



Federation of the European
Sporting Goods Industry

FESI POSITION PAPER EU-INDONESIA FTA

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FEDERATION OF THE EUROPEAN
SPORTING GOODS INDUSTRY

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The Federation of the European Sporting Goods Industry (FESI) supports the negotiations between the European Union and Indonesia to establish an ambitious and comprehensive Free Trade Agreement, which will foster sustainable economic growth, boost global trade and create jobs in both the EU and Indonesia.

To ensure that the sporting goods industry fully benefit from this FTA, FESI calls the Commission to include the following elements in the trade agreement:

- Full and immediate **tariff liberalisation** for footwear and apparel.
- Clear, simple and flexible **rules of origin** (single transformation rule for apparel products and extended cumulation with FTA partners and ASEAN countries for all sporting goods).
- Creation of a **customs recordation regime** based on locally registered trademark.
- Removal of all **market access restrictions** in Indonesia, including requirements on local partnership for companies providing e-commerce services.
- Inclusion of the **WTO Trade Facilitation Agreement** into the EU-Indonesia FTA.

FESI welcomes the launch of the negotiations for a Comprehensive Economic Partnership Agreement (CEPA) between the European Union and Indonesia. The sporting goods industry makes use of globalised product development and supply chains, creating significant employment in Europe, and pursues global sourcing strategies to deliver the best quality, innovative products at the most competitive price to European consumers. An ambitious FTA between the EU and Indonesia can generate major benefits for the sporting goods industry and our customers.

The priorities for FESI members *vis-à-vis* the current negotiations focus on tariff liberalisation, the establishment of clear, simple and flexible rules of origin (RoO), the elimination of non-tariff barriers to trade, and transparent, non-discriminatory and predictable Intellectual Property Rights (IPRs).

In order to enable this agreement to amplify the recently concluded EU-Vietnam FTA, the agreement with Vietnam should be used as a starting point for CEPA, but not as the final outcome. FESI believes that the volumes traded between EU and Indonesia should render a more ambitious negotiating position in the areas of market access and rules of origin.

TARIFF LIBERALISATION FOR SPORTING GOODS

FESI supports the **full and immediate elimination of duties for apparel (Chapters 61-62) and footwear (Chapter 64)**. An abolition of duty rates will benefit both sides as it will foster EU investments in Indonesia. Tariffs eliminations will also be passed on to the end consumers in Europe who will be able to enjoy products at more competitive costs.

As the time path for tariff reductions reflects the different levels of development of EU trading partners, we recommend that the full abolition of tariffs for footwear and apparel takes immediate effect from the moment the FTA comes into force.

FESI also believes that apparel and footwear should not be treated as “sensitive” items as they are in the General Scheme of preferences (GSP). Moreover, the concessions made in the bilateral FTA with Vietnam should be the minimum concessions extended to Indonesia, considering the lower volumes. The lower volumes should allow for more ambitious concessions.

CLEAR AND SIMPLE RULES OF ORIGIN

FESI urges the Commission **to adopt clear, simple and flexible rules of origin**. The sporting goods industry is a highly globalised industry with proliferated Global Value Chains (GVCs). Complex and diverging rules can be cumbersome and severely limit the market access benefits of FTAs.

In that context, FESI calls for the adoption of the **single transformation rule for all apparel products** (Chapters 61-62). The single transformation rule would take into account the specificities of the Indonesian industry which – at this stage – cannot cope with the demand by solely relying on local fabric production. Within a few years, the increased production demand in

Indonesia will contribute to the development of efficient production facilities in the country, leading to an increase of local fabric production. Fast and reactive supply chains as demanded by business in Europe promote apparel-manufacturing with local or even integrated material supply.

In addition, FESI is in favour of **extended cumulation for apparel and footwear products** with countries that parties have FTAs with as well as with all ASEAN countries. In order for the FTA to reflect business realities created under the current Generalised Scheme of Preferences (GSP), cumulation with current ASEAN GSP beneficiaries is essential. Restricting cumulation only to those ASEAN countries that have signed an FTA with the European Union will result in increased complexity, leading to substantial additional costs and making compliance with rules complicated for businesses.

