



“Yes, we are separated by the Pacific Ocean. But we are also joined by the Pacific Ocean. We are neighbours and nothing is more important that neighbours should understand each other. There is a saying that an unseen frontier of friendship exists between Canada and the United States. It is my prayer that between us of Indonesia and this country of Canada, a similar frontier of friendship may develop and grow strong.”

**President Soekarno, June 5, 1956
Address to the Canadian joint address of
Parliament***

*(*A joint session of parliament is a rare and treasured event reserved for the most prestigious visitors to Canada)*

Policy Paper:

ACCELERATING INDONESIA’S GROWTH

**Opportunities to Enhance
the Indonesia-Canada Economic Relationship**



This policy paper is presented by the
Indonesia Canada Chamber of Commerce
to the Government of Indonesia
under President Joko Widodo
in the spirit of goodwill and with a belief in
supporting mutually beneficial growth
between the two great countries of
Indonesia and Canada



The Indonesia Canada Chamber of Commerce, widely known as ICCC, dedicates itself to supporting positive business growth for social and economic development in Indonesia and Canada. The ICCC serves its members, the Indonesian-Canadian business community, by adopting the role as a “bridge”, either between representatives of various business interests or between business and government.

Over the last several years the ICCC has undertaken a rejuvenated approach and has greater focus on how to sustainably maintain its position as a prominent chamber offering high-value membership activities and services to its constituents while collaborating more closely with affiliates such as Indonesian government Ministries, Embassy of Canada, the Canadian Alumni in Indonesia (CALINDO), the Canadian Education International (CEI), and the Canadian Women Association (CWA).

The Chamber also aims to provide members with a platform to meet, exchange information and discuss specific cross-cutting issues with contemporaries across various sectors. This communication allows the success of Canadian and Indonesians business to be shared across the organization.

Objectives

The ICCC has the following objectives:

- To promote and encourage trade, investment and other economic relations between Indonesia and Canada, particularly in the private sector;
- To represent, in an objective manner, the views, interests and concerns of members of the Chamber;
- To assist in the promotion of inter-cultural relations between the people of Indonesia and Canada;
- To provide practical assistance and information in support of new and existing business opportunities for both Canadian businesses in Indonesia and for Indonesian businesses in Canada;
- To provide value-added services to the membership in the form of publications, business meetings and trade/investment missions;
- To promote communication, mutual support and the development of business opportunities between members.

Partners

The ICCC works closely with KADIN (Kamar Dagang dan Industri), CALINDO (Indonesian alumni of Canadian schools), and the Canadian Women’s Association (CWA) to bring together varied groups to pool resources and promote similar interests. These partnerships ensure that both Indonesians and Canadians are well represented in Indonesian society and business.

Join the ICCC

The structure of the Chamber consists of a board of executives led by a president, three vice-presidents, a secretary and treasurer. There are also a number of standing committees led by various members of the organization. Individuals or corporations interested in joining the ICCC are welcome to contact email the ICCC at secretariat@iccc.or.id



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INDONESIA CANADA CHAMBER OF COMMERCE



**PROMOTING POSITIVE BUSINESS GROWTH
FOR SOCIAL AND ECONOMIC DEVELOPMENT**

PREFACE: ICCC PRESIDENT



As business leaders working in Indonesia, we have the aspiration as good corporate citizens to express our views on the local business climate and to offer suggestions on ways to improve it. As businesses who are here for the long-term we also hold a desire to assist the Indonesian Government in promoting itself as an investment and trade destination as well as assisting Indonesian investors wishing to trade or invest in Canada.

The genesis of this publication was a sincere desire of the business leaders of the Indonesia Canada Chamber of Commerce (ICCC) to provide the incoming Indonesian administration with some constructively crafted suggestions on how to support critical industries where our members compete and to highlight areas of opportunities in other important sectors. The singular objective of the exercise was to make a positive contribution to the bilateral discussions and to strengthen the friendship that already exists between our two great nations.

We began this work before the outcome of the general and presidential elections were known. We solicited hundreds of expert opinions from businesspeople with extensive networks and who could provide invaluable insights on concrete policy actions that would accelerate the country's growth and development.

Throughout this process, and for the past few years, the Canadian Ambassador and Senior Trade Commissioner have challenged us to raise awareness of "the Canadian brand" in Indonesia and to promote Indonesia-Canada bilateral trade. We have made important steps in this direction with their support and guidance.

Since 2012, the ICCC has worked to become a more vibrant, vocal and active participant in the local business community. With the solid financial backing of our corporate members, we have grown our membership size and diversity, the breadth and frequency of activities including business and social networking opportunities, and introduced publication and advocacy initiatives.

We have also strengthened our collaboration with our partner associations such as the Canadian Alumni in Indonesia (CALINDO), the Canadian Education International (CEI), the Canadian Women's Association (CWA), the Indonesian Chamber of Commerce and Industry (KADIN), the Indonesia-Canada Committee of KADIN (KIKAN) as well as other Business Chambers. As we have made this transformation we have seen a renewed sense of excitement about the possibilities for Indonesia and Canada's friendship to be taken to new heights.

We hope that this publication increases your awareness of the Canadian presence in Indonesia, and of the opportunities that exist to broaden and deepen our growing bilateral relationship in the years to come. We sincerely welcome an opportunity to have a further dialogue with the Indonesia Chamber of Commerce regarding the opportunities or ideas presented in this publication.

Chris Bendl
ICCC President

FOREWARD: CANADIAN AMBASSADOR TO INDONESIA



These are exciting times in the Canada-Indonesia relationship. Our commercial and people-to-people ties continue to grow rapidly, and Canada looks forward to working closely with the Indonesian government under President Joko Widodo.

Whether it be through our work together at the G20 or APEC; building better understandings on human rights, democracy, and good governance; collectively combating terrorism and strengthening defense relations; or working to expand our increasingly robust trade and investment partnership, Canada and Indonesia continue to do so in the spirit of friendship.

Wherever I have traveled in Indonesia since my arrival in 2013, I have been struck by the depth of commitment of the Indonesian people to creating a prosperous, democratic, and pluralistic society.

I have been equally impressed by how Indonesians are determined to play a larger role in world affairs, and how Indonesia has taken on an increasingly robust economic leadership role in line with its growing economic status!

Our bilateral relationship is mature and fully reflects the strategic partnership Indonesia and Canada have built as global leaders supporting the growth of international trade and investment. This mature relationship allows us to engage in a frank and open dialogue which ensures that we can celebrate our successes, while working together to address issues that may be limiting our economic growth potential.

Leading Canadian companies such as BlackBerry, SNC Lavalin, Manulife, Sunlife, Talisman, Husky, Hatch, Bombardier, McElhanney and CAE to name but a few, are fully engaged in responding to the needs of the dynamic and rapidly growing Indonesian market. Indonesia is Canada's largest bilateral trading partner in the Southeast Asian region, and is home to a considerable amount of Canadian direct investment. This investment has created thousands of jobs and has helped to increase prosperity and development across Indonesia.

Indonesia has not only been a recipient of significant investment from Canada, but it has also been a growing source of foreign direct investment to Canada. Indeed investment by Indonesian companies to Canada is now worth billions of dollars. It is upon this growing foundation of bilateral investment that our joint future prosperity will be built.

Looking into the future, our shared values of promoting prosperous, democratic societies will continue to be the hallmarks of our relationship.

With this in mind, I am pleased that the Indonesia-Canada Chamber of Commerce has prepared this policy paper which outlines the successes of our vibrant economic relationship, while outlining how we can build further upon it.

Donald Bobiash

Canadian Ambassador to Indonesia



Firstly, I wish to congratulate the Indonesia Canada Chamber of Commerce (ICCC) for publishing this policy paper. This paper is very timely as it is released at a time when the new government under President Joko Widodo has outlined the national priorities for the next five years of which the acceleration of Indonesia's economic and social development has become top on the list.

Therefore, I am of the opinion that ICCC's policy paper entitled "Accelerating Indonesia's Growth: Opportunities to Enhance the Indonesia-Canada Economic Relationship" will help readers gain insights about Indonesia's untapped economic potentials.

With a population of more than 240 million and having a large middle class, Indonesia is an ideal destination for Canadian companies to invest. Indeed, Indonesia and Canada are natural partners as our two countries share similar confidence in the democratic system of governance and the value of

respecting human rights. The democratic system gives room to both our people to speak their mind and contribute actively in our respective national development.

I am pleased that Canadian business communities continue to engage in various economic opportunities in Indonesia. We welcome your presence and we wish to see more Canadian investors exploring business opportunities, both in our land and in our vast sea territory.

Being an archipelago, Indonesia's coastline is the second longest after Canada's. Our two countries have been developing a close cooperation in combating transnational crimes at sea, including the challenge of people smuggling. I believe we can also develop a mutually beneficial maritime cooperation. Indonesia can learn more from Canada's experiences in maximizing its sea potentials—from the sustainable use of its marine resources to deep-sea exploration.

As a final note, ICCC can play a strategic role in generating more awareness and confidence among Canadian business community about Indonesia—a country with abundant potentials that shall not be overlooked.

Teuku Faizasyah

Indonesian Ambassador to Canada

ACKNOWLEDGMENTS



The message in this policy paper is clear: There is significant mutually beneficial value to be gained from increasing the social and economic ties between the great countries of Indonesia and Canada. This policy paper attempts to share key insights into how we can expedite maximizing those benefits.

