, foreign direct investment (FDI) from Iceland, Liechtenstein, Norway and Switzerland totaled more than $137.9 million. The funds were used in 622 projects, most of which were carried out by Swiss companies, according to BKPM data. The realized FDI was 21.68 percent less than in the previous year, before the pandemic.

In 2019, Norway's sovereign wealth fund (SWF), invested some $1.86 billion in 79 Indonesian firms, including state-owned telecommunications, mining and gas companies, as well as food and beverage giants Indofood, Mayora and Sido Muncul, according to Indonesian Ambassador to Norway Todung Mulya Lubis.

"They are a big source of capital," said the Trade Ministry's director general for international trade cooperation, Djatmiko Bris Witjaksono, on Thursday.

"They invest, and they have technology. So this is beyond trade in goods, as seen in the tariff or nontariff instruments. But we also look at services and investment. That is where the comprehensive aspect lies."

Implementation

Now that the House has approved the bill to ratify the CEPA, the Finance Ministry plans to issue a regulation on import duties and the Trade Ministry plans to issue a regulation on certificates of origin to implement the agreement.

The Trade Ministry hopes to do so in the second half of the year, after coordinating with government agencies and other stakeholders.

"The target is as soon as possible, but I cannot tell when," Djatmiko said.

Palm oil

The government is particularly pleased because Switzerland has approved provisions in the IE-CEPA that will ease import duties on Indonesian palm oil, an industry plagued with environmental concerns.

In a narrowly decided March referendum, Switzerland committed to reducing import duties on Indonesian palm oil by 20 to 40 percent under the IE-CEPA.

"With the IE-CEPA, the government will promote the sustainable standard for palm oil, or ISPO, so it can be accepted by Switzerland under the framework in the agreement," Trade Minister Muhammad Lutfi said during a House plenary session on April 9.

The total volume of Indonesian CPO exports was down by half to 367,280 tons in January from the same month the year before, according to BPS data.

Andry Satrio Nugroho, an economist at the Institute for Development of Economics and Finance (Indef), said the approval meant that Indonesian palm oil would reap the greatest benefit from the partnership so far.

"With this CEPA, it will improve the quality of our export products, especially palm oil, where it can incentivize [producers and distributers] to improve their quality as there is an issue related to certification on the ground," Andry told the *Post* on Friday.

"I hope it applies not only to palm oil but also to other products exported to European countries."