



INDONESIA TRADE AND INVESTMENT HIGHLIGHTS - MARCH 2007

Summary:

- After lengthy negotiations, Parliament passed a new Investment Law on March 29 that is now awaiting presidential approval. The new law will require further implementing regulations to come into force.
- Members of the G-33 met in Jakarta from March 20 to 21, with the G-33 claiming it clarified and reduced by half the indicators it would use to determine which agriculture products would receive special protection in the Doha Development Round negotiations.
- Indosat, Indonesia's second largest telecom company, reported \$154.8 million in 2006 profits on March 23, a 13.1% profit decline from 2005.
- The Minister of State Owned Enterprises appointed Mustafa Abubakar as the new chairman of the State Logistic Agency (Bulog) on March 21 after the previous chairman was arrested on corruption allegations.
- On March 26, the Indonesian Chamber of Commerce and Industry (Kadin) identified 10 prime industrial clusters needing increased development in order to transform Indonesia into an industrialized and commercially developed country by 2030.
- The GOI re-affirmed its commitment to privatization of unprofitable state owned enterprises (SOEs) at a conference held April 12.

Parliament Passes Investment Law

On March 29, Parliament passed a new Investment law aimed at improving Indonesia's investment climate and attracting greater foreign investment into Indonesia. The law, which replaces the 1967 Foreign Investment Law and the 1968 Domestic Investment Law, is now waiting for President Susilo Bambang Yudhoyono's signature to come into force. The law establishes basic investment protections including the following:

- Equal treatment for domestic and foreign investors. However, equal treatment is not applicable to investors from countries which obtain, "special rights based in an agreement with Indonesia."
- The Government of Indonesia (GOI) will not undertake any nationalization action, unless by law. In the event that the GOI "takes action to nationalize," it will grant compensation with specified amount based on the market value or arbitration if the two parties do not agree.

- Investors may freely transfer assets to other parties, as long as assets are not determined (by law) to be state assets.
- Investors may transfer and repatriate capital, profits, royalties, income from asset sales, and other sources, in foreign currency, in accordance prevailing laws and regulations. However, this does not restrict the right of the GOI to receive taxes or royalties or implement laws and regulations requiring reporting of the transfer of funds. The GOI may also implement laws to protect the rights of creditors and to avoid losses to the State.
- Investments disputes between the Government and Investors may be settled through international arbitration based upon prior agreement between the parties.

In addition, the law requires investors to give priority to Indonesian manpower. After mediation attempts and tripartite proceedings, disputes between investors and labor will ultimately be settled through the industrial courts. The law contains a new provision requiring the GOI to terminate agreements or cooperation contracts with investors following a binding court decision that they have committed a corporate crime (including a tax crime or inflating recovery cost and/or other mark-ups) resulting in loss to the state. The law also specifies that certain sectors are closed to foreign investment or open with restrictions, and requires the GOI to determine open and closed sectors through a Presidential Regulation.

The new law also appears to increase the authority of the Investment Coordinating Board (BKPM) in both implementing and proposing investment policy. The BKPM's duties under the law include coordinating and implementing one door integrated services, developing an investor roadmap, provide consultation to investors seeking capital investments, and others. Although the law contains no provision authorizing BKPM to approve investments, BKMN approval is needed in order for investors to receive immigration facilities or investment incentives. The law requires the GOI to launch a "one-stop" service facility to speed up investment approval. It also provides the authority for the GOI to issue a range of incentives to both domestic and foreign investors, including:

- exemptions or reductions of income tax, import duties, and value added tax;
- accelerated asset amortization and depreciation, and;
- exemption or reductions from land and building taxes.

Minister of Trade Mari Pangestu noted during a March 29 plenary meeting that the new investment law offers a strong legal basis for investment, easier access to obtain permits, including those regarding taxes, and land rights. Like many Indonesian laws, the Investment law will require further implementing regulation. Such regulations will clarify open and closed sectors (negative list), provisions for granting incentives, and procedures for "one stop" integrated investment services.

