Overseas Market Information

Report on Passenger Cars and Commercial Vehicles in Indonesia

(Continued from previous issue)

Standards and Technical Regulations

Safety regulation

Currently there are 128 titles of National Standards for automotive parts and components, 86 of which are product standards, 34 are examination methods, and eight are related to information systems.

Standards that are compulsory to implement are :

(a) Examination method for gasoline burner motor of motor vehicle (National Standard/SNI 09-0120- 1955);

(b) Vehicle Identification Number of motor vehicle (SNI 09-1411-1998);

(c) Battery for motor vehicle, quality and examination method (SNI 09-0038-1987).

Number of motor vehicles increases approximately 11% to 13% annually, but then it drastically dropped when Indonesia experienced monetary and economy crisis in 1998. As that mentioned earlier, the Government of Indonesia launched a new policy allowing the general importers to import motor vehicles in CBU in 1999. In this regard, Standard Type Approval for Vehicle Inspection and roadworthiness for motor vehicles now still uses “Idle Test”. For the future “Mode Test” complying with the international standard will be implemented. This implies the need to improve and invest type approval equipment and facilities in order to achieve ECE Standards.

Indonesia has also harmonized and recognized ASEAN Standard Regulations for :

(a) Vehicle Weight and Dimension Standard :
- Brake efficiency ± 50%;
- Side slip ± 5 m/km;
- Exhaust emission/smoke test 50% (Opacity or Bosch Unit) or 50 Hsu;
- Vehicle length maximum = 12.2 m (rigid vehicles) or 16.0 m (articulated vehicles);
- Vehicle width maximum = 2.5 m;
- Vehicle height maximum = 4.2 m;
- Vehicle rear overhang maximum = (50%-60%) wheelbase.

(b) Maximum Permissible GVW :
- 3 axles (rigid vehicles) = 21 tons;
- 4 axles (rigid vehicles) = 25 tons;
- 4 axles (articulated vehicles) = 32 tons;
- 5 axles (articulated vehicles) = 36 tons;
- 6 axles (articulated vehicles) = 38 tons.

Environmental

Pollutants that are produced by motor vehicles and have the impact to environment are exhaust gasses as by-product of motor burner in the forms of CO, SO2, NOX, HC, smoke particles and Pb. To eliminate those exhaust gasses, the Ministry of Industry and Trade, the Ministry of Communication, the Ministry of Mine and Energy, Agency for Environmental Management (Bappedal), and PERTAMINA (a state owned oil and gas company) closely coordinate. It has also stipulated by the decree of the Minister of Mine and Energy No. 1585 K/32/MPE/1999 dated October 12, 1999 that leaded gasoline will completely be phased out in 2003, started from Jakarta surrounding in July 2001 followed by Java-Bali in 2002.

In addition, Bappedal will issue a new regulation concerning exhaust gasses for motor vehicles (New Vehicle Ambient for Exhaust Emission) as follows :

(a) **Gasoline**
- 2 wheel :
  - $<$ 50 cc : used ECE R.47 with stages from 2001 to $>$ 2007
  - $\geq$ 50 cc : used ECE R.40 with stages from 2001 to $>$ 2007
- 3 wheel :
  - $\geq$ 50 cc : used ECE R.40 with stages from 2001 to $>$ 2007
- Passenger car and bus :
  - 2001-2003 : used ECE 15.04
  - 2004-2006 : used ECE 83.01
  - $\geq$ 2007 : used ECE 83.01
- Special purpose vehicle, tractor head, and goods vehicle :
  - 2001-2003 : used ECE 15.04
  - 2004-2006 : used ECE 83.01
  - 2007 : used ECE 83.03

(b) **Diesel/Kerosene**
- Passenger car and bus :
  - 2001-2003 : used ECE 15.04 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)

- 2004-2006 : used ECE 83.01 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)
- > 2007 : used ECE 83.01 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)