This policy paper was prepared in close consultation with Canadian companies and organizations who have in-depth experience working in Indonesia with a focus on ways we can work together to enhance the Indonesia-Canada economic relationship.

The ICCC would like to thank all of the President Directors, Directors, and contributors for their valuable time and full support during the research and information gathering process.

The ICCC Policy Paper team was led by Richard Emmerson and supported by Chris Bendl, Tracy Reynolds, Neil Prendergast, Cameron Tough, Dean Boulding, Greg Elms and Edwin Pieroelie. Input into the ICCC policy paper was given by all members of the ICCC board.

Greg Elms and Edwin Pieroelie provided overall editing, oversight, and supervision. James Clinton, a law student at Queen's University, dedicated his summer break to lead survey preparation, in-depth interview implementation, and first-phase data compilation. The design team at klirkom (www.klirkom.com) led by Ray Christie prepared the report for publication.

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QUICK FACTS

COUNTRY FACTS

Distance from West to East



Pulau Bengal Island, Aceh
5°47'N 94°58'E

5,362 km

Bensbach River estuary, Papua
9°7'S 141°1'Ea



Boundary Peak 187, Yukon
60°18'N 141°0'W

5,495 km

Cape Spear, Newfoundland
47°31'N 52°37'W



Population

248 million



35 million

Population Density

138 people/km²



4 people/km²

Median Age

27.9 years



40.7 years

Income Per Capita

3,475 USD



51,958 USD

Number of Distinct Native Ethnic Groups

300



600

Official Language(s)

Bahasa Indonesia



English and French

ECONOMIC STRENGTH

Mining



Agriculture



Oil and Gas



Manufacturing



Construction



in 2013

GDP

870 billion USD

Total Export

to Canada :
1,334 million USD

Major Commodities Export

to Canada:
Rubber, Electric Machinery, Apparel, Footwear

Government Type

Unitary Presidential
Constitutional Republic

1,893 billion USD

to Indonesia :
1,855 million USD

to Indonesia:
Fertilizers, Cereals, Aircraft, Wood Pulp

Federal Parliamentary
Constitutional Monarchy

Major Trading Partners



Annual Natural Gas Production

76,250,000 m³

143,100,000,000 m³

Total Forested Area

884,950 km² (46%)

3,101,340 km² (31%)

Total Cultivated Land

330,037 km² (18%)

474,681 km² (5.2%)

EXECUTIVE SUMMARY

Indonesia and Canada have developed a solid, multifaceted, and mutually beneficial relationship during the past 60 years, a relationship which has the potential to further broaden and deepen in the years to come as Indonesia's growth accelerates.

While our two countries are physically separated by the Pacific Ocean, we can also see ourselves as partners around the shores of this Ocean, brought together by the similar national challenges that exist for two vast countries with diverse, disperse populations and abundant natural resources. Today, we are increasingly brought together both commercially and culturally at the speed of light by advances in communications technologies.

Our two countries have a vibrant and expanding trade and investment partnership, with total bilateral trade amounting to \$3.4 billion in 2014 and growing at 15-20% per year. A diverse range of Canadian firms have invested over \$3.2 billion in Indonesia, in communications, energy, mining, environment, financial services, aerospace & defense, education, infrastructure, consumer products, health, power, agri-food and agriculture. These investments have created thousands of jobs, have linked Indonesia to international markets, facilitated technology inflows and supported Indonesia's move up the global value chain. Indonesian firms are increasingly becoming aware of investment opportunities in Canada, and making sizable investments. Canada is welcoming those investments with open arms.

Canadian companies have demonstrated a preference for long-term investment strategies which include the development of strong local business and social linkages within Indonesia. An integral part of this long-term strategy is the transfer of knowledge and expertise, an approach which will benefit Indonesia more and more over the long term. Canadian firms understand the importance of mutual benefit, and find it also to be in their own interest to hire or develop national expertise whenever possible.

The Government of Canada also supports the Government of Indonesia in a number of development priority areas, including building economic foundations, investing in people, and advancing democracy with an ultimate objective of improving sustainable economic prosperity for the poor. A current portfolio of a dozen development projects focus on enhancing public financial management, natural resource management, and on human resources development to name only some of the areas of focus.

In this publication, we have initially focused on six key sectors which align both with Canadian strengths and with Indonesia's priorities for accelerated development through private sector investment. These sectors are Oil and Gas, Infrastructure, Agriculture, Renewable Energy, Non-Bank Financial Services, and Mining. In each of these six sectors, we have outlined how Canada's experience, capabilities and interests support and fit well with Indonesia's growth and private sector development objectives. Based on the experience of our private sector stakeholders in Indonesia and around the world, we have included constructive suggestions regarding steps that the Government of Indonesia could take to enable or accelerate investments in these priority sectors.

It is hoped that the constructive suggestions provided in this publication can stimulate a dialogue which will ultimately lead to a further expansion of the economic partnership between Canada and Indonesia for mutual benefit.



ACCELERATING INDONESIA'S GROWTH

Opportunities to Enhance
the Indonesia-Canada Economic Relationship

Partners Hand-in-Hand across the Pacific

For over 60 years Indonesia and Canada have shared a strong and mutually beneficial relationship based on investment and trade, government-to-government initiatives, development, tourism, and education. Today many agree that Indonesia and Canada have progressed from being just 'neighbours across the Pacific', to becoming true partners for sustainable and mutually beneficial growth.

Indonesian and Canada share a strong and mutually beneficial relationship, and have done so for many years. The relationship includes investment and trade, government cooperation, development assistance and visits of citizens to the other country. There are many reasons to believe this relationship will continue to strengthen going forward.



Different but Similar

There are clear differences between Indonesia and Canada when our two countries are compared in terms of population size, GDP per capita, and of course climate. However there are some very important similarities between the two nations. Canada and Indonesia are both culturally diverse and Canada could easily adopt Indonesia's motto "unity in diversity". Both countries are geographically expansive (Indonesia at 1,904,569 km² and Canada at 9,984,000 km²) and must deal with the many challenges associated with managing and developing a large country. Both countries have several major cities but also many smaller cities and towns, and many isolated communities. Canada and Indonesia both also have stable macro-economic environments and strong public finance fundamentals and are both key founding members of the G20. Canada and Indonesia are both rich in natural resources, and while natural resources form an important part of both economies, Canada and Indonesia are well positioned to take advantage of many other economic growth opportunities. In terms of trade and investment policy, Canada and Indonesia have both swung from periods of protectionism to greater openness. With regards to protection of the environment, both Canada and Indonesia see this as an essential foundation of sustainable economic growth.

Strength in Knowledge Sharing

Indonesia has a lot to offer Canada and Canada has a lot to offer Indonesia. Canada is a world leader in science, technology and innovation, and is recognized as one of the most innovative and competitive economies in the world. Canada generates over 4% of global knowledge, despite accounting for just 0.5% of the world's population.

Canada's performance is consistently strong in measures related to the quality of education, market regulation, and social factors. Since 2006, over \$9 billion has been invested in support of science, technology, and the growth of innovative firms, thereby fostering a world-class research and innovation system that supports Canadian businesses and economic growth.

Vibrant Trade and Investment

Today the total bilateral trade relationship amounts to \$3.4 billion, growing at 15-20% per year. Billions of dollars of investment from Indonesian companies are planned over the next several years, which adds to the billions of dollars Canadian companies have invested in Indonesia to date, creating thousands of jobs. The most recognized Canadian companies include:

- Blackberry, Open Text, ToonBoom, Wesley Clover, C-COM Satellite, MDA, operating in Communications Technology and Innovation;
- Talisman, Husky, Pan Orient, Master Flo, McElhanney, Enerflex, Vale, Hatch, Hatfield, Terralog, Redpath, Golder Associates, CBM Asia active in the Energy, Mining and Environment sectors;
- CSL Asia Shipping Pte Ltd, a division of The CSL Group providing marine shipping and handling services that support the Mining sector;
- Manulife and Sunlife providing Financial Services;
- Bombardier, Viking, CAE, Eomax, Ultra in Aerospace & Defence;
- LaSalle International College of Design, University of Waterloo, Aviation Strategies, McGill, UBC, University of Alberta, University of Toronto, SFU, Humber College (to name a few) in supporting Indonesian's choices in Education;
- SNC Lavalin, B+H, Airport Kinesis, Morrison Hershfield operating in Infrastructure;
- MAC Cosmetics, La Sensa, Nygaard in Consumer Products;
- Jamieson Vitamins, ImmunoTech, Cellex-C in Health;
- Ballard and Manitoba Hydro in Power; and
- Canpotex, Maple Leaf Foods, McCain, Cavendish, Voortman Cookies, Clearwater Seafood in Agrifood & Agriculture.

Canadian Experience and Insight: Supporting the Acceleration of Indonesia's Growth

Canadian companies have had the privilege to work in key sectors in Indonesia and have the experience and insight to support the acceleration of Indonesia's growth. Discussion with Canadian companies and organizations provides valuable input from a partner and a friend.



