



Dear Chairman,  
Ladies and Gentleman,  
Dear Friends.

I wish to congratulate CD-SMEs and the young leaders from both enterprises and government who met in Bali in September for the work done and the launching today of STIC-Indonesia. This successful training week was aiming to make people aware of

- a. the existence of sticks and carrots if exporters are interested to invest efforts in developing a 'sustainable' trade business with Europe
- b. interesting and profitable new market niches
- c. access to potential buyers.

The very fast developments in terms of new supply chain standards, guidelines, auditing, certification addressing the social, health safety and environmental agenda's as well as the outcome of the WTO Hong Kong Conference are confirming the importance for Indonesia, its Government and its Companies to be equipped with new tools : new tools to make business and profit, new tools to be heard, new tools to be influential.

One encouraging aspect of the Hong Kong Ministerial was that developing countries are building stronger political platforms . The down scaling of ambitions of the Doha Round will probably have three type of consequences :

- (i) more contentious issues raised by Developing Countries at WTO level
- (ii) more room for private initiatives as the one on which STIC-Indonesia will focus
- (iii) more momentum for regional and bilateral trade agreements and public-private partnerships, for example initiated by STIC Indonesia and its partners in the ASEAN region

The launching of STIC Indonesia is responding to this dynamic. STIC Indonesia has something to offer and can be helpful to

- the Indonesian Government
- Indonesian Companies, especially SME's
- Global retailers present in Indonesia with their super markets in Indonesian cities
- Global retailers purchasing in Indonesia for their super markets abroad
- Banks
- European, Japanese, American authorities and stakeholders

It relates to :

- Aid for Trade. And this is why I wish to express our deep gratitude to the European Commission for sponsoring the launching of STIC-Indonesia
- Business Opportunities and how the Business sectors respond to change. From an Indonesian business standpoint, it will be important to reflect on how business sectors do respond to change. At international level STIC targeted specific sectors. The response has been positive for what concerns industrial sector having 'change' as key driver and faced with regulatory demands (WEE and Rohs directives, food safety). On the contrary, the response has been poor for sectors having 'tradition' as key driver, as the textile sector.

I would like to briefly

- section 1. review with you these fields for co-operation, so that you would clearly see the potential of STIC-Indonesia
- section 2 review new partnerships

### **Section I. Fields for co-operation**

A center as STIC-Indonesia has a key role to play to build capacity to respond to new public authorities and market expectations related to a series of issues

#### **1. Management of reputation risk**

Fairness and equity in trading relations between supermarkets and their supply chains is a hot topic, both in the development debate (about smallholder access to markets) and the domestic farming debate (on the crisis in family farming).

Why are Supermarkets moving ? What is the impact on suppliers as producers in Indonesia ? Why is it a critical issue for the Indonesian authorities as well? Who are the players ? What could be the role of STIC-Indonesia, those are the questions which I will briefly evoke.

Major investors, multinationals in the sectors of manufacturing as well as retailing have embraced the concept of corporate social responsibility. Why so ? Mainly because a number of companies have been faced with the growing importance of the reputation risk. For a company, to lose its reputation has devastating effects and creates a vicious circle : the company will lose customers, companies rating - a very important component of business management as far as multinationals are concerned - will go down, investors will move away, market share will be crumbling and so on.

Reputation risk refers to the whole supply chain and is not limited to the company management as such. The role of the suppliers is key. Issues which are under the management responsibility of suppliers as well as under the control of the public authorities of a country like Indonesia are :

- Health and food safety issues (sanitary and phytosanitary measures)
- Occupational safety and labor welfare issues
- Environmental protection issues.

**STIC-Indonesia is the place to train SME's as well as governmental agencies to deal with these issues and the market(s) requirement.**

2. Development of a fair trade approach.

The 'Fair Trade' market in the USA and Europe is constantly growing. "Fair trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade organizations, backed by consumers, are actively engaged in supporting producers, making trade work for development. Over 4000 small-scale and marginalized producer groups and hundreds of thousands of workers on plantations and in factories in more than 50 developing countries participate in Fair trade supply chains".

