INDONESIA

TRADE SUMMARY

The U.S. goods trade deficit with Indonesia was $13.3 billion in 2017, a 1.3 percent increase ($170 million) over 2016. U.S. goods exports to Indonesia were $6.9 billion, up 14.0 percent ($844 million) from the previous year. Corresponding U.S. imports from Indonesia were $20.2 billion, up 5.3 percent. Indonesia was the United States' 36th largest goods export market in 2017.

U.S. exports of services to Indonesia were an estimated $2.4 billion in 2016 (latest data available) and U.S. imports were $908 million. Sales of services in Indonesia by majority U.S.-owned affiliates were $3.0 billion in 2015 (latest data available), while sales of services in the United States by majority Indonesia-owned firms were $114 million.

U.S. foreign direct investment (FDI) in Indonesia (stock) was $14.6 billion in 2016 (latest data available), a 9.1 percent increase from 2015. U.S. direct investment in Indonesia is led by mining, nonbank holding companies, and manufacturing.

OVERVIEW

The increasing number and severity of Indonesian trade and investment barriers has significantly increased the uncertainties and risks facing U.S. and foreign companies doing business in Indonesia. In recent years, Indonesia has enacted numerous regulations on imports that have increased the burden for U.S. exporters. Import licensing procedures and permit requirements, product labeling requirements, pre-shipment inspection requirements, local content and domestic manufacturing requirements, and quantitative import restrictions impede U.S. exports. In addition, the Indonesian government has adopted measures that impede imports as it pursues the objective of agricultural self-sufficiency. Beginning in late 2015, the Indonesian government introduced a series of economic reform packages designed to ease regulatory burdens, improve the business climate, and attract additional investment. However, the impact of these reforms has been limited so far because of their narrow scope and slow implementation.

TRADE AGREEMENTS

Indonesia has free trade agreements (FTAs) with Association of Southeast Asian Nations (ASEAN) and ASEAN plus one, and Japan. Indonesia recently completed FTA negotiations with Chile and is negotiating other FTAs, including one with Australia and one with the European Union.

TECHNICAL BARRIERS TO TRADE / SANITARY AND PHYTOSANITARY BARRIERS

Technical Barriers to Trade

Toys – Standards and Testing Requirements

Ministry of Industry (MOI) Regulation 24/2013 (as revised by MOI Regulation 55/2013) requires, as of April 2016, a mutual recognition agreement for the acceptance of test reports from laboratories outside Indonesia. The U.S. Government is not aware of any existing mutual recognition agreements, leaving imported toys subject to mandatory in-country testing in Indonesia to obtain certification under Indonesian National Standards (SNI) for import.

U.S. stakeholders remain concerned about the frequency of testing under the regulation, which is required on a per-shipment basis for imports, but only every six months for domestic products. They also are concerned about burdensome documentation requirements, as well as specific technical requirements, such as for formaldehyde, which are not based on the latest International Organization for Standardization (ISO) standard. In addition, U.S. stakeholders have asked MOI to reduce the inspection frequency once an importer demonstrates a history of compliance, along the lines of the U.S. Consumer Product Safety Commission's post-market surveillance approach. Since the regulation came into effect, importers have reported that the import testing and registration process has increased from 15 days to an average of 80 to 90 days. The United States has pressed Indonesia to amend the regulation and will continue to raise concerns over this regulation bilaterally and in the WTO Committee on Technical Barriers to Trade (WTO TBT Committee).

Halal Certification

In September 2014, Indonesia passed Law 33/2014 governing halal products. The law makes halal certification mandatory for food (including products derived through agricultural biotechnology), beverages, pharmaceuticals, cosmetics, and chemical products sold in Indonesia. All business processes, including production, storage, packaging, distribution, and marketing are required to comply with the halal law. The law also requires non-halal information to be placed on packaging for non-halal products. The law will go into effect on October 17, 2019, five years after its date of enactment. Initial conversations with Indonesian government officials indicated that there would be a two-phase implementation process, with food and beverage products required to comply with requirements within three years of the law going into effect (October 2022) and cosmetics, pharmaceuticals, and other products within five years (October 2024). In early 2018, however, Indonesian government officials indicated a change in policy whereby the law's requirements will go into effect immediately for all products on October 17, 2019. In the meantime, Indonesia has instructed companies to follow existing Indonesia Ulama Council (MUI) halal-certification procedures.