Ideas and **Input** to support the

OIL AND GAS SECTOR

Indonesia and Canada continue to advance in developing their natural resources in a rapidly changing local and global environment and while there is progress in renewable energy production, hydrocarbons remain a foundation of Indonesia's export revenues



OIL AND GAS SECTOR



Summary Background

Both Indonesia and Canada have benefited significantly from the petroleum industry, with commercial oil production starting in Canada in the 1850s and Indonesia in the 1880s. (Interestingly, evidence suggests Canadian drillers were plying their services in Java before the end of the 19th century.)

Today Indonesia and Canada continue to advance in developing their natural resources in a rapidly changing local and global environment and while there is progress in renewable energy production, hydrocarbons remain a foundation of Indonesia's export revenues, accounting for 58% of gross revenue in 2012 (US\$33.48B).

One of the challenges that Indonesia currently faces is that an estimated 70-80% of fields are maturing and recent declines in exploration activities have contributed to diminishing production with output of 870,000 barrels of oil equivalent per day (boe/d) in 2013 down from peak production of 1.387m boe/d in 2001. Estimated reserves are projected to fall to 3.4bn by 2022 in the absence of new discoveries.

To stimulate exploration, the Indonesian government enters into production sharing contracts ("PSCs") with both domestic and international oil and gas companies whereby the investor assumes the full financial risk of exploration activities. If successful, the government and the investor split the revenue generated by produced hydrocarbons and the investor is also

able to recover the exploration and development funds it incurred on the project.

Under these PSCs there are a number of Canadian oil and gas companies currently active in Indonesia working with Indonesian partners to explore for new discoveries. Beyond exploratory activities, the Indonesian-Canadian relationship in this sector has deepened as Canadian companies have reached the production phase of specific projects and are delivering results to investors and benefits to the Government of Indonesia.

While strategically maximizing revenues from oil, Indonesia has the 11th largest conventional gas reserves in the world, with conventional reserves of an estimated 157 trillion cubic feet (tcf). With the development of re-gasification facilities, Indonesian utility giants, PLN and PGN, are now contracting to purchase LNG produced within Indonesia and these sales of domestic LNG production now set the high mark for pipeline gas.

The ICCC has spoken with the leadership of Canadian companies working in the oil and gas sector. There is resounding agreement amongst these Canadian companies regarding the large number of opportunities available to Indonesia and many have shared key strategic actions Indonesia can take to enable the realization of these opportunities.

OIL AND GAS SECTOR

Maximizing Opportunities

Quality and innovation define Canada's oil and gas industry. Canadian companies and research institutes offer solutions at every stage of energy resource development, from exploration to distribution. This expertise extends to hydrocarbon engineering; infrastructure development; geophysical and seismic services; drilling rigs and related advanced technology; environmental management; upgrading, processing, refining; and, pipeline networks. Two areas where there is incredible opportunity for Indonesia and Canada to collaborate are, (i) enhanced oil recovery; and, (ii) unconventional gas.

Enhanced Oil Recovery

Canadian companies are ready to support the Indonesian government to apply enhanced oil recovery (EOR) technologies to stimulate oil production in marginal or abandoned properties. Using EOR or tertiary techniques, 30 to 60 percent or more of the reservoir's original oil can be extracted, compared with only 20 to 40 percent using primary and secondary recovery. Developed over decades, often in complex reservoir conditions, Canada's EOR expertise encompasses thermal recovery as well as chemical and gas injection including CO₂-EOR. As an example, a CO₂-EOR project in the province of Saskatchewan, started in 2000, is expected to extend the life of the Weyburn Oil Field for an additional 25 years and recover an additional 130 million barrels of oil.

Unconventional Gas

Indonesia's future will be dominated by gas which comprises ~85% of the country's hydrocarbon reserves. In terms of unconventional gas potential, estimates rank Indonesia in the global top ten. Reserves of shale gas are estimated at 574 tcf and coal bed methane (CBM) at 453 tcf, but with minimal development to date. Having extensive experience in both shale gas and CBM, over 175,000 wells have been hydraulically fractured and 20,000 CBM well producing connections established in the Canadian province of Alberta alone. Canadian oil and gas equipment and service suppliers are world leaders in high volume and multi-stage hydraulic fracturing techniques, drilling/casing, gas stimulation for CBM including advanced wellhead pump and sensor equipment, sour gas treatment and flare reduction technologies. Further, Canada has developed a strong regulatory framework encompassing both conventional and unconventional gas, which addresses key issues such as land access and aquifer protection.

Pro-Growth Policy Actions

Strengthening Inter-Ministerial and Department Coordination

The Jokowi and Kalla leadership will benefit greatly from emphasizing better coordination and cooperation amongst multiple government ministries and departments which will significantly support increased foreign and domestic investment. This, in turn, will result in increased exploration activity and increased investment into producing fields.

A good example of past government inter-ministerial cooperation in the oil and gas sector occurred when a shipping

law, originally set to come into effect in 2011, required vessels operating in Indonesian waters to be domestically owned. However, no Indonesian shipping companies owned the many kinds of specialized vessels commonly used within the oil and gas industry, such as jack-up rigs and seismic vessels. Strict implementation of the law would have severely impacted exploration activities and, worse yet, would have resulted in several producing oil and gas fields to have had to be capped. Fortunately, relevant government ministries worked together to agree a suitable and practical exemption for the specific vessels vital to the oil and gas industry.

Follow through with President Joko Widodo's mandate of streamlining licensing and permitting

In his presidential campaign, President Jokowi on numerous occasions voiced concern over the layers of bureaucracy and lengthy time periods required to obtain licenses and permits. In the oil and gas sector, investors need to obtain up to 69 different types of permits throughout the life of a project. Those permits require investors to engage in over 280 different processes with more than 17 different government agencies. One positive step will be to require relevant government agencies to sign on to a common streamlined and simplified "one stop" permitting framework to ensure quality, efficiency and transparency.

PSC RELATED ACTIONS

Developing PSCs with more favorable terms

Investment in the sector will increase if the government continues to provide alternatives to PSCs with strict "investor incurs all risk" terms, which limit the number of firms willing to invest in Indonesia and hence limit overall investment. Positive initiatives which can be expanded include the government (1) making available an increasing number of contract areas, (2) allowing investors to conduct joint studies with Indonesian Universities, (3) direct bidding of new exploration areas, and (4) providing more favorable economic terms for PSCs in high risk, high cost areas. Innovative PSC terms will combat the country's widening supply/demand gap, and introduce incentives which will make Indonesia an attractive destination for exploration investors. This is especially relevant given the fact that Indonesia's new exploration frontiers lie in more remote locations, including the eastern, deep water areas of the country where exploration is higher risk and requires more complex and costly technology.

Clarity, Consistency, Legal Certainty related to PSCs

Clarity, consistency, and legal certainty is critical to Indonesia's energy industry, an industry which requires policy stability in order to secure long term investment and financing. A key action which could be taken by the Indonesian government would be to create an amendment to the current Oil and Gas Law which addresses the constitutional requirements set out by the Constitutional Court, minimizing the risk of challenges to the existence of the oil and gas regulator and ensuring that rights will not be unilaterally removed, diminished or restricted by the introduction of new laws or regulations.

OIL AND GAS SECTOR



This action by the Indonesian government will reduce the perceived risk for local and foreign industry players by creating a stable and secure legal framework necessary for the regulation of the upstream oil and gas industry and thereby providing the sanctity of contract for all existing PSCs.

Summary Case Study 1:

A 13 November 2012 Constitutional Court decision declared the State body BPMIGAS (the upstream oil and gas regulator) unconstitutional, creating deep uncertainty and eroding investor confidence in the oil and gas sector.

As a temporary measure, the Government created SKKMIGAS, a special task force under the Ministry of Energy and Mineral Resources (“MEMR”), to fulfill the roles and responsibilities of BPMIGAS.

There were critical questions left unanswered including:

- Who is the counter party to existing PSCs?
- Who will sign future PSCs on behalf of the Government?
- What will prevent the Court from declaring the same fate for SKKMIGAS?

Develop a Clear PSC Extension Process

The current law recognizes PSC extensions and a clear application of the extension process will improve certainty, confidence, and enable investment in and continued development of energy resources.

MEMR is working to issue new regulations and in order to develop a clear PSC extension process, the regulations will need to include clear time lines on government actions and decisions, while also providing enough flexibility for the government and relevant investors to ensure sufficient mutual benefit to justify the extension.

Investors will look to invest in new projects, such as enhanced oil recovery on maturing fields, when they are able to calculate a reasonable rate of return on their investment over the life of the extension period. The investments gained from implementing a clear PSC extension process could play a significant role in enabling the government to meet its oil and gas production targets. This is especially relevant now because within the next five years, approximately twenty PSCs (which cover nearly 30% of Indonesia’s oil production) will expire and over the next ten years, PSCs responsible for more than 60% of Indonesia’s oil production will expire.



Investors will look to invest in new projects, such as enhanced oil recovery on maturing fields, when they are able to calculate a reasonable rate of return on their investment over the life of the extension period.

Retraction of Government Regulation 79/2010 (“GR79”), Land and Building Tax (LBT) on Production Sharing Contracts(PSC)

Retraction of Government Regulation 79/2010 will result in investors being subject to Land & Building Tax once production of hydrocarbons begins on successful PSC explorations and not subject to taxes if exploration is unsuccessful and not able to produce hydrocarbons.