INTELLECTUAL PROPERTY RIGHTS

The respect of intellectual property rights is of key importance to the sporting goods industry. Consumers rely on the reputation of our members to buy high-quality products. For safety reasons, it is of paramount importance to ensure that efficient mechanisms are implemented to swiftly identify counterfeit goods and remove them from the market. It should cover all major or relevant sources of counterfeits, e.g. **local production, street markets and imports from third countries including e-commerce direct to consumers**. The implementation of the mechanisms aimed at identifying and removing counterfeit goods from the market would be fundamental in reinforcing the efforts brand owners in the sporting goods industry already make in this same direction, including in the framework of their supply chain management.

FESI calls for **the establishment of a customs recordation regime in Indonesia based on locally registered trademarks** (similar to other countries). This will enable and empower Customs authorities to impound suspected counterfeit items at the border (both imports and exports) and to follow an established examination and handling process to either release or destroy infringing material – in collaboration with the brand owner or their appointed representatives.

FESI encourages Indonesia to work closely with ASEAN countries, the European Commission and the European Union Intellectual Property Office to further update and harmonize its systems for IP creation, protection, administration and enforcement, in line with international IP standards and with the ASEAN IPR Action Plan 2016-2020.

FESI would recommend:

- (i) developing and/or adapting IP management and information tools to enhance the efficiency of their operations and the quality of their services in the areas of trade mark and design administration;
- (ii) building a mechanism (such as a platform) to facilitate the exchange of IP rights related data among enforcement agencies, IP Offices and right holders;
- (iii) adopting stricter penalties for companies and individuals caught infringing IP rights.

MARKET ACCESS

FESI supports the **removal of all forms of market access restrictions** in Indonesia. The sporting goods industry is especially concerned by foreign equity caps on retail store ownership, and several requirements on **local content** and establishing enterprises providing e-commerce services as well as requirements on partnership with local SMEs.

Consumer buying behavior has changed in recent years – moving away from the traditional buying in physical stores to an Omni-channel shopping behavior. The Omni-channel shopping behavior requires brand-owners to be in full management and steering of all relevant market channels, ranging from wholesale and own retail-stores to e-commerce in order to create a seamless brand/shopping experience with its consumers. In addition, allowing brand owners to own retail stores will create healthy competition that benefit the Indonesian consumers and create jobs for the Indonesian people.

GSP

Since Indonesia could potentially graduate from the duty reductions under the current GSP in the coming years, both sides should aim at concluding the negotiation and ratification process before the country loses its preferential treatment. If concluding the negotiations before Indonesia's graduation is not possible, the EU should allow for a smooth transition into the FTA on a later stage in order to minimize disruptions in businesses' supply chains. A smooth transition into the Registered Exporter System (REX) ought to be addressed as well.

CUSTOMS AND TRADE FACILITATION

FESI supports to **inclusion of the WTO Trade Facilitation Agreement into the FTA** to ensure its immediate implementation by both parties.

At this stage, the WTO agreement has not been fully ratified by the parties. Incorporating the agreement into the FTA will commit the EU and Indonesia to implementing the obligations, ensuring the smooth flow of cross-border trade. The swift implementation of the WTO Trade Facilitation Agreement will benefit both sides as it will improve transparency, increase possibilities to participate in global value chains, and reduce scope for corruption.

A specific attention should be paid to the following areas: expediting movement; release and clearance of goods; measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues; technical assistance and capacity building etc.

Founded in 1960 FESI - the Federation of the European Sporting Goods Industry represents the interests of approximately 1,800 sporting goods manufacturers (85% of the European market) through its 12 National Sporting Goods Industry Federations and its directly affiliated member companies. 70-75% of FESI's membership is made up of Small and Medium Sized Enterprises. In total, the European Sporting Goods Industry employs over 650,000 EU citizens and has an annual turnover of some 66 billion euro.