Fair Trade sales have been increasing by more than 20% every year since the beginning of the 21st century, illustrating the growing consumer interest in responsible purchasing. This has inevitably attracted the attention of mainstream businesses.. Even more, major multinationals as producers (as Chiquita – banana - or Procter and Gamble –coffee), have adopted fair trade type of management rules, some under the review of ngo's as the Rainforest Alliance (Chiquita). And global retailers, present all of the world, including in Indonesia, are developing partnership agreement with Fair Trade labeling organization as Max Havelaar or Human Rights Organisation in charge of auditing the implementation of social guidelines whilst others have developed their own ethical schemes or labels. But as noted by the UK Food group "the topic of 'Fair trade', with its origins in the trade justice movement, is largely treated in the marketplace as a high-end niche, in the form of an extra cost to consumers for 'Fairtrade' labelled produce and a cost to suppliers in the form of imposed standards and codes.

While this trend is welcomed when it constitutes a real improvement of the living and working conditions of the producers, the mushrooming of "ethical trade" schemes is also creating confusion. How can the consumer distinguish between Fair Trade products and other "ethical" or "sustainable" goods? How can it be ensured that there are no false claims regarding the impact on producers and the environment?

'Ethical' codes make little mention of producer price despite huge imbalances of market power between producers and retailers. In fact, the current trading environment is characterised by both a proliferation of standards for ethics and sustainability *and* the abuse of market power by powerful buyers, leading to a classic cost-price squeeze for producers.. The marketplace is about to get even more confusing, with a proliferation of 'sustainable', 'ethical' and 'responsible' claims with varying degrees of rigour.

In order to bring fairness and justice into mainstream trading relationships, innovative retailers can start to bridge this arbitrary and artificial gap between 'fair' and 'ethical' trade". The briefing paper issued by the UK Food group "proposes the development of a set of guidelines for retailers that wish to incorporate fairness and justice into their trading relations, learning from the Fairtrade experience, to expand rather than constrain opportunities for small and family scale producers. By this corporate

standard (rather than a brand or mark), customers could be assured that their purchases across the board have not contributed to the exploitation of producers and misuse of market power. The potential opportunities and risks associated with introducing such guidelines are highlighted in this paper.

But the room for manoeuvre for innovative companies, noted the UK Group, is severely constrained by the current structure and governance of agrifood markets, which reward 'economies of scale' (i.e. squeezing suppliers) while failing to provide a public policy environment which would curtail the abuse of market power. The UK Food Group paper concludes with a series of public policies – especially competition policy - that would be required to underpin fairness and equity in companies' mainstream trading practices.

**This is why STIC has been launched at the WSSD in order to give a platform for Governments; Companies and Movements as the Fair trade movement to come together. This is also why STIC-Indonesia has a role to play to help Indonesian producers and governments to find their way in this jungle of new initiatives.**

### 3. Environmentally Preferable Products (EPPs).

At WTO level discussions are taking place on Environmental goods and services. It is not the time here to discuss this in detail. Let me simply underline that several governments including Brazil and India have raised the possibility of broadening the definition to include Environmentally Preferable Products EPPs, goods with high environmental performance and/or low environmental impact. Such products could include organic agricultural products; sustainably-harvested timber or non-timber forest products; fish products from sustainably managed fisheries; or products made from natural fibres.

**It goes without saying that this EPPs agenda is important for Indonesia.**

### 4. Biodiversity.

*Countdown 2010* to halt the loss of biodiversity by 2010 is attracting great support.. A Countdown business plan should be ready by mid now. Countdown should have hubs in Africa, LA, SE Asia and India.

