

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/73

22 September 1967

Limited Distribution

1967 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH INDONESIA

Basic Document for the Consultation¹

1. Classification of goods for import purposes

Category I - Essential items such as rice, fertilizers, medicines.

Category II - Raw materials, semi-finished goods, capital equipment to produce goods which earn or save foreign exchange.

Category III - Other raw materials and semi-finished goods used in domestic production.

Category IV - All other goods.

Enclosure V - Protected import list, comprising goods drawn from the above categories.

2. Entitlement to import

Until recently, the right to import has been confined to registered importers, who paid an initial deposit for registration. All exporters wishing to establish themselves as importers are automatically registered. Very recently, certain facilities for import have also been accorded to others, notably under the BE-credit arrangements discussed below.

3. Basic restriction systems

No import licence is required to effect any of the transactions permitted to be carried out with BE exchange and no import declaration is required except for transactions in "BE without cover". However, in no case are imports of Category IV or Enclosure V goods permitted with BE exchange. The goods which may be imported in this way are those on special BE lists including most items in Categories I-III, recently sub-classified to distinguish consumption and non-consumption goods. A summary of the BE lists will be found in Annex I and the complete list will be issued shortly as an addendum to this document.

¹This document has been prepared by the secretariat; the delegation of Indonesia will undoubtedly wish to make some modifications and may also be able to supplement it with respect to various matters not here covered.

No import licence is required to effect imports paid for with DP exchange, and with the exception of automobiles and ceramic tiles any goods in Categories I-IV, but not goods on the Enclosure V list, may be purchased with such exchange.

All imports financed through the Foreign Exchange Fund, including government imports, are subject to licence.

4. Exchange rates in current use

The various types of foreign exchange referred to above are not all available for all purposes and differ in cost.¹

(a) BE exchange

All exports from Indonesia give rise to bonus certificates in varying proportions to total export proceeds. For the basic exports in Category I below, which make up about 90 per cent of Indonesia's export trade, "net f.o.b. prices" are fixed by the Government and exporters are required to surrender to authorized banks foreign exchange equal to the quantity exported calculated at the "net f.o.b. price". The posted prices thus operate as minima. Category II export proceeds, on the other hand, must be surrendered in their entirety, with allowance made for foreign expenses incurred. For both categories, the amounts surrendered must, in part, be sold to the provincial and central government at the official rate of Rp 10 per US\$1; the balance, rights to which are retained by the exporter, is issued to him in BE certificates, which he may either use to pay for his own imports or sell in a free market where the rate as of the end of June was about Rp 139 per US\$1. BE exchange is valid (i.e. retains its extra value) for only three months.

<u>Category</u>	<u>Percentage retained by exporters and issued to him in BE</u>	<u>Per cent importer is required to sell at official rate</u>	
		<u>To provincial governments²</u>	<u>To central governments</u>
I- (Rubber, copra, pepper, tin, tobacco, palm oil, palm kernels, coffee, diamonds)	75	10	15
II- All other (except petroleum)	90	10	-

¹Payment for petroleum companies' imports are channelled through separate accounts, arising out of proceeds of petroleum exports which are surrendered to authorized banks at the rate of Rp 85 per US\$1. Payment for such imports, which are subject to licence, is calculated at the same exchange rate.

²This exchange is shared between the province in which the goods were produced and that through which it was exported. Provincial governments may use their exchange receipts to pay for their own imports (see (c) below) or sell it in the BE exchange market.

