CHAPTER 6, TRADE REGULATIONS, CUSTOMS AND STANDARDS

In recent years, Indonesia has liberalized its trade regime and taken a number of important steps to open its markets to imports. In the late 1980's the Indonesian government put in place a policy of long-term trade reform to wean the economy away from an over dependence on oil and gas and increase Indonesia's industrial competitiveness. The result has been reduced overall tariff levels, a simplified tariff structure, replacement of non-tariff barriers with more transparent tariffs with the aim of encouraging foreign and domestic private investment.

A. Trade Barriers

Indonesia's applied tariff rates range from 5 to 30 percent, although bound rates are, in many cases, much higher. In the mid-1990's, the government began a series of annual deregulation packages designed to gradually lower applied tariff rates, convert non-tariff barriers into tariffs, and remove restrictions on foreign investment. By the projected end of the process in 2003, there will be a three tier structure (0, 5 or 10 percent) for tariff rates, except on sensitive items such as automotive and alcohol. Import tariffs on vehicles were lowered in June 1999 to 25-80 percent (depending on engine size for completely built up sedans), 0-45 percent for trucks, and 25-60 percent for motorcycles. Rates were also reduced for parts to a maximum 15 percent. Luxury taxes for sedans range from 10-75 percent, for trucks zero percent and for motorcycles 0-50 percent. Effective January 1, 2002, Indonesia, along with its regional partners, fully implemented the ASEAN Free Trade Agreement (AFTA). Indonesia has now reduced tariffs for all products included on its original commitment (7,206 tariff lines) to five percent or less for products of at least 65 percent ASEAN origin. The government will reduce rates on 66 remaining tariff lines, mostly in the chemicals and plastics sectors, to the 5 percent AFTA ceiling by 2003.

Despite the severe economic crisis of the past four years, Indonesia has maintained its policy of steady, long-term tariff liberalization. However, over the past year, special interests have begun efforts to take advantage of the weakness of the central government to seek reinstatement of former special trade privileges, especially in the agricultural sector. So far, these efforts have had limited success but the trend is worrisome. There remains a large gap between the letter of a particular regulation and the reality. Domestic interests often take advantage of the non-transparency of the legal and judicial systems to undermine regulations or law enforcement to the detriment of foreign parties. Also, new laws on regional autonomy and fiscal decentralization have granted significant new powers to the provincial and sub-provincial governments. The potential exists that local governments will impose new tax or non-tax barriers on inter-regional trade as they seek new sources of local revenue.

Services trade barriers to entry continue to exist in many sectors, although the GOI has loosened restrictions significantly in the financial sector. Foreign law firms, accounting firms, and consulting engineers must operate through technical assistance or joint venture arrangements with local firms.

Indonesia has liberalized its distribution system, including ending some restrictions on trade in the domestic market. For example, restrictive marketing arrangements for cement, paper, cloves, other spices, and plywood were eliminated in February 1998.

Indonesia opened its wholesale and large-scale retail trade to foreign investment, lifting most restrictions in March 1998. Some retail sectors are still reserved for small-scale enterprises under another 1998 decree. Large and medium scale enterprises that wish to invest in these sectors must enter into a partnership agreement with a small-scale enterprise although this does not explicitly require a joint venture or partial share ownership arrangement

B. Customs Valuation

Since April 1997, the Customs Directorate of the Ministry of Finance has operated a post-entry audit system, which relies primarily on verification and auditing rather than inspection to monitor compliance. A paper-less electronic data interchange system that links importers, banks, and Customs was also introduced and is slowly being adopted. Indonesia is in nominal compliance with the WTO Customs Valuation Agreement but U.S. companies operating in Indonesia have reported problems with Customs procedures and valuations made by Indonesian Customs. Many also complain of a host of irregular and non-transparent fees required to get shipments released. The U.S. government continues to monitor the situation.

