GENERAL AGREEMENT ON

TARIFFS AND TRADE

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SUBSIDIES

Notifications Pursuant to Article XVI:1

INDONESIA

The following notification has been received from the Permanent Mission of Indonesia.

The Republic of Indonesia has been a signatory to the Agreement on Interpretation and Application of Article VI, XVI and XXIII of the General Agreement on Tariffs and Trade (Code on Subsidies and Countervailing Measures) since 4 March 1988.

The decision adopted by the Contracting Parties at their twentieth session (BISD/11S,58-59) envisaged that the subsidies maintained by the contracting parties should be notified to the Contracting Parties under Article XVI:1 of the General Agreement on Tariffs and Trade.

In pursuant to Article XVI:1 of the General Agreement, I have the honour to communicate the following notification concerning subsidies maintained by the Government of Indonesia in the agricultural sector and exports.

Government Assistance for Rice Production

1. Nature and Extent of the Subsidies

a. Background and Authority

- Considering the fact that rice is the main basic foodstuff and that it is regarded as a strategic staple food for most of the people of Indonesia, it is important to maintain a relatively inexpensive and stable price for rice in the domestic market. However, an inexpensive price for rice will indeed affect the income levels of farmers.

- In order to balance the two objectives, namely : the need to have a stable and inexpensive price of rice for the people and the need to preserve the income levels of farmers, the government needs to adopt certain measures, namely to establish bufferstock and to provide inexpensive pesticide, fertilizer and seeds to farmers.

- These measures were undertaken on the basis of :
  (a) Presidential Decree Number 3/1969 dated January 1969.
  (b) Minister of Trade and Cooperatives Decree Number : 56/Kp/II/79, dated February 15, 1979.

b. Incidence

- The Government will ensure that all farmers will benefit from relatively inexpensive production inputs without any price discrimination.

- Since it is impossible to give any direct assistance to the farmers, the government assigns a public company to distribute and sell the inputs at a subsidized price.

c. Amount of Subsidy

For FY 1988/89 the average amounts of the said assistance per unit are as follows (US$ 1,- is equal to Rp. 1,707,-) :

Fertilizer

- Urea	Rp. 86,64/kg
- TSP	Rp. 269,11/kg
- AS	Rp. 154,82/kg
- MOP	Rp. 155,20/kg (ex import)
- Calcium Nitrate	Rp. 382,29/kg (ex import)

Commencing October 6, 1988 the amount of government assistance has been reduced to :

- Urea	Rp. 59,6/kg
- TSP	Rp. 235,6/kg
- AS	Rp. 126,1/kg
- MOP	Rp. 144,-/kg
- Calcium Nitrate	Rp. 353,4/kg

2. Effect of the Subsidy

There is no effect on international Trade. However, domestically, it has a positive impact on the farmer, as well as maintaining relatively stable price of rice.

Programme of Elimination of Export Credit (Short-Term Export Financing)

1. Nature and Extent of the Subsidies

a. Background and Authority

The Export Credit Facility was introduced in January 1982, as part of a comprehensive policy package to promote non-oil and non-gas exports. The package addressed a wide range of problems hampering the growth of such exports, including the provision of facilities and incentives for exporters. Specifically, it abolished export surrender requirements, liberalized restrictions on export payment methods, improved and simplified customs procedures, and introduced the Counter-purchase Policy and Export Credit Facility for exporters.

The 1982 policy package was designed to cope with the severe constraints on resource and balance of payments situations which resulted from the fall in the world oil price and the slackening in price of Indonesia's primary export commodities.

Under the Export Credit Facility, exports are entitled to an interest rate subsidy on the bank loans they have used to finance their exports, as soon as the exports are realized.

Prior to export shipment, exporters can receive working capital loan from their banks, subject to normal commercial terms and conditions. The interest subsidy is given to the exports on a refund basis.

b. Incidence

The interest rate subsidy has served to reduce the interest cost of non-oil and non-gas export financing, which is now extremely high by international standards, even though access has been limited to direct exporters only. The Export Credit Facility has helped improve the competitiveness of Indonesia's non-oil exports and, to a certain extent, has increased the income of domestic producers. It should be noted that most of the producers, particularly those engaged in primary products, are small and low-income producers.

c. Amount of Subsidy

The amount of subsidy is equal to the difference between the commercial rate of interest charged by banks on the working capital loans extended to exporters and the rate set by the Government for the category of commodities exported. Currently, the rate of interest after subsidy is fixed at 11,5% per annum for non-primary products and 9,0% per annum for primary products. Commercial interest rates paid by exporters on their working capital loans prior to export shipment range from 17% to 21%.

2. Effect of the Subsidies

The Export Credit Facility is generally believed to have contributed to the significant increase in non-oil and non-gas exports during the past few years, but no reliable estimate is as yet available on the extent of the contribution.

Subsidy Elimination Programme

By signing the GATT Codes on Subsidies and Countervailing Duties in March 1985, the Government has committed itself to phasing out export subsidies, including interest rate subsidy on the Export Credit Facility.

Export Certificates, previously given as an incentive to exporters, were already abolished in 1986, and as of April 1987, the subsidy under the Export Credit Facility was reduced by raising the interest rate applicable to non-primary exports from 9% to 11,5% per annum. The rate is planned to be further raised in gradual way to reach the level of the 3 month deposit interest rate by April 1990.