# Chapter VI - Trade Regulations and Standards

In recent years, Indonesia has liberalized its trade regime and taken a number of important steps to reduce protection. Since 1996, the Indonesian Government has issued deregulation packages that have reduced overall tariff levels, simplified the tariff structure, removed restrictions, replaced non-tariff barriers with more transparent tariffs, and encouraged foreign and domestic private investment. The GOI issued a deregulation package in July 1997, which introduced additional tariff reductions. In conjunction with its stabilization program agreement with the International Monetary Fund, the government has issued a steady stream of reform measures which reduced taxes, tariffs, and quantitative restrictions on exports and imports.

### *Trade barriers*

Indonesia's tariff regime is in rapid flux, with accelerated tariff reductions included in many of the reform measures put into place since last November. Indonesia's applied tariff rates range from 5 to 30 percent. Major exceptions to this range are the 170 percent duty applied to all imported distilled spirits and the 125 percent duty assessed built up passenger vehicles (subject also to a 75 percent import surcharge.) In May 1995, the Indonesian Government unveiled a comprehensive tariff reduction package covering roughly two thirds of all traded goods, designed to reduce most tariffs to under 5 percent by 2003. All tariff items with a rate of 20 percent or less are to be reduced to no greater than 5 percent by 2000 while items with rates of more than 20 percent are to be brought to no more than 10 percent by 2003. Tariffs on all food items were cut to a maximum of 5 percent in February 1998.

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 is liberalizing its distribution system, a trend which is likely to accelerate as it implements the IMF package which includes an end to restrictions on trace in the domestic market. For example, restrictive marketing arrangements for cement, paper, cloves, other spices, and plywood were eliminated in February 1998. Indonesia opened wholesale and retail trade to foreign investment, lifting most restrictions in March 1998.

### *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.

### *Import licenses*

The GOI continues to reduce the number of items subject to import restrictions and special licensing requirements. Goods such as alcoholic beverages, motor vehicles, hand tools, artificial sweeteners, engines and pumps, tractors, rice, lube oil, and explosives continue to regulated.

### *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 in an effort to ensure adequate domestic availability and stable prices of such products, particularly with the economy in such poor shape.

### *Import documentation requirements*

The government requires the following for most imports:

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| 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.

### *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 entre 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).

### *Labeling and marking requirements*

Regulations of food labeling are currently in place and the government is currently in the process of approving new food labeling guidelines.

The market for foreign pharmaceuticals has been open since the October 1993 Deregulation Package, which previously limited pharmaceutical imports to those that incorporated high technology and were the product of their own company's research. The Deregulation package is also responsible for relaxing the registration requirements for pharmaceuticals approved in other countries.

### *Prohibited imports*

The government bans the import of printed material in Chinese languages, Bahasa Indonesia, and other Indonesian dialects. Video tapes and laser discs are subject to review by the censor board.

### *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.