Summary Case Study 2

The Land and Building Tax (“LBT”) imposed under Government Regulation 79/2010 will discourage investment in the oil and gas sector. PSC contractors do not own the land on which they explore for hydrocarbons, nor do they own the buildings or facilities constructed in respect of their exploration activities. Those rights are held by the Government of Indonesia. Application of the LBT on PSC contractors is inappropriate.

Information gained from current post-GR79 PSC contractors reveal that in June 2013, the Tax Office issued LBT notices amounting to US\$260 million (for fiscal years 2012 and 2013) exceeding in many cases the financial commitment which the PSC contractor had agreed to expend during exploration activities. While the Directorate General of Taxes has agreed, in principle, that going forward the LBT will be imposed only on utilized surface area as opposed to the entire area set out in the PSC, affected PSC contractors who wish to challenge the LBT assessment must make an advance payment (50% of the assessed amount) before the Tax Court will entertain the challenge. This high tax burden on exploration activities is serving as a disincentive to bidding on new blocks, thereby hindering the government’s objective of increasing oil and gas production.



Ideas and **Input** to support the

INFRASTRUCTURE SECTOR



Canada shares many of the geographical challenges faced by Indonesia and can provide Indonesia with expertise and development support for air traffic control systems, airport ground support equipment, safety and security equipment, IT infrastructure and services, and engineering and logistics

INFRASTRUCTURE SECTOR

Value Transfer of Knowledge

In this picture Canadians and Indonesians work side-by-side at an urban infrastructure project.

**photo courtesy McElhanney*



Summary Background

Infrastructure based on a public-private partnership (PPP) model is a long-term performance-based approach in which the private sector assumes a major share of the risks of developing the infrastructure in terms of financing, construction, maintenance, and operations and the government generally takes on the risk of land acquisition. PPPs are rapidly increasing in popularity internationally as governments are attracted to the cost and risk sharing aspect as they deal with significant infrastructure requirements while at the same time struggling to contain fiscal deficits.

The Canadian government has been very open to establishing PPPs and since 1997 has implemented over 205 PPP projects in a wide range of sectors. Based on its 20 years of experience and the many lessons learned, the Canadian government has developed a very strong PPP working model which it will share through its support of the creation of the APEC PPP Center to be embedded in the Indonesian Ministry of Finance. Canada will provide financial and technical support to the PPP Center whose main goal will be to support the Indonesian government in implementing PPP projects.

Maximizing Opportunities

Take advantage of Canada's knowledge and expertise:

There are a number of infrastructure sectors including power generation, the construction of airports, and the development of water/waste water facilities for municipalities, where Canada has significant experience in implementing PPPs. Canada and Canadian companies can be valuable partners working with and for Indonesia. Canada will also continue to work to support Indonesia's efforts to develop a regulatory and operational environment that will lead to the effective implementation of PPP projects.

PPP Based Power Generation Projects:

Canada has significant expertise in power generation, specifically in the area of hydro, biomass, and solar power. It is understood from the research underpinning the new National Energy Policy that there is a pressing need to develop significant additional power generation capacity in Indonesia to support further growth of the economy and the expected demand that will come with growth. Some studies suggest six gigawatts of new power generation will be required every year for the next 10 years to guarantee a reliable supply of electricity for industry and public use. With an estimated USD\$125 billion investment required to address the current shortfall in generation as well as to meet future demand, PPP agreements can play a critical role in Indonesia's future power generation development.

PPP Based Airport Development Projects:

Canada shares many of the geographical challenges faced by Indonesia and can provide Indonesia with expertise and development support for air traffic control systems, airport ground support equipment, safety and security equipment, IT infrastructure and services, and engineering and logistics surrounding the airport supply chain at all of the 45 new airports the Ministry of Transport is planning to build by 2022 (of which 24 are expected to be completed by 2017).

Successful development of Indonesia's airport infrastructure depends on the existence of successful airports acting as vibrant commercial hubs, generating revenue streams from additional sources other than only air traffic control fees and related civil aviation fees. Indonesia has the potential to develop a sustainable and cost effective network similar to the network Canada has developed across the country, a network that well serves small, medium, and large population centers.

INFRASTRUCTURE SECTOR



Infrastructure based on a public-private partnership (PPP) model is a long-term performance-based approach in which the private sector assumes a major share of the risks of developing the infrastructure in terms of financing, construction, maintenance, and operations and the government generally takes on the risk of land acquisition.



Like Canada, Indonesia's population is spread across a vast country with many remote locations requiring access. Civil aviation is the only form of transportation that can meet the need for the fast and efficient movement of people across the country. As incomes rise, this will further drive the explosive growth of the aviation/airport sector in Indonesia. Canadian companies are well positioned to help satisfy the growing demand pressure currently placed on Indonesia's airport infrastructure.

PPP Based Water/Waste Water Development Projects:

Canada is a world leader in water and waste water systems and Canadian companies are experts at developing a wide range of systems all the way from basic traditional water purification networks to technically advanced systems required for large vibrant urban centers.

Canadian companies are ready to support Indonesia with treatment technologies, aerators, pumps, valves, instrumentation, training, industrial wastewater technologies/services, engineering and consulting services (including feasibility studies for water and sanitation systems) in order to help the Ministry of Public Works and Public Housing to reach its goals of increasing access to water from 42% to 62% in urban areas and from 11% to 40% in rural areas by 2015.

Pro-Growth Policy Actions

Develop a conducive PPP regulatory environment

There are three key steps Indonesia can take to create a conducive PPP regulatory environment.

1. Create a system which supports timely and fair land acquisition
2. Support the development of improved inter-ministerial coordination, especially in relation to coordination between the central government and local governments
3. Provision of a government guarantee mechanism. Indonesia has taken great steps in achieving an investment rating and a government guarantee will cement investor confidence.

A low-angle, blue-tinted photograph of high-voltage power lines and transmission towers against a cloudy sky. The perspective is looking up, with the towers and lines receding into the distance. The sky is filled with soft, white clouds, and the overall color palette is a monochromatic blue.

Indonesia is a firm believer in the PPP investment structure with over USD45 billion in power generation, rail, road, port, and water projects earmarked for PPP contracts.



Ideas and **I**nput to support the

AGRICULTURE SECTOR



Canadian agricultural products are as diverse as Canada's land and people, and are world-renowned for their excellence. Enforcement of strict quality standards enhances this international reputation, along with a strong commitment to environmental sustainability.



AGRICULTURE SECTOR



Summary Background

Canadian milk and dairy products are as diverse as Canada's land and people, and are world-renowned for their excellence. Enforcement of strict quality standards on dairy farms and in processing plants enhances this international reputation, along with a strong commitment to sound animal welfare practices and environmental sustainability. Canadian companies are ready to support Indonesia in all areas of dairy farming with world class knowledge and assistance.

Maximizing Opportunities

Genetics

The Canadian dairy industry is famous for the excellent genetic quality of its herd as well as its strong dairy cattle improvement and genetic evaluation programs. Over 76% of Canadian dairy herds are enrolled in milk recording programs. Cows recorded in official milk recording programs produced on average 9,780 kg of milk per lactation (305 days) with an average content of 3.85% fat and 3.22% protein. The Holstein breed is the most common dairy breed (94% of the dairy herd); Ayrshire, Brown Swiss, Canadienne, Guernsey, Jersey and Milking Shorthorn breeds are also found on Canadian farms. Canada is at the forefront of new and innovative research into dairy genetics and is ready to share this knowledge with Indonesia. Animal DNA profiles are determined by estimating genomic evaluations for over 60 different traits. To date, evaluations are calculated using imputed genotypes (6K and 50K panels).

Manufacturing of Dairy Products

Canadians looking for healthy and nutritional products continue to have access to an ever expanding range of quality and innovative Canadian dairy products. New dairy products have been developed such as Greek-style yogurt, pre- and pro-biotics, lactose-free and calcium or omega-3 fortified products. Milk protein products continue to be used as ingredients in a growing array of food items, such as infant formula, sports and nutritional beverages and confectioneries. Canadian companies are ready to work with Indonesian entrepreneurs and the Indonesian government to develop products that meet Indonesians' tastes and needs.

Cheese is an increasingly popular and nutritious food product in many countries, including Indonesia. The Canadian cheese industry has entered into a maturity phase, evidenced by its know-how developed through extensive cheese making traditions and the diversity of its more than 1000 varieties of cheese (cow, goat, ewe and water buffalo). Canadian companies would appreciate the opportunity to increase Indonesians' access to a wide variety of cheeses recognized around the world for their quality and taste.

AGRICULTURE SECTOR



Strict quality standards are applied throughout Canada's production and processing chain, standards and processes that ensure Canadians milk and dairy products are safe and high in quality

Safety and Quality

Indonesian companies have expressed a high degree of interest in accessing Canadian expertise, technology, and live cattle in order to build a vibrant dairy industry in Indonesia. This interest is driven by Canada's reputation as a premier producer of dairy products. Government and industry partners work in close cooperation to coordinate the movement of milk from the farm to the consumer and to ensure a strong and dynamic industry.

Strict quality standards are applied throughout Canada's production and processing chain, standards and processes which Canadians are ready to help Indonesia implement. The main quality assurance mechanisms that ensure milk and dairy products are safe and high in quality are:

- Hazard Analysis Critical Control Points (HACCP) and/or ISO certification.
- "Canadian Quality Milk" on-farm food safety program
- Sound welfare practices in the Code of Practice of the Care and Handling of Dairy Cattle.
- National bio security standards, protocols and strategies designed to protect animal resources.
- National eradication programs for serious cattle diseases (several of which have been eradicated from the dairy herd).