C. Import Licenses and Restrictions

According to the Directorate General of Customs and Excise the following goods are still subject to import restrictions, licensing and/or prohibition: narcotics, psychotropics, explosive materials, fire-arms and ammunition, fireworks, certain books and printed materials, audio and /or visual recording media (which are subject to censorship), telecommunications equipment, color photocopying equipment and parts and equipment thereof, endangered wild fauna and flora and parts thereof, certain species of fish, medicines, unregistered food and beverages at the Department of Health, dangerous materials, pesticides, ozone-depleting substances and goods containing ozone depleting substances, wastes, culturally valuable goods, and other items. Further information can be found at http://www.beacukai.go.id/english/Procedure/index.htm. In 2000, the Government of Indonesia banned the import of U.S. chicken parts, which has been the basis of a trade dispute between the two countries.

In March 2002, the government issued a decree (Kepmen 141/MPP/Kep/3/2002) requiring importers of certain critical products to obtain a special importer identification number (NPIK). The government explained its actions as a way to stop large-scale smuggling of these products, which were hurting domestic producers. The products covered by the decree include: corn, rice, soybeans, sugar, various textile products, shoes and footwear, certain electronic products and their components and two types of children's. When importers complained of in adequate time to prepare, the government delayed implementation of the decree for six months. In addition, alcoholic beverages, lubrications and explosives and certain dangerous chemicals compounds continue to be subject to special import licensing regulations. The government controls the import of videotapes, laser discs and other entertainment products for both exhibition and private use. Such goods are subject to review by a censor board.

D. Export Controls

Like Indonesia's import tariff regime, export controls are in a state of rapid change as the government works to implement reforms associated with the IMF program. Many of the restrictions and taxes placed on exports affect agricultural products, including major cash crops like rubber, palm oil, coffee, and copra. Export restrictions and controls are applied by the government to a number of food commodities, most notably crude palm oil (CPO) which remains subject to a 5 percent export tax, in an effort to ensure adequate domestic availability and stable prices of such products, particularly with the weak economy in recent years.

E. Import Documentation Requirements

The government requires the following for most imports: pro-forma invoice; commercial invoice; certificate of origin; bill of lading; insurance certificate; special certificates.

According to the Indonesian Customs Law that came into effect in April 1997, importers are now required to notify the Customs Office in the first stage by submitting the import documents on a standard form computer diskette. Customs Inspections of imported goods may be made after they are imported in the importer's warehouse. Typically, the Indonesian importer takes care of this process.

F. Free Trade Zones & Warehouses/Special Import Provisions/Temporary Entry

The government encourages foreign investors who export to locate in bonded or export processing zones (EPZ). There are a number of EPZs in Indonesia, the most well known being Batam Island, located 20 km. south of Singapore. Indonesia also has several bonded zones or areas that are designated as entree ports for export destined production (EPTE). Companies are encouraged to locate in bonded zones or industrial estates whenever possible. Other free trade zones include a facility near Tanjung Priok, Jakarta's main port, and a bonded warehouse in Cakung, also near Jakarta.

There is a duty drawback facility (BAPEKSTA) for exports located outside the zones. Producers located within the bonded areas are allowed to sell up to 15% of their product into the local market. Foreign and domestic investors wishing to establish projects in a bonded area must apply to the National Investment Coordinating Board (see Chapter VII, Investment Climate).

G. Labeling and Marketing Requirements

Food labeling regulations requiring labels in the Indonesian language and expiration date (rather than the standard “best used by” date) are in place but are not being consistently enforced. Some importers have complained that the government appears to be implementing the regulations in such a way as to maximize revenue. A product registration regulation is also in place that requires detailed product processing information so as to approach proprietary information. The registration procedure can also be quite lengthy and expensive. Indonesian importers and U.S. exporters have expressed concern that these regulations could act as non-tariff barriers to imports of packaged food products.

The market for foreign pharmaceuticals have been open since the October 1993 Deregulation Package. Previously Indonesia limited pharmaceutical imports to those that incorporated high technology and were the product of their own company's research. The 1993 package also relaxed the registration requirements for pharmaceuticals approved in other countries. Foreign pharmaceutical companies report ongoing problems obtaining timely registration of new products from the Ministry of Health. New regulations issued in July 2000 have helped reduce some of the backlog in new registrations.

H. Membership in Free Trade Agreements

As a member of the Association of Southeast Asian Nations (ASEAN), Indonesia is party to the ASEAN Free Trade Agreement (AFTA). Through AFTA, ASEAN members are phasing in a Common Effective Preferential Tariff (CEPT) scheme, which will be completed for most traded goods in 2003.