**This alliance is interested to partner with STIC on trade issues to integrate biodiversity in technical assistance and capacity building program**

*'Roundtable on Sustainable Palm Oil' (RSPO).* Progressive palm oil companies, meeting in Singapore at the end of November 2005, have agreed to adopt stringent criteria for defining 'sustainable palm oil'. The clearance of land for palm oil is one of the main causes of forest loss in South East Asia and a significant contributor to the seasonal hazes which cost these countries billions in health problems. Conflicts between local communities and palm oil developers are also a major problem in the region. The new voluntary standard would mean that palm oil approved by the 'Roundtable on Sustainable Palm Oil' (RSPO) should, in future, not come from areas in primary forests or of high conservation value cleared after November 2005. The oil should also be produced in compliance with the law and with respect for the rights of

indigenous peoples, workers, and women, and with sound provisions for social and environmental management. RSPO currently has 68 members including mainstream organisations such as the Malaysian Palm Oil Association, the Indonesian Palm Oil Growers Association (GAPKI), HSBC and WWF.

Over the next two years the RSPO will pilot the implementation of the standard and will not market RSPO-approved oil, as such, until the end of this period. Major challenges remain to be addressed. These include: adjusting the standard to suit smallholders who make up 33% of the producers in Indonesia, developing credible systems for verifying compliance; and adjusting the standard to suit national laws and realities.

Just how effective the standard will be remains to be seen. RSPO is oriented to supplying the European market. However, the main growth in sales of edible oils is in China and India. Much depends on whether the expanding biofuels market will demand sustainably produced oils. A further key problem that RSPO cannot address is that a great deal of forest is cleared with permits to grow oil palm by companies that in fact only want access to the timber.

**STIC-Indonesia will have exploratory discussions with RSPO. I'm very glad that since our training week in September 2005, a business development related to essential oils has already materialized thanks to one of the European team members**

#### 6. Resource Efficiency.

*Energy price, energy security issues, energy efficiency* as well as eco-innovation, eco-technologies and services are new drivers of any competitive economy. You know how much energy price is a sensible issue in Indonesia and how much this issue puts Indonesian economy at risk. Eco-technologies and eco-innovation to face global ecological and security threats is also now a major driver in China, India, Japan, the USA, Brazil. Today in Indonesia as in Europe much is being wasted by sub-optimal use of energy, materials and processes, and this is 'hidden treasure' for the Indonesian and EU economies.

**STIC-Indonesia training scheme could address Resource Efficiency and could partner with YBUL to explore micro-credits funding opportunities.**

#### 6. Sustainable procurement.

More and more public authorities are interested in 'green/sustainable procurement' as a major tool in implementing a sustainable consumption and production national action plan, one of the expected follow up measures of the WSSD. As well as introducing environmental and social considerations into their procurement procedures, an increasing number of public authorities are going one step further towards supporting sustainable development by promoting Fair Trade in those procedures. Their purchasing decisions will not only have an impact on the lives of producers in developing countries, but will also set an example for others, such as citizens and private business.

*Japan* is the leading Country of the International Green Purchasing Network launched in Sendai (Japan) by 2004 and Sustainable Procurement is very high on the US and EU agenda's. *The European Commission* is initiating activities to increase the level of Green Public Procurement (GPP) in all Member States Handbooks on 'procurement' are developed at EU level :

- Handbook on green procurement (available)
- Handbook on fair trade and public procurement (DG Employment) by 2006.

### **STIC-Indonesia training scheme could address green procurement.**

#### 7. Financing Sustainable Trade

*Aid for Trade.* What is aid for trade? It describes several categories of trade-related assistance to developing countries. Its objectives include enhancing worker skills, modernizing customs systems, building roads and ports, and improving agricultural productivity and export diversification. Aid for trade should also help countries to meet the adjustment costs of implementing trade agreements, together with preference losses and more expensive food imports. Essentially, its aim is to help countries to adapt to the global trading environment. It includes *Capacity to supply* : Assistance to help producers overcome supply-side barriers and benefit from trade opportunities by improving physical infrastructure (roads, harbors, airports, etc.); providing reliable inputs (water, electricity, seeds, fertilizers); and improving agricultural productivity and access to credit. (\*)