- Mandatory control and monitoring in accordance with international agreements, particularly World Organisation for Animal Health (OIE) agreements, protecting Canadian livestock from serious diseases.
- Development of a full traceability system is a priority in Canada which includes three basic elements: animal identification, premises identification and animal movement.
- Research and development of new dairy products and production methods are the result of strategic alliances among producers, processors, universities, and federal and provincial research centers.

These high standards contribute to the excellent international reputation of Canadian dairy products.

Pro-Growth Policy Actions

Adherence to OIE guidelines

The World Organisation for Animal Health (OIE) Terrestrial Animal Health Code for Bovine spongiform encephalopathy (BSE) sets out strict guidelines, all of which are met by Canadian producers, on how countries can safely import animal products from countries labeled "controlled risk". In short, the OIE does not oppose trade in Canadian cattle with Indonesia. However, previously under Indonesian law 18/2009, Canada must achieve "Negligible Risk" status under the OIE in order to export live cattle to Indonesia; a law which is prohibiting Indonesian companies from having access to the full suite of Canadian expertise in the dairy industry. This law goes against the guidelines of the OIE. In a recent change, Indonesia's House of Representatives revised Law 18/2009 in September 2014. The revision will allow the importation of live animals/beef from regions or zones that are not affected by BSE. However, the law will be implemented after the Ministry of Agriculture issues several animal health regulations. This includes the establishment of a quarantine island for live cattle. In principle this should allow for live cattle access from Canada. In practice it may be somewhat cumbersome to implement and will take significant time to determine its effectiveness.

In November 2015 Canada will apply to the OIE to change its status from "controlled risk" to "negligible risk", which will allow for the importation of Canadian live cattle into Indonesia. However, in the interim the Indonesian government can take steps to pave the way to develop mutually beneficial partnerships in the dairy industry. A lifting of the ban on the importation of live Canadian cattle will make it economically viable for Canadian companies to fully engage in the further development of the dairy industry in Indonesia.

A Taste of Canadian Agricultural Commodities



British Columbia (BC)

British Columbia, directly across the ocean from Papua, Indonesia, has a lot to offer. Delicious tomatoes, Blueberries, world famous seafood including wild and farmed species of salmon, finfish, and shellfish. BC is also home to a growing, internationally competitive wine industry. Products from the Bio-Science Industry are also of great interest to Indonesian consumers.

Saskatchewan

Saskatchewan plays a major role in Canada's agriculture and food industry. Today just over 70% of Saskatchewan's GDP is dependent upon exports. Products of interest to Indonesia include Wheat and Durum, Canola and Flax, Pulses, Mustard, and also products from the Bio-Science Industry.

Ontario

Including Indonesia as a priority trading partner would support balanced expansion of the province's trade portfolio which is currently made up of the U.S., Mexico and the European. Products that are of interest to Indonesia include Corn, Vegetables, Red Meat (of which a large selection are halal-certified), Wine, and products from the Bio-Science Industry.

Newfoundland and Labrador

Indonesians would love this region's specialty - cold water shrimp and snow crab, which thrive in cold water. Currently the largest Asian importer of this region's goods is China making up 22.5% of export value. Other attractive products include farm-raised Atlantic salmon, herring, mackerel, cod, flounder and other species.

Prince Edward Island

Total agri-food, fisheries and seafood exports exceed \$520 million. Products of interest to Indonesians include Potatoes, Blueberries, Lobster, Blue Mussels, Snow crab, and products from the Bio-Science Industry where the focus is on bio-active compounds and their application to improvements in human, animal, and fish health and nutrition.

Alberta

Alberta's international agri-food exports exceed \$6.6 billion in 2010. Alberta's primary export markets have been the US, China, Japan, Mexico and South Korea. Indonesia would be a perfect fit as consumer demands match Alberta's produce which includes Wheat, Canola, Grade A Beef, and Bio-Science Industry goods.

Canadian Territories

Interestingly products from the Yukon, Northwest Territories and Nunavut could present a luxurious goods market for Indonesia's elite. In addition to mollusks, specialty exports to Indonesia could include whalebone and ivory, red meats from caribou, muskox and other wild species.

Manitoba

Most of Manitoba's barley and oats, peas, beans, flax, lucerne (alfalfa) and grasses currently go to the United States however the province looks forward to doing more trade with Indonesia. Manitoba can also support Indonesia reduce the costs of primary production; developing new income streams for farms; and growth in the value-added sector.

Quebec

With 80% of Agri-food exports destined for the United States, Indonesia would make a strategic trading partner. Quebec harvests \$225 million in seafood exports attractive to Indonesian consumers but would also attract consumers interested in Chocolate, Soybeans, Snow crab, Lobster, and products from the Bio-Science Industry.

New Brunswick

The Japanese are the largest consumers of this region's seafood exports where, in combination of exports to Brazil and the United Kingdom and the United States make up \$1.2 billion in trade. Specialties include Lobsters, Salmon, Snow crab, Potatoes, Beer (especially those produced by micro-breweries), and products from the Bio-Science Industry.

Nova Scotia

Nova Scotia leads exports in fish and seafood products. Two of Nova Scotia's major export markets are New England in the United States and the Caribbean and China is an emerging opportunity for the province's food industry. Products Indonesians would love include Lobsters, Scallops, products from the Aquaculture sector, Blueberries, Wine, and products from the Bio-Science Industry.



Ideas and **Input** to support the

RENEWABLE ENERGY SECTOR

As a result of its volcanic geology, Indonesia has 40% of the world's potential geothermal resources, and geothermal energy is expected to become the leading source of renewable energy generation in the nation's future. In partnership with Canadian companies (which have a total market capitalization of \$770 million on the Toronto and Toronto Venture Stock Exchanges) Indonesia can more rapidly develop the national geothermal energy industry.





RENEWABLE ENERGY SECTOR

Summary Background

Canada is a world leader in the development of renewable energy. Our skills and technology are particularly strong in areas of growing interest for Indonesia, namely hydroelectric, geothermal, bio energy, and solar energy generation, and hydrogen and fuel cell storage systems.

Canadian companies are considered to be global leaders in hydro-power technology expertise and service provision. Canada generates more than 12% of the world's hydroelectricity, making it the second-largest global producer after China. Canadian firms invest billions of dollars annually into this expanding industry and support tens of thousands of jobs in Canada.

Maximizing Opportunities

Hydroelectricity:

Canadian companies enjoy over 100 years of experience transforming abundant water resources into productive power and are ready to support Indonesia's hydroelectricity development. With 475 hydro-power plants across Canada, Canadian firms offer broad and established expertise in all aspects of hydro-power technologies and services, including international recognition for small-scale hydro facility development, which is particularly applicable to Indonesia. Interestingly, small-scale hydro contributes an estimated C\$150 million to the Canadian economy and employs close to 2,000 workers nationwide. In the Indonesia context, these outcomes would likely be multiplied many times over.

Hydrogen and Fuel Cells:

Canadian public and private sector organizations invested over C\$1 billion in the Canadian hydrogen and fuel cell sector between 2006 and 2010. The result? Today Canada is home to roughly 80% of global hydrogen and fuel cell facilities and Canadian companies are empowered with the expert knowledge required for Indonesia to take full advantage of its renewable resources via these market-ready energy storage technologies. The journey has already begun with Canadian produced fuel cells already being used across Indonesia to provide power to communications towers in remote regions.

Geothermal:

As a result of its volcanic geology, Indonesia has 40% of the world's potential geothermal resources, and geothermal energy is expected to become the leading source of renewable energy generation in the nation's future. In partnership with Canadian companies (which have a total market capitalization of \$770 million on the Toronto and Toronto Venture Stock Exchanges) Indonesia can more rapidly develop the national geothermal energy industry.

Bio-energy:

With the encouragement from the Canadian government, Canadian firms are ready to support Indonesia with unique Canadian expertise across the bio-energy sector; from biomass pyrolysis to waste-to-energy biomass gasification technologies. Despite Canada and Indonesia's different climates, Canada's vast array of crops, trees, and industrial and municipal organic residue have provided Canadian bio-energy players the experience and technologies to implement customized solutions which can help to Indonesia's increasing energy demands. Canadian expertise is able to deliver solutions which include the processing various feed stocks common in Indonesia such as solid waste palm oil, palm oil effluent, solid waste from sugar cane, and municipal solid waste.

Solar:

Solar technology has the potential to be another fast-growing renewable energy sector in Indonesia. Canada has approximately 350 solar energy companies ready to support Indonesia to help make rapid growth in this sector a reality. Canadian solar manufacturing companies (which are expert at both solar photo-voltaic (PV) and solar thermal applications) are actively looking at making investments in Indonesia, and are confident the Indonesian market holds great potential to become a regional manufacturing centre.

Pro-Growth Policy Actions

Indonesia can take a combination of the following critical steps to expedite the development of infrastructure needed to support renewable energy and spur sector growth:

- Addressing Indonesia's pricing regime for renewable energy
- Developing financial incentives or other forms of accessible financing as an alternative to a sovereign debt guarantee to serve as capital for technologies that are new or emerging.
- Reducing/eliminating subsidies for energy consumption

To take full advantage of solar power development in Indonesia, and create a solar power market that will one day rival the markets in other countries in the region Indonesia can focus on the following areas:

- Promote household buy-in of renewable energy based resources
- Develop training facilities which produce technical personnel trained at installing and maintain solar cell systems.
- Implement interconnection standards that allow consumers to sell excess electricity back to PLN, as is being done successfully in many countries.



