

Viewing cable 10JAKARTA202, US-ABC PROMOTES BILATERAL TRADE AND INVESTMENT

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SUBJECT: US-ABC PROMOTES BILATERAL TRADE AND INVESTMENT

¶1. Summary. A delegation of business representative from The U.S.-ASEAN Business Council (US-ABC) sent a delegation of U.S. business representatives to Jakarta from January 25-28 for a series of meetings with senior Indonesian officials to discuss Indonesia's investment climate. Council members encouraged greater transparency in the regulatory process, more stakeholder input into legislation, legal reform for greater contract sanctity, transparent dispute resolution, and reliable enforcement of decisions. US-ABC representatives praised Indonesia's G-20 role and stated that this was a clear sign of respect for Indonesia's global economic power. US-ABC members also urged a successful conclusion to negotiations of an updated OPIC agreement. End Summary.

¶2. US-ABC's delegation included more than 40 representatives of around 20 companies that are already established or seeking to do business in Indonesia. The sectors that these businesses represent include agribusiness, energy and resources, food processing, infrastructure, car and heavy equipment manufacturers, chemicals, pharmaceuticals, and communications and IT equipment producers. US-ABC stressed that its members' foreign direct investment (FDI) in Indonesia has a positive multiplier effect through the transfer of technology, growth of local jobs, benefits of a local supply chain

distribution system, and significant corporate social responsibility programs. Because of the diversity of the delegation and the need for multiple companies to participate, many of the high-level meetings lacked the focus that organizers had planned.

Vice President Boediono

¶3. Vice President Boediono highlighted Indonesia's recently released 100-day report, stating that Indonesia is determined to accelerate development of infrastructure and improve people's economic and social welfare. Boediono said Indonesia is also looking for "quick wins" on the environment, education and improvements to the investment climate. He stated that the country will participate in the global market while formulating an explicit policy to promote its domestic market. He encouraged biotechnology, especially for rice, to promote food security.

¶4. The Ambassador pointed out that this delegation reflects increasing U.S. interest in expanding business ties and relations with Indonesia. He said that President Obama's visit will focus our attention so that we can strike deals which will demonstrate that Indonesia is a good partner for international businesses. Rod Hills, Vice Chairman of US-ABC and President & CEO of the Hills Companies, told the Vice President that University of Indonesia's Center for the Study of Governance planned to release a report with suggestions to increase jobs in both countries.

Coordinating Ministry of the Economy

¶5. Coordinating Ministry of the Economy Deputy Director for Macroeconomics and Finance Dr. Erlangga Mantik stated that Indonesia was committed to improving its investment climate. Under President Yudhoyono's 100-day plan, Indonesia had recently completed amendments on land zoning regulations, adopted a mechanism for financing infrastructure development, and enacted new energy regulations. In addressing the delegation's specific concerns, he noted that food security is important to the cabinet, specifically through plans to develop food security programs in Papua. Prior legislation on public-private partnerships had been unsuccessful, and officials are working to improve this legislation. Indonesia is aware of the need to make the oil and gas sector more attractive to investors, and Mantik wants to solve cost recovery problems in the near term.

¶6. Members brought up additional concerns. Cargill highlighted its work on food security issues but stressed that food security does not equate to elimination of imports. Monsanto hopes to develop biotech corn in Indonesia, if relevant regulations are enacted. GE seeks to improve infrastructure in Indonesia and was enthusiastic about its geothermal project. GE referred to an impending locomotive deal thanks to EXIM financing. Phillip Morris encouraged private sector input on health legislation. Time Warner expressed concern that regulations limiting foreign content do not support growth of the film industry in Indonesia. Mantik committed to raising these issues with the relevant ministries.