(b) BE credit exchange (BE/BNI in International Monetary Fund document)

To utilize foreign aid credits which had been granted to Indonesia imports, arrangements have been made for the sale through all State banks (formerly only the Central Bank) of BE credit exchange against exchange resources available in the future from aid credits. The rate for these certificates has been kept at figures which have followed but been slightly lower than the free fluctuating BE rate, and BE-credit (BE/BNI) certificates have recently been sold at about Rp 131 per US\$1. Originally, the full rupiah equivalent had to be paid in at the time of purchase of the exchange certificate, but it has since been provided that the percentage may be as low as 25 per cent for certain aid imports with the balance due upon importation of goods; recently the percentage to be paid in rupiah upon purchase of the exchange has been raised to 50 per cent for consumption goods. Only goods on the BE list may be imported with this exchange and, owing to the conditions on which certain aid was granted, there may be cases in which there are additional limitations on the range of goods for which it may be used in particular countries or specification of country from which goods may be purchased with the BE-credit certificate.

(c) BE-without-cover exchange

A further type of exchange which has been available for purchase of imports is the so-called "BE-without-cover", or "BE tanpa cover". For a time there was no limit on the amounts of such exchange which could be purchased by importers at a free fluctuating rate. There is no guarantee by the Foreign Exchange Fund that exchange will be available or that transfer will be authorized. The system is used both by manufacturers requiring imports for the production of exports they themselves will sell, so that they expect to produce their own foreign exchange, and by others who buy this future exchange in the open market. Its use was mainly in connexion with imports on which deferred payment to the foreign supplier had been arranged. Recently, at the same time that BE-credit exchange was made more generally available for deferred payments, the use of BE-without-cover has been restricted by the requirement that foreign exchange banks as a whole may not have outstanding at any one time BE-without-cover commitments in excess of \$30 million. An import declaration is required for such transactions and only those goods on the BE list which are classified as non-consumption goods may be imported in this way.

(d) DP exchange

Excess foreign exchange is sometimes earned by exporters of Category I products, over and above "net f.o.b." (posted) prices; any such excess earnings and certain invisibles earnings are credited to the owners as Complementary Foreign Exchange (DP) which they may use or sell once. DP exchange, like BE, is valid only three months from time of issue. As the range of goods which may be purchased with it is wider than that available for purchase with BE exchange, its price has tended to run higher, although the Government has tried with some success to bring the two rates together by inclusion of additional goods and services on the list of possible uses of BE exchange. As of the end of May DP sold at Rp 149 per US\$1, but more recent modifications may already have narrowed the gap and will certainly reduce the quantity of DP exchange created in the future.

(e) Foreign Exchange Fund

Any imports paid for out of this Fund require a prior licence. In fact, no private imports are paid for out of it and the Government's imports, which are paid out of it, are calculated not at the transaction rate of Rp 10 per US\$1 at which the Fund buys from exporters but at the prevailing BE/BNI rate for sale of BE credit exchange, recently about Rp 132 per US\$1. The only exception is the sale from the Fund of the provincial governments' shares of export proceeds, where the Fund performs an allocating function at the transaction rate.

5. Other measures affecting imports

Import duties are calculated on the c.i.f. value of imports, and the basis for calculation is periodically reviewed. Recently the basis was fixed at Rp 130 per US\$1, increasing the local currency equivalent of duties by about 40 per cent; however, at the same time certain rates on materials and spares were reduced or even eliminated, e.g. fertilizer, rice.

An import surcharge of 50 or 100 per cent of the applicable duty is levied on certain non-essential imports.

Excess profit levies ranging from Rp 10 to Rp 200 per US\$1 are applied to imports of certain goods; a similar charge of Rp 10 per kg. applies to imports of rice.

An import fee of 1 per cent, calculated at the BE rate, called the "BLLD fee" is levied on all payments for imports.

Insurance on imports must be obtained in Indonesia.

6. Differences in treatment of imports from various countries

Apart from limitations imposed by countries granting aid to Indonesia, there are no restrictions on the use of available exchange resources.

Indonesia has a bilateral payments arrangement with Pakistan and one with the Philippines. There is also an active bilateral payments arrangement with Poland.