Ideas and **Input** to support the

NON-BANK FINANCIAL SERVICES SECTOR

Canadian companies are well positioned to help Indonesia develop a strong and vibrant insurance sector which currently is one of the fastest growing and most promising in South-east Asia due to both rapid economic growth and a growing population that can increasingly afford the service.





NON-BANK FINANCIAL SERVICES SECTOR

Summary Background

The Non-Bank Financial Services Sector (NBFI), composed of insurance, asset management, pension and finance companies, is regulated by the autonomous Otoritas Jasa Keuangan (OJK), an integrated regulatory body established in 2013 under Law No.21 of 2011 to supervise the financial services sector, protect customers, and create a sound environment for industry growth.

Since its inauguration the OJK has taken admirable strides. The first regulation promulgated by OJK was POJK No. 1/POJK.07/2013 regulating customer protection by financial service companies. The regulation introduces a standardized regime under which financial players must operate, covering everything from standardized contracts to customer complaints handling.

The OJK continues to be guided by the National Financial Literacy Strategy a blueprint which consists of three core pillars: (1) National financial literacy campaign and education; (2) Strengthening financial literacy infrastructure; and (3) Development of financial products and services.

There are currently two Canadian NBFI Companies Operating in Indonesia:

Manulife Indonesia

Manulife has operated in Indonesia since 1985. Through various regulated entities, Manulife provides individual protection, investment and savings accumulation solutions as well as group employee benefits solutions (pensions, group savings, group life & health, asset management services). The Company distributes both conventional and takaful (syariah) products through multiple distribution channels including agency, bank, direct and telemarketing. Manulife Indonesia has over 1.9 million customers supported by more than 12,000 employees and sales representatives in 1,500 points of sales throughout Indonesia.

Sun Life Financial Indonesia

Sun Life has been in Indonesia for nearly 20 years and currently operates through three entities, including through a joint venture with CIMB Niaga, Indonesia's 5th largest bank (by assets). They employ over 400 employees and distribute their products nationally through 8,000 agents, 100 insurance advisors and 300 telemarketers. The company had revenues of over IDR 2 trillion and had over IDR 7 trillion in assets at year-end 2013.

Maximizing Opportunities

Insurance

Canadian companies are well positioned to help Indonesia develop a strong and vibrant insurance sector which currently is one of the fastest growing and most promising in South-east Asia due to both rapid economic growth and a growing population that can increasingly afford the service.

The global insurance industry is knocking at Indonesia's door as they see the sector has averaged compound annual growth of 20% in gross written premiums and 26% in assets since 2007. It was Canadian companies like Manulife who were operating in Indonesia 30 years ago and working with Indonesia to develop the industry's potential.

And there is much more opportunity for Indonesia to work with Canadian companies as insurance penetration is still limited at only 1.8% of the population, a much smaller share of the population than other countries in the region. In fact, 43 million of the 53 million life insurance policy holders are through corporate group plans. The nearly 10 million individual policy holders represent more affluent Indonesians.

Pro-Growth Policy Actions

Create a Transparent OJK Fee

The methodology for determination and expenditure of the mandatory yearly fees and levies paid by the financial services companies overseen by the OJK needs to be clear with oversight and accountability to ensure the OJK matures and develops into a sustainable and productive organization. Canadian organizations in partnership with industry are ready to engage in discussions to support the development of a transparent OJK fee.

Refine OJK Operational Structure

To create greater industry synergy and improve the consultation mechanism between OJK and the industry, especially during formulation of regulations, is a critical developmental step. OJK is actively reorganizing its internal divisions to drive efficiency and effectiveness and an excellent measure would be the development of clear standard operating procedures and service standards.

NON-BANK FINANCIAL SERVICES SECTOR

Refine Risk Based Capital Valuation Methodology

To protect many industry players from the effect of rising interest rates on their Risk Based Capital (RBC) ratios. Failure to do so would yield inefficient capital utilization and potentially less product choices for customers. The Risk Based Capital regime (solvency requirement for insurance companies) should be adjusted to ensure that liability valuation is more aligned to the mark-to-market approach for assets. Canadian organizations in partnership with the industry association (AAJI) are working closely with the regulators and the accounting profession to support the required changes.

Tax Department Administration

To ensure certainty and a foundation for positive growth, the Tax office needs to develop a consistent application of tax regulations related to the treatment of insurance companies reserve deductibility.

Also, to maximize government synergies, the Tax office will benefit by harmonizing its actions and processes with the OJK. Canadian organizations working with industry partners under the AAJI and with the support of PwC, have created a policy paper which has been presented to the fiscal policy agency (BKF) for further follow-up.

Develop Critical Skills in Actuary and Risk Management

A pillar for economic stability, growth, and the build-up of a stable and trusted financial services sector lies in the development of key human resources, especially when individual Indonesians, particularly those with limited means, rely on health, life and other insurance in times of crisis and need. By developing programs that encourages the growth of Actuary and Risk Management human resources, Indonesia is ensuring the long term health of its economy.

Capacity building investments targeted in actuarial science and risk management at this juncture in time will have a profound impact on the future quality and rate of growth of the nation's financial system (life, general, banking, asset management) with potentially hugely beneficial impact to Indonesian society. There are several developmental programs being supported by industry which could address this and Canada could play an important role here. Such initiatives are totally aligned with the ambition and direction of the OJK, as well as the broader Government of Indonesia's objectives of dramatically boosting financial inclusion and growing the middle class.

Integrated Oversight of Financial Conglomerates

OJK should finish developing an integrated oversight mechanism for the improvement of the financial services industry as regulated in the OJK draft regulation on Integrated Oversight of Financial Conglomerates. This draft regulation introduces the concept of a financial conglomerates lead entity which will be responsible to integrate risk management implementation in the financial conglomerates. Such a regulatory development, if supported by corporate law, could permit conglomerates to better manage risk and to coordinate activities more efficiently.



there is much more opportunity for Indonesia to work with Canadian companies



Protect Freedom of Consumer Choice:

The Social Security Administration Body (BPJS) oversees a mandatory health and employee benefit system whose primary objective is to harmonize the disparate healthcare schemes and vastly increase the number of Indonesians with access to basic healthcare. During this important process the role of the private sector in providing health and pension services needs to be recognized and protected to ensure freedom of consumer choice.

Insurance Policyholder Protection Fund:

The establishment of a fund to protect Indonesian policyholders in case their life insurance company fails will build public trust and confidence in the Industry. To ensure equitable implementation of such a fund it will need to be managed by a body similar to the banking deposit insurance corporation (LPS) and require heightened supervision and oversight to ensure standardized treatment of all insurers.

Avoid Database Repatriation:

Databases held offshore allow companies to use off-shoring to manage their global databases for efficiency or risk management and can provide better services and security for Indonesian customers.

Positive Role of Foreign Ownership:

Foreign ownership should be welcomed in Indonesia as the industry continues to require foreign investment of capital and should be an important consideration as the draft insurance law may provide OJK greater authority to change foreign ownership levels. While regulators have indicated any changes would take place after consultation and be applied prospectively to new companies and not existing companies, the impact on growth and development need to be carefully considered.

FATCA (Foreign Account Tax Compliance Act):

In order to ensure simplification of adoption and compliance with this new U.S. Law for all financial services institutions operating in Indonesia, we urge the Indonesian Government to immediately sign an Inter-Governmental Agreement (IGA) with the United States Treasury.



A prime example of Canadian excellence, Manulife has provided 30 years of strong, reliable, trustworthy and forward-thinking products and services to its customers in Indonesia and has demonstrated a deep commitment to Indonesia through continued investment and growth.

 **Manulife**



Ideas and **Input** to support the

MINING SECTOR



Discussions with Canadian companies operating in Indonesia reveal confidence and a strong will to overcome current challenges, sharing a common understanding that the mining sector will continue to play a strong role in supporting Indonesia's economic success and that Canadian companies, recognized for being high quality, more trusted, more conservative, and lower profile, are well suited as Indonesian partners.



MINING SECTOR

Canadians and Indonesians working together

Supporting a mining project in Kalimantan. Acquiring terrestrial laser scanning (TLS) data for a coal mine stock pile year end reconciliation.

Summary Background

At the writing of this ICCC paper, the combination of steadily falling commodity prices due to chronic oversupply and China's growth cooling coupled with issues such as mounting resource nationalism and a non-conducive regulatory environment see mining companies across the globe enduring the fourth year of a distressed market.

Even so, discussions with Canadian companies operating in Indonesia reveal confidence and a strong will to overcome the challenges, sharing a common understanding that the mining sector will continue to play a strong role in supporting Indonesia's economic success (especially since mining provides up to 40% of the GDP in some provinces) and that Canadian companies, recognized for being high quality, more trusted, more conservative, and lower profile, are well suited as Indonesian partners.