• Special purpose vehicle, tractor head, and goods vehicle :

- 2001-2003 : used ECE 15.04 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)
- 2004-2006 : used ECE 83.01 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)

(c) **Gases**

• Passenger car and bus :

- 2001-2003 : used ECE 15.04 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)
- 2004-2006 : used ECE 83.01 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)
- > 2007 : used ECE 83.01 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)

• Special purpose vehicle and tractor head :

- 2001-2003 : used ECE 15.04 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)
- 2004-2006 : used ECE 83.01 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)
- > 2007 : used ECE 83.03 and ECE R.49 (3.5 tons $\leq$ GVW $\leq$ 5 tons, and GVW $\geq$ 5 tons)

Traffic congestion

The length of road in Indonesia is around 600,000 kms and the average MST is 8 tons. Road design construction in Indonesia does not fully comply with the international standard (MST 10 tons). The characteristic of roads in Indonesia could be divided in five groups as follows :

(a) Class I road : MST > 10 tons, width minimum 8 m;

(b) Class II road : MST $\leq$ 10 tons, width minimum 8 m;

(c) Class III A road : MST 8 tons, width minimum 7 m;

(d) Class III B road : MST 8 tons, width minimum 7 m;

(e) Class III C road : MST 8 tons, width minimum 6 m.

Indonesia had also built 565 km toll road with MST $\geq$ 10 tons. The Ministry of Public Works and the Ministry of Communications have decided and declared for :

(a) Java and Bali inlands have Class II road, MST $\leq$ 10 tons;

(b) Sumatra inland has Class II road, MST $\leq$ 10 tons;

(c) Kalimantan inland will have Class III A road, MST 8 tons;

(d) Other inlands will have Class III A road, MST 8 tons.

Indonesia has also harmonized and agreed to recognize ASEAN Highway Standard Regulation.

Trade and Industry Policy Environment

The development of automotive industry in Indonesia was started in 1964 by assembled parts and components of automobile imported in Semi Knocked Down (SKD) bases. In 1969, the policy, particularly those for sedan and commercial cars, was changed in which the importation of parts and components should be in a Complete Knock Down (CKD) condition. In 1974, importation was allowed only for CKD bases. In order to support the automotive industry, the Government in 1976 issued a regulation that persuasively drove automotive industry to use locally manufactured components in their assembling operations.

1993 Policy

In 1993 the Government of Indonesia launched a policy which implemented an incentive system, where the development of automotive industry was based upon decreasing or releasing import duty and luxury tax for those reaching particular percentage of local content utilization in their production activity. It means that the higher the local content utilized, the lower the duty and luxury tax paid.

Import duty for automotive and components based upon 1993 Policy

Item	*HS Number*	*Highest (%)*	*Lowest (%)*	*Average (%)*
PMV	87.03	200	105	150
Trucks	87.04	70	70	70
Buses	87.02	70	70	70
Engines	84.07 & 84.08	25 & 15	25 & 15	25 & 15
Body	87.08.29	200	105	150
Transmission	87.08.50	25	25	25
Remainder of	87.08	65	0	65

1996 Policy

In 1996, through the President Instruction No. 2/1996, the Government Regulation No. 20 and No. 36/1996, the Minister of Finance Decree No. 82/1996, and the Minister of Industry and Trade Decree No. 31/1996, the Government of Indonesia launched the National Car Programme which provided incentives both import duty and tax exemption to the National Car Company who produced the National Car with certain level of local content at particular year of operation. However, on the Letter of Intent between the Government of Indonesia and the IMF signed on January 15, 1999, Indonesia committed that subsidy programmes, included for automotive industry as stated before, should be eliminated.

1999 Policy

On June 1999, the Government of Indonesia launched a new policy of automotive development where import duty is not linked to the achievement of local content. The new policy basically is relaxing Bonded Zone Company regulation, Bonded Warehouse regulations; introducing Fiscal Depot and Indirect Export concepts; restructuring import duty and luxury tax tariffs and eliminated import barriers; and strengthening automotive industry structure through releasing import duty of raw materials for component industry.