[G-33 Meeting in Jakarta](#)

Indonesia hosted a Group of 33 (G-33) meeting March 20-21 to assess the progress of negotiations on the Doha Development Agenda (DDA) and reflect on the course of action on Special Products (SP) and the Special Safeguard Mechanism (SSM). Press reports noted that the G-33 continues to press for the acceptance of the SP and SSM proposals, which allow for the exemption of tariff cuts on certain products specific to each country. Chair of the G-33, Minister of Trade Mari Pangestu, emphasized unity and solidarity in the process of DDA negotiations, noting that ministers and high officials pledged their full support toward addressing the issues of food security, protection of livelihoods, and promotion of rural development in developing countries. Pangestu told the press on March 21 that the G-33 had agreed on three points: early removal of trade distorting subsidies in developed countries that pose significant market barriers to developing countries; upholding the developing countries proposal to cut agriculture subsidies to developed country farmers; and the need for developed countries to show leadership and move the multilateral negotiations forward by creating detailed and specific offers. The G-33 also claimed it clarified and reduced by half the indicators it would use to determine which agriculture products will receive special protection.

Pangestu also noted that the meeting was not about the G-33 finding a “breakthrough” on major differences with the G-4, but rather committing to engage constructively toward a solution. Meeting participants included WTO Director General Pascal Lamy, Brazilian Minister of External Affairs Celso Amorim, G-10 Representative, Japanese Minister of Agriculture Toshikatsu Matsuka, and European Commissioner for Trade Peter Mandelson.

Indosat Net Profit Down

Indonesia’s second largest telecom firm, PT. Indosat, reported net profits of Rp 1.41 trillion (\$154.8 million) in 2006, a 13.1% decrease year-on-year from Rp 1.54 trillion (\$169.1 million) in 2005. Indosat’s mobile subscriber base failed to keep pace with industry growth, growing only 15% last year to 16.7 million, and lagging behind the rapid growth of the industry. Indonesia’s mobile phone industry has grown rapidly in recent years and analysts predict the number of users will top 100 million by 2010 from 65 million last year. Attractive growth has also attracted new entrants into the increasingly crowded telecom market.

GOI Replaces Logistic Chief

On March 21, the Indonesia’s State Owned Enterprises Ministry appointed a new head at the State Logistic Agency (Bulog) following the arrest of the previous chief on corruption charges. The new head is Mustafa Abubakar, a former senior official at the Ministry of Marine Affairs and Fisheries and former World Bank consultant to Bank Rakyat Indonesia and Bank Indonesia. Previous to his current post, Abubakar served as Inspector General at the Ministry of Marine Affairs and Fisheries from 1999 to 2006.

Abubakar’s appointment comes after the Attorney General’s office arrested former chief Widjanarko Puspoyo on March 20 over allegations of graft involving imports of cattle from Australia in 2001 that caused an estimated \$1.2 million in losses to the state. Bulog was established in 1967 to strengthen Indonesia’s food

supply and distribution. Its main function today is to stabilize prices of commodities such as sugar and rice.

KADIN Identifies 10 Prime Industries in Roadmap

The Indonesian Chamber of Commerce and Industry (Kadin) identified 10 prime industrial clusters needing increased development in order to transform Indonesia into an industrialized and commercially developed country by 2030. Kadin called for appropriate policies at the national level to promote increased investment and better management in industries. Kadin also recommended re-orienting government policy away from promoting the export of raw materials toward directing raw materials to supplying domestic production. Kadin Head of Industry and Technology, Rahmat Gobel, expressed concern over the future competitiveness of Indonesian industry, noting that tariff cuts starting in 2010 will intensify competition in the ASEAN market. Gobel also said that in this increasingly competitive environment, national industrial restructuring will be vital to boost competitiveness in key sectors and ensure business survival. The 10 prime Industries are:

- Textile and footwear;
- Electronic and parts thereof;
- Automotive and parts thereof;
- Shipping;
- Infrastructure Developers, such as power plants, toll roads, telecommunication, construction, cement, steel and ceramic;
- Capital goods and machineries;
- Upstream petro-chemical, including fertilizer;
- Fisheries;
- Agriculture, poultry, forestry and plantation, including food and beverage; and
- Cultural and traditional based industry, such as traditional medicine, handicrafts, and batik.

Government Commits to Privatization

The GOI re-affirmed its commitment to privatization of unprofitable state owned enterprises(SOEs) at a conference held April 12. President Susilo Bambang Yudhoyono and State Minister for State-Owned Enterprises Sugiharto called for the 20 current unprofitable SOEs to be privatized. Sugiharto restated his commitment to selling a 30% stake in state toll road operator Jasa Marga and to privatizing Bank Negara Indonesia (BNI), the country's second largest bank. Both Sugiharto and the President said they expect privatization activities to start this quarter.