In October 2017, the Indonesian government officially established the Halal Product Assurance Agency under the Ministry of Religious Affairs (MORA). The Halal Product Assurance Agency has recruited leadership and hired staff, and is awaiting issuance of necessary implementing regulations. MORA is reportedly finalizing government regulations on halal product assurance and the fees to be charged for halal certification, with a goal of issuing them in 2018. The United States will continue to monitor developments and engage with Indonesia on these issues. (*See Import Policies Section for information on the pharmaceutical market access requirements in these regulations*.)

Separately, in July 2016, the Ministry of Agriculture (MOA) issued Regulation 34/2016, replacing Regulation 139/2014. As in previous regulations, all meat and poultry facilities wishing to export products to Indonesia must be fully dedicated for halal production. However, in practice this rule has only been applied to poultry. In addition, poultry slaughterhouses must be fully dedicated halal manual slaughter facilities in order for any facility to be eligible to export to Indonesia, and each of the poultry facilities must be approved by the MOA and Indonesia's religious authority for halal, MUI.

Prepackaged and Fast Foods – Labeling of Sugar, Salt, and Fat Requirements

In September 2015, the Indonesian government delayed implementation of Regulation 30/2013 on the inclusion of sugar, salt, and fat content information on labels for prepackaged and fast foods until 2019. The regulation would require inclusion of a health message affixed to labels for processed and fast foods. Indonesia failed to notify the regulation to the WTO TBT Committee until after it was finalized and in effect. The United States supports Indonesia's regulatory and public health effort to improve nutritional literacy and raise awareness among Indonesians about healthy lifestyle choices, but is concerned about the lack of an open public consultation process regarding this measure. U.S. stakeholders have raised concerns regarding the need for further technical clarification and implementing guidance including acceptable methods for performing the required nutrient conformity tests, and whether tests performed by foreign laboratories or by companies' "in-house" laboratories would be acceptable. It is unclear whether Indonesia's testing procedure will allow *de minimis* variations between batches and could lead to unnecessary shipment-by-shipment inspections for label conformity. The United States submitted written comments on the regulation in 2014, a year after the regulation had gone into effect, and has raised the regulation at the WTO TBT Committee meetings, which led Indonesia to delay implementation. The regulation could affect as much as $418 million in annual U.S. prepackaged food exports to Indonesia.

Label and Advertisement of Food Regulation

Indonesia's food and drug regulatory agency, the National Agency of Drug and Food Control (*Badan Pengawas Obat dan Makanan* – BPOM), issued a draft regulation in 2016, the "Government Regulation Concerning the Label and Advertisement of Food," to implement provisions of the Law 18 on Food of 2012. Among other things, the regulation would prohibit advertising or promotion of milk products for children up to two years of age, as well as any functional claims on foods for children under three years of age. The regulation also would severely restrict the infant formula industry's interactions with health care providers, and the draft contains additional restrictions, including a ban on advertising for alcohol and stringent requirements for nutrition labeling. It is unclear when Indonesia intends to finalize this regulation, and the Coordinating Ministry for Economic Affairs continues to coordinate inter-ministerial feedback. The United States has asked Indonesia to notify the measure to the WTO TBT Committee before finalizing the regulation.

Sanitary and Phytosanitary Barriers

Beef and Pork

Indonesia requires each U.S. meat establishment seeking to export to Indonesia to complete an extensive questionnaire that includes proprietary information, and to be inspected by Indonesian inspectors, before it can ship meat to Indonesia. The United States has raised concerns about this approval system with Indonesia repeatedly, including at the WTO Committee on Sanitary and Phytosanitary Measures (WTO SPS Committee) and in bilateral interactions, and will continue to raise concerns in WTO and bilateral fora. In late 2016, Indonesia conducted an audit in the United States and approved 10 new meat plants to export. However, in 2017, Indonesia subjected all animal product establishments seeking to export to Indonesia to inspection fees. (*See also section on Animal-Derived Products: Inspection Fees*).