Richard Ross, the former Chairman and Chief Executive Officer of Inmet Mining Corporation ("Inmet") and currently the Program Director of the Schulich MBA specialization in Global Mining Management, has said "Canada has a long history of mining and a depth of expertise that exists not only in the mining companies but also in the banks, legal firms, and engineering and consulting companies that service the sector." Former Goldcorp Inc. Chairman Ian Telfer, a mining veteran said "...mining continues to be a cornerstone of the Canadian economy." Mining companies in Canada were the first in the world to develop and externally-verified performance system for sustainable mining practices.

Under the Jokowi-Kalla pro-economy leadership both local and international mining companies anticipate pragmatic development of mining industry regulations and policies to bring a new energy into the industry. On October 15, 2014, Indonesia was accepted as a full and compliant member of the Extractive Industries Transparency Initiative (EITI), demonstrating to the world that Indonesia, a country with a large and complex natural resource sector, can be transparent about its resource revenues. Indonesia is now well positioned to make use of its EITI to embed transparency into its government systems and to ensure that natural resources benefits its citizens.

There are exciting times ahead and in full partnership with Indonesia, Canadian companies look forward to realizing Article 33 (3) of the 1945 Indonesian Constitution, which reads "The land, the waters and the natural resources within shall be under the powers of the State and shall be used to the greatest benefit of the people."

Maximizing Opportunities

Canada's Value Proposition

Major Canadian miners have spent many years running highly successful operations in Indonesia and there are many more mining sector based Canadian companies looking to invest. Canadian companies are ready to support Indonesia with innovative technologies and approaches useful in assisting the mining industry including Canadian mining contractor's proficiency in everything from sinking a shaft, completing underground development or mucking ore. Canadian companies offer leading edge products to assist in the extractive sector which help cut costs, reduce environmental degradation, and increase efficiency.

Even in the area of transport CSL Asia Shipping Pte Ltd (CSL Asia) is well-positioned to provide highly effective bulk cargo shipping and handling services to support sustainable growth in Indonesia's mining sector.

Established in Indonesia since 1994, CSL Asia, a division of The CSL Group of Montreal, Canada, operates and manages high-capacity transshipment platforms in Kalimantan, Indonesia. With transshipment rates in excess of 2,000 tonnes per hour, CSL's transshippers allow mining companies to overcome draft restrictions and load both Panamax and Capesize vessels. Along with providing customised transshipment services, CSL Asia also delivers dry bulk shipping solutions with self-unloading vessels. These vessels operate on shorter trade routes where the fast discharge rates of self-unloaders have a significant impact on cycle time, and where the inherent lower dust emissions from self-unloaders are important for importers.

MINING SECTOR

Pro-Growth Policy Actions

Yearly production for most of Indonesia's mineral products has been increasing and Indonesia is in the top ranks globally for many of its mining products but only received 1.8% of global exploration investment in 2011. In order to fully benefit from the Indonesian mining sector the government can foster a robust investment climate by focusing on key mineral policies.

Mining exploration itself poses many investment risks and companies are looking to balance natural business risk with certainty in key areas including stability in tax systems, rules and regulations. Feedback from Canadian companies supports the Indonesian government focusing on key areas:

1) Ensuring Coordination and Clarity in the Regulatory Environment & Mineral Policies

Key strengths can be obtained by creating strong coordination and process clarity both at the national level, between the different ministries and government departments dealing with mining, and at the local level in the working relationship between the central and regional governments. One way Canada can support is to share information on knowledge management and how Canada uses the internet to disseminate information, which is aligned to the Government of Indonesia's focus on e-commerce and e-procurement.

2) Development of a "Better Business Bureau" for the mining sector

Canadian companies seeking to invest in Indonesia need to find good domestic partners. A reliable and trustworthy system like the Better Business Bureau for mining will make it easier to find good local partners. The ICCC can support the government start to develop such a database to help set up partnerships with good local partners.

3) Ensure Consistency Across Multiple Government Entities

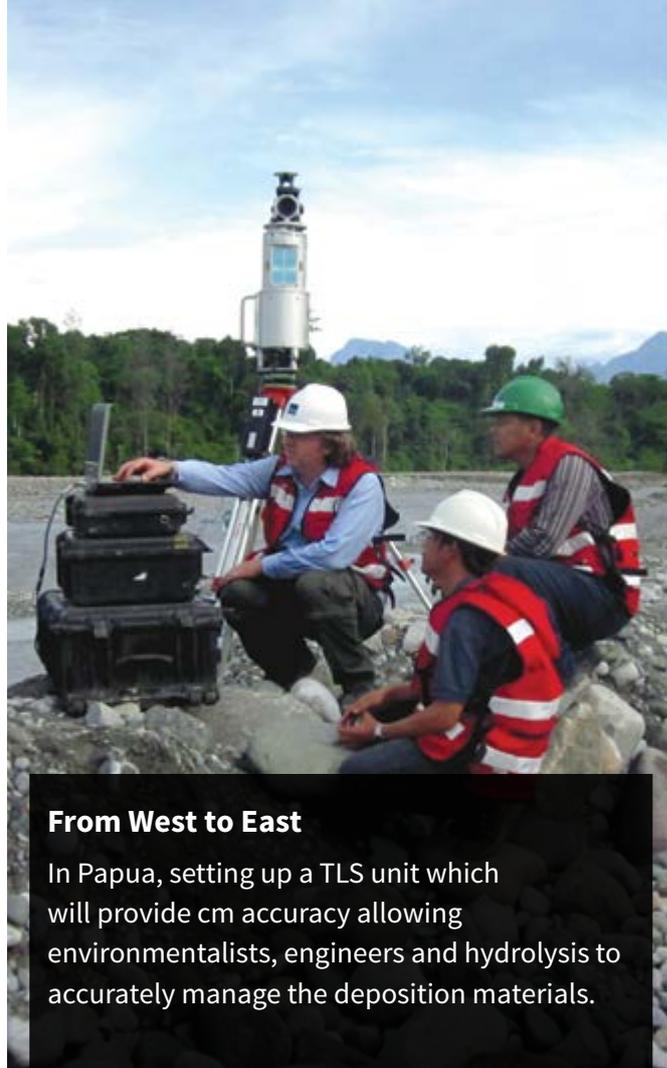
Through the development of clear straightforward criteria, consistent across different governments (federal, provincial and district), the government will be expediting the start-up of mining projects in Indonesia.

4) Ease Permit Process

Easing the permit process for mining developments in Indonesia, which require hundreds of permits, each with a unique validity period and permit requirements by eliminating conflicting requirements and providing clear interpretation of processes between government agencies and government levels.

5) Infrastructure Development

Developing infrastructure to rural areas will decrease capital costs for mining projects, shorten development schedules bring faster returns to Indonesia and increasing investor interest.



From West to East

In Papua, setting up a TLS unit which will provide cm accuracy allowing environmentalists, engineers and hydrologists to accurately manage the deposition materials.

While infrastructure development is clearly on the government of Indonesia's agenda we repeat the importance in this document because of the frequency of infrastructure being mentioned in our discussions especially considering most mining developments in Indonesia occur in remote regions with minimal infrastructure.

6) Land Acquisition

The Indonesian government has just begun to implement the laws on Eminent Domain (Pengadaan Tanah) and Canada has the experience and the lessons learned to support a fair and equitable transaction between landowners and the government.

7) Development of Easy to Access Geological Information Database

Access to adequate geological information, mapping and related resources will support efficiency and expediency for mining companies during the exploration process.

8) Government program to develop local talent

A long-term government education program to foster talent in the mining industry will make it easy for mining companies to find well trained local human resources. Most mining companies have a commitment to hiring locally and providing a pool of potential candidates will ensure companies meet and exceed their commitment for hiring local talent. Canadians are well versed in similar educational programs and Canada in fact has the only MBA in mining at the Schulich School of Business at York University, which offers an MBA specialization in Global Mining Management.



Indonesia Partners

PT Adaro Energy Tbk, one of Indonesia's preeminent pit-to-power energy companies, works closely with Canadian organizations in key aspects of operations.

A sampling of Canadian companies active in Indonesia today





Canadian Companies are Well Suited to Support Indonesia's Growth

Canadian companies are recognized for their long-term investment strategies and for building strong business and social linkages in Indonesia. Transfer of knowledge is also a key aspect of most Canadian business strategies which fits well with Indonesia's expectations for foreign investment to improve Indonesia's capabilities.

Canadian companies have, over the years, benefited from foreign investment into Canada. A number of sectors have increased their productivity and capabilities through the introduction of technology introduced by foreign investors, which in turn leads to the development of next generation services and technologies in Canada. Canadian companies are ready to bring these emerging technologies and innovations to Indonesia to enable strategic sectors to move up the value chain.

Potential sectors of increased engagement including mining, oil and gas, financial services, and infrastructure. Canadian mining technology for exploration, development and production are leading edge and over half of the world's mining firms are listed on Canadian stock exchanges. Canada is a net exporter of oil and gas, and has developed unique tools and methods for finding and extracting both energy sources. Another Canadian strength is its Financial Services sector, demonstrated during the 2008 "Great Recession" when Canadian banks and insurers came to the world's attention due to their strength and consistency. This year, for the sixth year in a row, the World Economic Forum rated Canada's banking system as the World's soundest. The Transportation sector in Canada is also a sector with strong capabilities, driven by the country's need to connect a widely scattered population over a vast land mass. Canada offers world-class technology for both physical infrastructure such as roads, ports and airports, and also communication technology and energy generation.