7. State trading

Many manufacturing enterprises in Indonesia are outright State enterprises, including establishments producing textiles, glasses and bottles, tyres, cement, cigarettes, and bicycle assembly plants. In addition, Indonesia has placed certain foreign-owned estates and other enterprises under Government control, though the recent trend is toward returning such enterprises to owner control.

or toward setting up joint ventures in which the former foreign owner shares management with an Indonesian partner, private or governmental. Foreign oil companies have been returned to owner control as have a number of foreign manufacturing enterprises. Efforts have also been made recently to ensure private borrowers equal treatment with State enterprises in access to new credit for financing exports and essential production. The State enterprises are now placed on a competitive footing with the private sector and are being forced towards efficiency and reduced costs.

ANNEX I

SUMMARY OF GOODS (COMMODITIES) WHICH ACCORDING TO THE CURRENT
REGULATIONS ARE ALLOWED TO BE IMPORTED BASED ON PAYMENTS
THROUGH THE EXPORT BONUS (BE).

(The complete BE list will appear in an addendum)

The above mentioned commodities can mainly be divided into groups as follows:

I. Food

Examples: rice, wheat flour, milk preparations for infant food.

II. Food production requirements

Examples: artificial fertilizers, agricultural implements and tools, plant seeds, fishing nets, hooks, rice mills, dairy machinery agricultural sprayers, insecticides.

III. Food and related industries requirements

Examples: tinsplate and other packaging materials, coca-cola concentrate, essences, hop, cloves, malt, etc.

IV. Clothing

Examples: cotton, raych and other cloth made out of man-made fibres.

V. Clothing industry requirements

Examples: raw cotton, raw silk etc., cotton weaving yarns, staple fibre yarns, woollen yarns etc., cotton sewing thread etc., textile dyestuffs and auxiliary chemicals, textile machinery and spare parts, shuttles for looms etc.

VI. Export products yielding industries

Examples: rubber chemicals, triplex cases, jute bags, twine etc., rubber tappers' knives, aluminium coagulating tanks.

VII. Medical care requirements

Examples: ready medicines (specialities), laboratory equipment, medical instruments.

VIII. Pharmaceutical industries requirements

Examples: Pharmaceutical chemicals and other pharmaceutical raw materials, pharmaceutical machinery and spare parts, packaging materials such as ampoules, vials, bottles, stoppers etc., gelatine for capsules.

IX. Constructional requirements

Examples: portland cement, white cement, reinforcing bars and binding wire, structural steel, spare parts for building equipment such as concrete mixers, piling machines etc., roofing materials, copper cables and wires, asphalt, electrical materials.

X. Transportation and telecommunication requirements

Examples: jeeps, pick-ups, trucks, buses in completely knocked down condition, spare parts for all types of motor cars, spare parts for rolling stock and complementary necessities, ships, tugboats and other ships' necessities, bicycles in c.k.d. condition and spare parts, spare parts for aircraft, lubricating oils, tyres and tubes, telephone sets, teleprinters and spare parts, ground cables, outboard motors, ship engines, automobile engines, and spare parts for same.

XI. Requirements for cultural and spiritual life

Examples: printing and writing paper, printing ink, photographic paper and films, spare parts for printing machines, books and other printed matter for students with a special permission from the Ministry of Education, motion pictures (subject to the approval of the censors), spare parts of film projectors, radio and television sets in c.k.d. condition, tape recorders, pick-ups.

XII. Raw materials and spare parts for existing industries

Examples: organic and inorganic chemicals, bulk metals including non-ferrous metals, tubes and pipes, plates, spare parts for steam-boilers, water pumps, cranes, machines for paper industry, distilling machines, machines for soap industry, for sewing and printing machines, electrical apparatus for industrial purposes etc., fire bricks, insulation materials, transmission conveyor belts, asbestos packing laboratory glassware and other glassware for industrial use, tools and auxiliary parts for industrial purposes, all kinds of hand tools, plastic materials.

XIII. Miscellaneous

Examples: fire extinguishers, fire hoses, chronometer for navigation purposes etc.