Minister of Finance Sri Mulyani Indrawati

¶7. Finance Minister Sri Mulyani Indrawati stated that Indonesia's rising prominence is the result of successful policy efforts and

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institution-building. She declared that the top echelon of civil servants had taken ownership of reform efforts. Indrawati acknowledged reform "failures" in President Yudhoyono's recently completed first term, due to the lack of consistency and implementing capacity. Indonesia is still committed to reform, despite the distraction of recent "headlines," a reference to the controversy over the bailout of Bank Century. Indrawati wants to return to the pre-2009 fiscal policy when economic conditions allow, and she hopes that good coordination among members of the G-20 will provide a forum to look at a stimulus exit policy. The Finance Ministry remains focused on increased health, education, infrastructure, and defense spending. The Minister stressed that businesses must also consider local government when making investment decisions. She defended the cap on oil and gas cost recovery, claiming that it is to mitigate the effects of unfair contracts from previous administrations. US-ABC representatives encouraged the Minister to provide additional business incentives and direction on existing tax policies, and to address issues of oil and gas cost recovery.

Vice Minister of Trade Siregar

¶8. Vice Minister of Trade Mahendra Siregar welcomed the delegation and expressed optimism about Indonesia's improving business climate. He stressed Indonesia's commitment to ASEAN and discussed his government's efforts to improve "domestic connectivity." He cautioned US-ABC members to not be overly harsh in their appraisal of Indonesia's investment climate. Siregar argued that most of the concerns member companies have are not unique to Indonesia, but are common among large emerging economies. Siregar also commented on Indonesia's recent inclusion in the G-20, describing it as "unexpected." Siregar argued for "quick wins" in the bilateral relationship to build momentum toward greater cooperation.

Minister of Industry Hidayat

¶9. Minister of Industry Hidayat welcomed all participants and spoke of his hopes to lay the foundation in Indonesia for a fundamental change in the domestic business sector. Minister Hidayat noted President Yudhoyono's support for removing bottlenecks in the investment process and expressed his optimism that opportunities will grow over the next five years. He assured attendees that the Bank Century scandal was being adequately managed. Hidayat hopes to position Indonesia as the center of ASEAN, and he called for a strong business relationship between Indonesia and the United States. Hidayat asked participants to speak directly with his office about company-specific concerns.

Minister of Information and Telecoms Sembiring

¶10. Minister of Information and Telecoms Tifatul Sembiring remarked on the continuing problem of the "digital divide" and noted the IT goals in Yudhoyono's 100-Day Plan. He provided an update on the Palapa Ring, a fiber-optic cable project that will connect the entire country. He advised that the west side of the project is still 2-3 years from completion. Sembiring also highlighted his Ministry's recent anti-cyber-crime efforts.

¶11. US-ABC participants cited the emphasis President Yudhoyono placed on infrastructure and telecommunications. Intel noted the low levels of broadband availability and the need for a clear policy for spectrum frequency development, procurement, and allocation in Indonesia. UPS asked about the new Postal Law and possible impact on courier and logistics services. Sembiring promised that there would be a public comment period for the Postal Law implementing regulations. (Note: the public comment period has already closed. End note.) He defended measures promoting development of local capacity in the IT and telecoms sector.

Minister of Foreign Affairs Natalegawa

¶12. Foreign Minister Marty Natalegawa lauded the council for its corporate social responsibility activities. He encouraged increased U.S.-Indonesian business ties in line with Indonesia's democratic transformation, sturdy economy, and progress in the U.S.-Indonesia and U.S.-ASEAN relationships. Natalegawa enlisted US-ABC's help on business innovations to combat climate change.

¶13. US-ABC members noted that the OPIC agreement discussions are a positive signal to U.S. investors that Indonesia is a good place to invest. Microsoft told the FM about its work on the Foreign

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Ministry computing system, and Sampoerna Foundation asked that the MFA consider stakeholder input on the new health bill.

Vice Minister of Transportation Susantono

¶14. Vice Minister of Transportation Bambang Susantono discussed Indonesia's transportation development, a plan to develop a "6 Corridor" Special Economic Zone program that will form the backbone of a national logistics system, and efforts to take more of the Ministry's processes online. Susantono said Indonesia is considering the ASEAN Open Skies agreement, but he takes the view that domestic carriers should be given preference. McDermott pointed out that Indonesia's cabotage rules limit marine construction vessels, which currently need to be approved on a case-by-case basis. There are no Indonesian-flagged marine construction vessels available. Susantono agreed that the policy needed to be more transparent but stressed that Indonesia's cabotage policy exists to protect the domestic fleet.