The ICC leadership has met with Canadian companies operating in Indonesia and also with Canadian companies who are exploring business opportunities in Indonesia and asked how they – as experienced investors, could support the growth of priority sectors in Indonesia, and what Indonesia could do to ensure full benefits of this interest are realized. Their responses, which are presented in the following chapters in this document, cover five priority sectors, and provide senior government leaders with suggestions and ideas which have the potential to enable several billion dollars of new Canada-Indonesia partnership opportunities.

Canada welcomes investment from Indonesia

Just as Indonesia benefits from Canadian investments, Canada is also benefiting from Indonesian investments. A subsidiary of the Sinar Mas group, Paper Excellence, owns and operates six pulp and paper mills in three Canadian provinces. This investment has had a very positive impact on Canada, including the creation of over 2,000 jobs. Another Indonesian firm, Pacific Oil & Gas, has invested \$25 million in the development of a micro LNG processing and export facility. The firm's total investment is expected to reach \$2.5 billion and create many new jobs.

Canadian government policy actively encourages foreign investment in Canada. Before Canada entered a 'foreign investment renaissance' many restrictions were placed on foreign investment and investors, with each investment carefully reviewed by a government agency. Today, Canada places emphasis on who benefits rather than who owns, and the country has consequently become a desirable destination for international investors. This has resulted in a sustained increase in economic diversity and stability and job growth for Canadians.

The ICC hopes that the Indonesia- Canada economic partnership can continue to generate mutual benefits and to grow stronger in the years to come. It is with this positive spirit that we would like to share with you the capabilities, interests, and constructive inputs of our private sector in the chapters that follow.

Canada partners with Indonesia on economic development

Indonesia is a country of focus for the Government of Canada's international development efforts. Canada supports the Government of Indonesia in a number of development priorities in its National Medium-Term Development Plan 2010-2014 as well as the Master Plan for Economic Development (2011-2025). Canada's development objective for Indonesia is to improve sustainable economic prosperity for poor women and men, through building economic foundations, investing in people, and advancing democracy. Canada's portfolio of a dozen ongoing projects concentrates on addressing transparency in public financial management, natural resource management, and on building a better-trained workforce. Results from programming at the local level are being integrated into national level best practices in health service standards, gender-based budgeting and watershed management. Canada also maintains a highly effective program supporting pluralism and religious tolerance in Indonesia.



Spotlight

Three Canadian Development Projects in Indonesia:

- **P3 FRAMEWORK:** At APEC 2013, Canada committed 5 million CAD to a Public-Private Partnerships (PPP) Centre for infrastructure in Indonesia, and an APEC PPP Expert Advisory Panel. Drawing on Canada's lengthy experience with PPPs, this initiative establishes the institutional architecture, including legal and regulatory frameworks, tools, and coordination mechanisms, to spur infrastructure development and financing in Indonesia.
- **NATURAL RESOURCE ACCOUNTABILITY:** Canada is a leading donor to the Extractive Industries Transparency Initiative (EITI) which seeks to increase transparency in the oil and gas, and mining sectors through the implementation of standards related to the publication and verification of company tax and royalty payments along with government revenues. Indonesia became compliant on October 15, 2014. Of note, Canada's funding has supported Indonesia to achieve compliance and will continue to support Indonesia to ensure the sustainability of the EITI process and expand outreach activities.
- **INVESTING IN SMES:** The Conference Board of Canada is starting a five-year 12 million CAD initiative called Trade and Private Sector Assistance project (TPSA) to facilitate and enhance trade and investment for small and medium-sized enterprises (SMEs) in Indonesia, including those owned and operated by women. The project will address key regulatory constraints, develop tools to enable greater market access, distribute market research, and facilitate exchanges of business people.

CONCLUDING REMARKS AND THE WAY FORWARD...

The economic strengths of Canada and Indonesia will continue to change as our respective economies develop and evolve. Our common goals are to maximize efficiency and productivity at each stage of this development. And while the process of continuous improvement will carry on long into the future, a constant thread that connects us is the value our two countries place on mutual respect, friendship and knowledge sharing.

In the Key Findings section of this publication, similarities between Canada and Indonesia were highlighted. Our two countries are almost the same breadth from West to East, with Canada having the world's longest coastline and Indonesia having the world's second longest coastline. Our two countries consequently face similar natural resource and infrastructure development challenges, and Canada is sharing solutions to these challenges. Our trade relationship is growing at 15% to 20% per year. Investments are also growing, including recent interest in large investments into Canada by Indonesian firms, investments that are welcomed by Canada. A significant number of Canadian firms are already present in the Indonesian market, creating jobs and adding value, and there is a clear potential for further growth in bilateral trade and investment in the years to come.

Canadian firms have considerable experience in Oil and Gas project development and supporting services, both at home in Canada as well as around the world. The Oil and Gas Sector section of the publication shared a number of ideas, based on this experience, for improving the investment attractiveness of the sector which in turn would help Indonesia meet its energy availability targets. In addition to enhanced oil recovery and unconventional gas development, proposed enhancements that would help attract more investment include ideas for strengthening inter-departmental coordination, streamlining licensing and permitting, offering more favourable terms for high-risk high-cost areas, and improving legal clarity and consistency for production sharing contracts.

Canada also possesses technical and financial capabilities in the Renewable Energy sector, and has a private sector that is interested in engaging with Indonesia to support Indonesia's objective to significantly grow the generation of renewable energy to more than 20% by 2025.

Infrastructure development has supported the advancement of Canada's economy, and Canadian expertise is ready to work hand-in-hand with the Government of Indonesia to support the implementation of viable public-private partnership approaches to infrastructure development. Power Generation, Airport Development and Water/Waste Water projects were presented as examples of Canadian capabilities and interests that match well with Indonesia's interests. PPP approaches for infrastructure development are proven ways to leverage private sector funds, which in turn can free up government resources for other priority needs such as education and health care. Ideas were presented on ways to improve the PPP regulatory environment, and further support in this area will be provided by a Canadian Government funded initiative.

In the Agriculture Sector, Canadian milk and dairy products are one example of an emerging opportunity to bring Canadian investment and expertise to Indonesia which will support Indonesia's national food security objectives and enhance the national capability to serve regional markets.

Canadian companies have been developing and will be continuing to invest in developing a strong and vibrant insurance sector in the country, and have shared some ideas in the Non-Bank Financial Services Sector section of this publication on how Indonesia might further enhance the growth and development of this sector.

Canada and Indonesia, by virtue of our vast country sizes and geology, represent both challenges and opportunities for the development of the minerals and metals industries through sustainable mining activities. The Mining Services sector section of this publication has outlined some of the policy options that the government could consider to ensure the sustainable development of these resources in economically viable ways.

Growing the Canada-Indonesia relationship greatly benefits both countries. This publication has been prepared with the hope and expectation that the Canadian capabilities outlined here will be of interest to members of the Indonesian private sector who are seeking partners, and that the constructive policy suggestions for enhancing sustainable growth will be of interest to the Jokowi-Kalla government. The ICCC would like this publication to be the beginning of a process that stimulates discussion, supports constructive action, and ultimately enhances the Indonesia-Canada private sector relationship for the mutual benefit of both public and private stakeholders.

Indonesia and Canada have cooperated closely since the initiation of relations in 1953. On the basis of mutual respect and benefit, our relations have remained strong. We hope that this publication has helped to increase the awareness of Canada's potential as a growing long-term economic partner of Indonesia. Indonesia and Canada are two great countries with excellent prospects for an even greater economic relationship. The ICCC stands ready to build on our existing solid relationship and to work for the shared prosperity of the people of both countries.

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Other Canada-Indonesia Organizations



Canadian
Education International

Canadian Education International

- Canadian Education International is a non-profit foundation endorsed by the Embassy of Canada to act as the Canadian education information hub for students, schools & agencies in Indonesia. The aim of CEI is to raise public awareness about Canada as a top-quality overseas education destination and to enrich public knowledge about internationally-recognized & well-reputable Canadian education institutions. The CEI provides information services for all relevant stakeholders, such as Canadian education institutions and Indonesian students, schools & agencies.

For more information please email wely.kustono@canada-edu.org

Calindo



Canadian Alumni in Indonesia

Canadian Alumni in Indonesia

- Calindo is an organization whose main goal is to strengthen the ties between the two great countries of Indonesia and Canada through social, educational, and other mutually enriching activities. In short, while the Canadian Embassy specializes in 'government to government' and the ICCC specializes in 'business to business', Calindo specializes in 'people to people'. Calindo membership consists of Indonesians who have spent time in Canada and also Canadians who have spent time in Indonesia. While the majority of Calindo's Indonesia membership are located in Jakarta, Calindo members can be located throughout the country.

For more information please email weny_wijastuti@hero.co.id



Canadian Education International

- The CWA seeks to encourage a sense of community as Canadian citizens in Jakarta, to offer social activities for the Canadian community, to provide support for newcomers and to contribute to social development needs in Indonesia.

Membership is open to all nationalities and everyone - male or female - who has an interest in Canada and/or Canadian affairs is welcome to join. There are a host of activities planned from month to month including breakfasts, luncheons/dinners and bazaars to name a few and the organization offers members a variety of groups to join including the Social Development group and tour group.

For more information please email cwaj.president@gmail.com



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Indonesia Canada Chamber of Commerce (ICCC)

✉ secretariat@iccc.or.id 🌐 www.iccc.or.id

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