The main objective for this major revision is to use market forces to engineer a more effective and globally competitive automotive industry. The Indonesian government seeks to promote an automotive components sector geared to supply both local and foreign manufacturers. The new policy also eliminated previously extensive tariff and tax incentives for local content. The government substantially lowered tariff rates in all market segments for motor vehicles. The maximum tariff was reduced from 200% to 80%. Tariffs on kits imported for assembly, which had ranged from zero to 65%, are now a flat 25% for all, but passenger cars, which are 35%, 40% or 50% depending on the engine size. The tariff schedule for auto components and parts imported for local assembly has also been simplified to a flat rate of 15% for imported parts for passenger cars and minivans. The government also lowered luxury taxes across the board, although these were later raised. Imports of motor vehicles are no longer registered to registered importers or sole agents of foreign automakers but are open to any licensed general importer. Based on vehicle type, cylinder capacity, number of wheel drives and import condition - either completely knocked down (CKD) or completely built up (CBU) A simple outline of the import duties are as follows :

1. CBU - between 45-80%
2. CKD for local assembly - between 25-50%

This policy took effect beginning from July 1, 1999.

Outline of import duties for automotive and components

Item	*HS Number*	*Highest(%)*	*Lowest(%)*
PMV	87.03	80	45
Trucks	87.04	45	5
Buses	87.02	40	5
Engines	84.07 & 84.08	15	15
Body	87.08.29	70	40
Transmission	87.08.50	15	15
Remainder of	87.08	15	0

In January 2001, Indonesia increased the luxury taxes on sedans and sports utility vehicles (SUV) with engine sizes about 4000 cc from 50% to 75%. Motorcycles with engine sizes from 250 cc to 500 cc are subject to 60% luxury tax. A 75% luxury is applied on all motorcycles with engine size larger than 500 cc. The Indonesian government applies the same luxury tax both to motorcycle imported in kits or fully assembled. A simple outline of the sales tax on luxury good is as follows :

1. CBU - between 10-50%
2. CKD for local assembly - between 10-50%

Customs procedures in general

(a) *Fees (Customs Duties and Tariff Nomenclature)*

Customs duties and import-related taxes currently applicable are :

- Import duties which vary from 0% to 170% rates;
- Value Added Tax (VAT) which is 10% except for certain goods (e.g. unprocessed and/or natural products);
- Sales Tax on Luxury Goods with rates vary from 10% - 75%;
- Income Tax, which is 2.5% for Registered Importers and 7.5% for Unregistered Importers;
- Anti-dumping and countervailing duties, if any.

The above taxes are on CIF (Cost, Insurance and Freight) basis. Payment of the taxes can be done through foreign exchange bank or directly through Customs Office during office hours before submission of Customs declaration. At Customs Offices where EDI system is fully implemented, payment can be done through electronic transfer.

Tariffs

The pace of implementing progressive tariff reductions will take into account differing levels of economic development among APEC members, with the industrialized economies achieving the goal of free and open trade and investment no later than 2010 and developing economies no later than 2020. In on-going effort to boost economic development, Indonesia continues to improve trade and investment climate to meet the nation's commitment under the Bogor Declaration. In this spirit, Indonesia has introduced, inter alia, a comprehensive programme in 1995 to reduce most tariffs from 0-40% to 0-10% by the year 2003. Indonesia will continue its deregulation efforts to further liberalize trade and investment by progressively reducing its tariffs, thereby reaching the APEC goal of free and open trade no later than year 2020.