BKPM Chair Wirjawan

¶15. Chairman of the Investment Coordinating Board Gita Wirjawan

reassured the members that Indonesia's investment climate was heading in the right direction. He announced that the government was considering revisions of Indonesia's negative list on foreign investment in the areas of creative industries, health, education and telecommunications. He explained that he needed to "show the delta" to make the case to other ministries of the advantages to opening up sectors to foreign participation. In response to a question from the Motion Picture Association, Wirjawan used his positive experience with the Ministry of Health as a model of how to persuade ministries "using quantifiable data" to allow foreign participation and majority ownership. Wirjawan also proposed seconding select BKPM staff members to US-ABC companies to give them private sector insights and perspective. An MPA representative suggested that several of the studios may be interested to follow up on that proposal.

Minister of Energy and Mineral Resources Saleh

¶16. Minister of Energy and Mineral Resources Darwin Saleh welcomed the group and discussed the Ministry's goal of changing Indonesia's energy mix to rely less on oil and more on resources that are still plentiful in the country: coal, gas, and renewable energy. A number of companies, including Marathon Oil, Caterpillar, GE, and McDermott highlighted their interest in investing more in Indonesia, but stressed the need for regulatory and contractual clarity. A few raised specific issues, including the impact of cabotage rules and fuel standards implementation. Ministry of Energy officials stated that they were working on solutions to both issues, although resolution would not be as quick as industry would like.

¶17. The Director General of Mining Bambang Setiawan pointed out that Chinese investors were now overtaking Western companies in terms of new mining investment. DG Setiawan claimed that because the Chinese had never operated under the old Contract of Work system, arrangements under the new mining law provided encouragement. He asked that Western mining companies invest in Indonesia under current rules.

Parliamentarian Dinner

¶18. Deputy Speaker Pramono Anung (PDI-P) told the group that the DPR is committed to supporting business relations in a transparent manner, noting that most current MPs have business backgrounds. He expressed support and appreciation for Freeport, Boeing, and GE. Anung said that Indonesia and the DPR must protect people who come to do business here, not stand by idly, for example, as Freeport workers are shot at. About 15-20 members of parliament (including chairs) from the agriculture, trade, energy, and banking commissions attended.

¶19. Peter Gontha of the Indonesian Chamber of Trade and Industry (KADIN) noted that this MP meeting was the first of its kind for US-ABC (he joked that he expected only 1-2 members to show up). Gontha told the MPs that the council would like to have items removed from the negative list, such as communications.

ASEAN Secretariat

¶20. Anna Robienol, Head of ASEAN's External Economic Relations Division, said that the organization's free-trade agreements with its regional dialogue partners -China, India, Korea, Japan, Australia and New Zealand - were central to ASEAN's economic integration strategy and effort to retain a central position in Asia's emerging regional architecture. Ms. Robienol expressed ASEAN's desire for more robust work under the U.S.-ASEAN Trade and Investment Framework Agreement (TIFA), and she said that the organization was eager to participate in a "road show" of ASEAN Economic and Trade Ministers in the United States later this year. Answering questions from U.S. business representatives, Ms. Robienol commented on a lack of institutional compatibility between ASEAN, APEC and the Trans-Pacific Partnership. Ms. Robienol added that ASEAN was suffering from a major lack of capacity to deal with the pace of activities being pursued under its auspices.

BPOM Chair Kustantinah

¶21. BPOM Chair Kustantinah listened to the delegation's concerns regarding labeling imports, and approvals of biotech crops and food. She acknowledged that Indonesia must move forward on biotech products, although with her limited tenure at the head of BPOM, she was not yet able to offer a specific path forward. She did, however, commit to improving communications with Indonesia's trading partners on food safety issues.

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