Animal-Derived Products

Indonesia's animal health and husbandry law (Law 18/2009, as amended by Law 41/2014) requires companies that export animal-derived products, such as dairy and eggs, to Indonesia to complete a pre-registration process with the Indonesian MOA. The law allows imports of these products only from facilities that Indonesian authorities have individually approved. To date, Indonesia has not notified the law to the WTO SPS Committee. After a 2011 audit of the U.S. food safety system as it applies to dairy products, Indonesia agreed to a simplified questionnaire for U.S. dairy facilities seeking to pre-register for review and approval. The United States is continuing to work with Indonesia to further improve the system under which U.S. establishments become eligible to export dairy products to Indonesia.

Animal-Derived Products: Inspection Fees

In 2017, MOA began applying inspection fees on all animal product establishments seeking to export to Indonesia under Government Regulation 35/2016 on Types and Rates of Non-Tax State Revenue Applicable to the MOA. These inspections are mandatory to obtain export eligibility certificates, and consist of a "desk audit" of application materials ($1,200), an on-site facility inspection ($925 per auditor, per day) and a post-audit desk review ($1,200). U.S. exporters must also pay for MOA officials' transport and lodging costs while conducting inspections in the United States. In total, companies seeking to export to Indonesia could pay up to $10,000 for an inspection.

Horticulture

MOA Regulation 55/2016 establishes the most recent requirements for countries wishing to export "Fresh Food of Plant Origin" to Indonesia. The regulation specifies that Indonesia must recognize either the food safety system of an exporting country or a registered food safety testing laboratory serving that country's exporters. In 2016, Indonesia recognized the U.S. food safety system under this regulation and renewed this recognition in January 2018 for another two years. (*See Customs Barriers section for more information*.)

IMPORT POLICIES

Tariffs

Indonesia's average MFN applied tariff rate is 6.9 percent according to the WTO. Indonesia periodically changes its applied rates and over the last five years has increased its applied tariff rates for a range of goods that compete with locally-manufactured products, including electronic products, electrical and non-electrical milling machines, chemicals, cosmetics, medicines, wine and spirits, iron wire and wire nails, and a range of agricultural products including milk products, animal and vegetable oils, fruit juices, coffee, and tea. Since December 2011, the average tariff rate for oilseeds have fluctuated between zero percent and five percent. As of November 2017, the tariff on soybeans is zero percent, but MOA is reportedly considering increasing this duty anywhere from 10 percent to 20 percent.

Indonesia's simple average bound tariff rate of 37.1 percent is much higher than its average applied tariff. Most Indonesian tariffs on non-agricultural goods are bound at 35.6 percent, although tariff rates exceed 35.6 percent or remain unbound on automobiles, iron, steel, and some chemical products. In the agricultural sector, tariffs on more than 1,300 products have bindings at or above 35.6 percent. Tariffs on fresh potatoes, for instance, are bound at 50 percent, although the applied rate is 20 percent. The high bound tariff rates, combined with unexpected changes in applied rates, create uncertainty for foreign companies seeking to enter the Indonesian market. U.S. motorcycle exports remain severely restricted by the combined effect of a maximum of 50 percent tariff, a luxury tax of a maximum 125 percent, a 10 percent value-added tax, and the prohibition of motorcycle traffic on Indonesia's highways.

Under Ministry of Finance (MOF) issued Regulation 182/2016, Indonesia levies an import duty of 7.5 percent on certain imported goods (known as "consignment goods") shipped by business entities regardless of the tariff rate in Indonesia's WTO and FTA schedules, if the Free On Board (FOB) customs value of the good is more than $100 but less than $1,500.

Taxes and Luxury Taxes

Indonesia assesses an income tax on the payment of delivery of goods and activities related to import through MOF Regulation 175/2013. Importation of certain goods listed in this regulation is subject to a 7.5