Valuation

The Customs value of imported goods is the transaction value which is the price actually paid or payable for the goods and may be adjusted in accordance with the provisions of article VIII of the agreement on Implementation of Article VII GATT 1994 (WTO Valuation Agreement). The Indonesian Customs has implemented the agreement fully since 1 January, 2000. The Agreement provides that transaction value between both the buyer and seller can be accepted as long as both sides are not related, or where the buyer and seller are related, that the transaction value is acceptable as long as it does not influence the price. Several basic principals used by the Customs to determine whether or not the relationship influence the price are as follows :

- Where the price paid is based on normal transaction in trade of the industry;
- The import price is relatively the same as the selling price to the unrelated party; or
- The import price has already included production cost and profit.

Inspection

Indonesian Customs has been using EDI (Electronic Data Processing) to process Customs declarations submitted by the importers. The system is done especially in major ports such as Tanjung Priok Seaports and Soekarno-Hatta Airport branch offices. In other offices, it may be done manually or using diskettes (semi-computerized). Customs examinations, consisting of document verification and/or physical inspection, are applied for imported goods based on very selective basis. Physical inspections shall be focused particularly on high-risk imported goods. High-risk means that physical inspection shall be applied only based on Customs intelligence information or by random sampling automatically determined by computer. The imported goods that should be physically examined are passed through *red channel* which are not more than 10% of total import, while the others are passed through *green channel*.

Indonesian Customs has set up a standard time frame for each step of cargo clearance. For example, red channel or green channel decisions must be done within 4 hours since the import declaration was submitted, and when the physical examination is needed, it must be ready to be conducted within 12 hours and finished not more than 40 hours. Also, when there is no indication of cheating, the cargo can be released before the document clearance for importer's own good. Any person/importer who is not satisfied with the decision made by the Customs regarding tariff classification and/or valuation, may file a written objection to the Director General of Customs and Excise within 30 days of the date of the assessment by depositing a security promise at the amount of the taxes due. The Director General should make the decision on the objection within 60 days period. If the period has passed without any decision made, the objection shall be deemed accepted and the security must be returned. If the person/importer is still unsatisfied with the decision made by the Director General regarding classification and valuation, he or she still has the chance to file written appeal to the Board of Tax Dispute Settlement within 60 days after the taxes due have been paid.

Activities/Measures

The Indonesian Customs Authority has taken all necessary steps to better facilitate export and import. It also has been working diligently to transform itself from merely an agent of revenue collection and law enforcement to a more trade facilitator. To meet this challenge, some measures have been taken to improve Customs services. These include :

- In April 1, 1995, Indonesia enacted a new Customs Law No. 10/1995 which has come into effect since April 1, 1997. The Law accommodates some basic elements to provide, among others, better trade facilitation;
- Since April 1, 1997, Indonesia has provided an Advance Tariff Classification facility. The facility enables traders and importers to have a written information on tariff classification and import duty rate of goods, which will be imported prior to the lodgement of Customs declaration;
- In April 1, 1998, Indonesia has fully applied the Electronic Data Interchange (EDI) system in some of its main Customs service officers;
- The Tax Appeal Court has been operated since April 1998;
- Indonesia has fully implemented WTO Valuation Agreement since January 1, 2000 by providing necessary procedure on Customs valuation;
- Indonesia will ratify the Kyoto Convention on the simplification and harmonization of Customs procedures, once the Convention is completely revised;
- Indonesia is in the process of accession to the ATA Convention;
- Indonesia has applied Harmonized System Convention as a basic nomenclature for its Customs purposes;
- Indonesia is developing Harmonized Trade Data Element in accordance with the implementation of UN/EDIFACT;
- Indonesia has taken several Customs related actions to implement the TRIP's Agreement by the year 2000;
- Indonesia also provides necessary information (e.g. brochures) in strategic locations such as airports and seaports, and has introduced the Indonesian Customs Website *(http://www.beacukai.go.id)* and the Indonesian APEC Customs contact point *(soegito@innocent.com)*;
- Indonesia has further improved the implementation of Risk Management Approach in order to enhance the expeditious flow of goods;
- In accordance with the main principles of WCO Guidelines on Express Consignment Clearance, Indonesia implements a specific customs clearance procedure called "Rush Handling";
- By using Post Clearance Audit Methods, Indonesian Customs Administration intensifies its efforts on combating fraud, particularly in Customs valuation area.