**The role of STIC-Indonesia in the framework of Trade related Technical Assistance (TRTA) needs to be discussed with the Indonesian Authorities, as well as the Governments and Agencies of Developed Countries – in particular the G-8 the Group of Eight industrialized nations (US-EU-Japan) which pledged to spend more on foreign aid related to trade. Finally the Jakarta office of the World Bank which issued a paper 'Doha Development Round and Aid for Trade' should also be approached**

*The private banking sector* has also a key role to play. Micro-credits might be of use. We are working with YBUL in Indonesia in this particular field.

#### 8. Regional agreement.

If it is confirmed that, after the Hong Kong WTO Conference, there will be more momentum for regional trade agreements, Indeed what we are discussing here are non tariff barriers and private initiatives of utmost importance not only in terms of exports to Europe or Japan, but also in terms on intra-regional trade.

**STIC-Indonesia and its partners in the ASEAN region could contribute to the developments of initiatives at regional level as well.**

## **Section II. Partnership**

### **1. BSCI**

We are exploring some forms of partnership between STIC, International & Europe and the Business Social Compliance Initiative (BSCI) which brings together major European retailers. BSCI initiative is a major business driven initiative which is already discussing convergence with other similar business initiatives in Europe as well as in the US (under the pressure of Wall-Mart proposing a super-standard). It is expected that BSCI and other similar initiatives in Europe and at global level will converge and set the standards for what concerns CSR. BSCI has an Indonesian Roundtable which focused on the textile sector. BSCI addressing the social compliance issues is inspired by but not in compliance with SA8000 BSCI roundtables are funded by Gtz.

We should keep in mind however that the development of social audit credibility is questioned (on the EU Commission point of view, private labour inspection is a market placebo for public governance failure). The need of a multi-stakeholder approach has been underlined, involving ngo's and trade unions in the audit scheme. According to CCC Looking for a quick fix How weak social auditing is keeping workers in sweatshops Clean Clothes Campaign (CCC), Nov 2005 : *Social audits are failing to deliver as a tool for assessing code compliance, particularly in determining violations of freedom of association, excessive and forced overtime, abusive treatment and discrimination of workers. Workers and their organisations are marginalized in the social audit process. Social auditors are making it too easy for workplaces to receive positive evaluations*

**STIC –Indonesia could focus on the training and qualification of SMEs in relation with BSCI and other similar initiatives in place in the UK and France or in Japan and the US. BSCI has a program related to social compliance in the food sector (run by Migros). It might be interesting for STIC-Indonesia and the BSCI –Indonesia Roundtable to develop a pilot for Indonesia**

### **II. A STIC Annual Review**

It should be one of the main initiatives of STIC International.

It would start by 2006 with Food as first theme.

There are numerous platforms : biotrade, palm oil, coffee, fisheries (marine stewardship), FSC, Organic cotton, BSCI -food(ethical sourcing), Sustainable Agriculture Initiative etc. Part of the review would be analytical, an other would review statistics, a third could check the reality of aid.

**The draft could be submitted for consultation and debated in some regions of the world as Indonesia, thanks to STIC-Indonesia and the EU.**

### III. Business Matchmaking Events.

**STIC-Indonesia will explore what could be done to facilitate a dialogue between Indonesian suppliers and potential Buyers from Europe, Japan and the USA.**

**In conclusion**, The success of STIC-Indonesia will depend on a successful partnership during the years to come between

- **Champions**, Indonesian smart companies and young entrepreneurs
- **Leaders**, Indonesian governmental bodies supporting STIC work
- **A Strong Pillar**, CD-SMEs managing STIC-Indonesia
- **Business partners** as the members of the BSCI and similar networks
- **A broker on key markets**, with eyes, ears, a big noose and long arms. For Europe it is EPE.