In achieving the Bogor goal, Indonesia has been active in the work of the Sub-Committee on Customs Procedures. Additionally Indonesia has prepared to work together with all member economies to better simplify and harmonize customs procedures in the region by fully taking into consideration the principles of Facilitation, Accountability, Consistency, Transparency, and Simplification.

Import Restriction

(a) ***Import Licenses***

The new policy of automotive development abolishes the restriction in which all CBU cars both those which had been produced or not been produced in Indonesia are free to import to Indonesia by the general importers, as long as they fulfill the requirements prevail in Indonesia, as stated in the Minister of Industry and Trade Decree No. 275/1999.

This is also stipulated in the Ministry of Industry and Trade Decree No. 279/1999 allowing the importation of CBU cars by general importers, and altered the previous regulation which only allowed the importation of CBU cars by the registered importers or sole agents.

(b) ***Quotas***

There is no regulation regarding import quota of automotive products in Indonesia. In term of volume, importation of CBU and CKD cars are merely based upon market demand.

(c) ***Bans***

There is no regulation, which bans the importation of brand new cars to Indonesia. The Decree of the Ministry of Industry and Trade No. 278/2000 just prohibits the importation of used cars except truck with minimum GVW of 24 tons.

Investment requirements in general

(a) ***General Policy***

In order to drive investment, general policies of Indonesian Government among others are :

- Government Regulation No. 20/1994 and Presidential Decree No. 31/95 provide that foreign investors are allowed to acquire 100% shares of the company; and automotive sector is open for foreign direct investment. A joint venture is only required in eight investment sectors vital to the public interest, such as the operation of harbours, telecommunication, power generator, shipping lines, potable water, public railways and nuclear power generator.
- The minimum capital requirement for foreign investment has been eliminated.
- Ministry of Finance Decree No. 297/1997 jo. No. 545/1997, 546/1997, and 135/2000 provide exemption or deduction of import duty for production machines, equipment and raw materials for new investment. It is also apply to industries which restructuring their production capabilities (such as diversify and improve the quality of the products). However, this policy is not applicable to car manufacturers except component industry.
- Investment application, including approval procedure, has been substantially simplified. Foreign investment's application with a value of up to US$ 100 million (which formerly needed the President's approval) is now only subject to the approval or the Minister of Investment/Chairman of the Investment Coordinating Board. The Investment Coordinating Board (BKPM) is now also making the necessary preparations to grant more authority to Local Government Authority to issue investment licences.
- Tax incentive to the investor for 22 categories of manufacturing activities. The basic period of enjoying the tax incentive is three years for Java and Bali. Beyond this period the incentive can still be extended up to 12 years maximum if certain requirements are met.

(b) ***Local/Regional content provisions***

As previously mentioned, the 1993 Automotive Policy was basically pushed domestic automotive assemblers to use as much as possible local components using incentive pattern which link the import duty paid with the achievement of local content level. For an example, sedan assembler will enjoy the incentive of 0% Import Duty and 20% Luxury Tax if (and only if) the assembler able to utilize local components for more than 60%.

However, the above-mentioned policy was no longer in force since the Government of Indonesia launched a new automotive development policy in June 1999. Local content provision was eliminated since July 1, 1999.

(c) ***Equity restrictions/requirements***

Government Regulation No. 20/1994 provides that foreign investors are allowed to acquire 100% shares of the company established in Indonesia. Therefore, there is no equity restriction implemented in connection with investment regulation in Indonesia.

(d) ***Profit repatriation requirements***

Not applicable.

(e) ***Foreign exchange balancing requirements***

Not applicable..

(Source : EEPC Singapore Office)

(To be continued in next issue)