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Economic and Commercial Report for May 2012

Economy

Economic growth: Indonesia's economy slowed down in the first quarter of 2012 and expanded by 6.3 per cent on a year-on-year basis, but still among the highest in the region. The Eurozone debt crisis, a stalling economic recovery in the US and slowing economic growth in China seem to be the reasons for the slower growth. According to the World Bank, domestic consumption and investment will continue to drive robust growth in Indonesia, despite a slowdown in the first quarter. In a recent forecast, it stated that Indonesia's economy would grow by 6.1 per cent in 2012, down from 6.5 per cent last year and lower than the government's 6.7 per cent target. Investment and domestic consumption contributed 87 per cent to the country's economic growth as it expended 9.9 per cent and 4.9 per cent respectively in Q1. Rising investment also bolstered employment that provided about 3.1 million new jobs for the country's labor force from August 2011 to February 2012, resulting in a decline in the unemployment rate to 6.32 per cent in February this year from 6.56 per cent last August. Inflation accelerated at a faster pace on an annual basis and reached 4.5 per cent in April compared to 3.97 per cent in March.

Trade

Exports: The exports growth also slowed in the first quarter with total exports to the European Union declining by 7.46 per cent, to the US by 6.17 per cent and to South Korea by 9.19 per cent. Despite recording negative growth in exports to several major economies, Indonesia's total exports in the first quarter rose by 6.93 per cent to US$ 48.53 billion. The non-oil and gas exports in the first quarter topped US$ 38.53 billion up 3.87 per cent, while oil and gas exports at US$ 10 billion were up 20.64 per cent. China, Japan and U.S remained Indonesia's three largest export destinations for non oil and gas products.

Horticulture import regulation: The government has issued a new regulation to restructure horticulture imports following the implementation of the limitation of import gateways earlier this year from eight to four (Soekarno-Hatta international Airport in Tangerang,Banten; Tanjung Perak seaport in Surabaya, East Java; Belawan seaport in Medan, north Sumatra; and Soekarno-Hatta seaport in Makassar South Sulawesi) for horticulture products. The regulation aims to improve health and security supervision at import gateways. Under the new rule, horticulture producers and importers would have to obtain a specific permit to import horticulture product from the Trade Ministry only after securing approvals from the Agriculture Ministry. The regulation will come into effect on June 19. All importation activities would be verified by the Indonesian authorities with points of verification to included countries of origin, shipment ports, post tariffs, kinds and volumes, dates of shipment and health certificates. Imports from any country for the first time would require risk analysis and recommendations about the eligibility for imports to be issued by the Quarantine Agency for fresh products and by the Food and Drug Monitoring Agency for processed products. However, the government is considering exempting imports of horticulture produce from Australia, Canada, and US from the obligation to enter the Indonesian market through specific port as they are signatories of Mutual Recognition Agreement (MRA).

New import duty facility: The Indonesia government has initiated a facility through while local business players can utilize government paid import duty incentives covering 13 industrial sectors, including stationery, textiles, plastic, telecommunications and fiber optics. The facility will be applied for goods that are not locally produced and goods not locally produced but insufficient or do not meet specifications required by the industry. In addition, the facility also cover goods imported for resale in the domestic market to support the industrial competitiveness.

New mobile phone import rules: The government is considering a new regulation that would affect business deals between mobile phone principals and their importers. With the intention of guaranteeing the originality of the gadgets in the market and curbing illegal imports, the regulation would require mobile phone importers to obtain import permits from the brands' principals, in addition to sourcing importers solely from the brand holders.

Investment

IFC to invest US$200 million: The World Bank Group's International Finance Corporation (IFC) is allocating about US$200 million of investment in Indonesia's infrastructure projects this fiscal year. Most of the IFC's infrastructure investment was aimed at toll roads, water sanitation projects and renewable energy projects.

Financial leverage on infrastructure investment: Investment in government sanctioned infrastructure projects will benefit from financial leverage provided by the government starting next year under the Viability Gap Funding (VGF) scheme. The scheme will provide financial support in the form of grants to infrastructure projects undertaken through public private partnerships with the aim of making them more commercially viable. Projects eligible to receive VGF should have a strong orientation towards public welfare and a significant multiplier effect for the economy.

Resources & Mining

Export tax: The Indonesian Government has imposed a 20 per cent export tax on 65 minerals with immediate effect, but coal is exempt from it. The 65 mineral categories consist of 21 metal ores, 10 non metal ores and 34 rock sediment ore. Earlier in May, the government had imposed tax only on 14 minerals but enlarged the list subsequently. The government decision followed reports of excessive exports in view of the 2001 Law on Minerals and Coal which stipulates that in 2014 all mining companies in Indonesia will be prohibited from exporting raw materials. The government expects to earn US$ 2 billion from the export tax.

Energy

Renewable energy: The Government has prepared a US$ 468 million plan to finance the construction of renewable energy plants for production of electricity from water, wind and solar sources. The funds will come from the State Investment Agency (PIP) which has been tasked with funding major infrastructure projects. According to PIP chairman, the agency would provide loans to companies to build geothermal power plants and building micro hydropower plants.

Development plans for oil and gas fields: The upstream oil and gas authority BPMigas has approved plans of development (POD) of eight oil and gas fields, seven of which would begin production this year. Indonesia will put additional oil output of 13,270 barrels per day (bpd) and for gas production may reach 580 million standard cubic feet per day (mmscfd).

Infrastructure

Land acquisition Law: The Indonesian Government has agreed that the newly approved Land Acquisition Law will also cover infrastructure projects that were started before the issuance of the law. Developers with projects that are currently underway have the option to use the old law which stipulates that the compensation process for the land should be completed within two years. If they fail to do so, they will have to use the new law and the new regulation.

Automotive

Green cars: The government plans to issue a new fiscal incentive to encourage domestic manufactures to make inexpensive and environmentally friendly cars. The incentives include reduction in the luxury goods sales tax cars up to 1,200 cc engines. The tax break will also be given to manufacturers willing to transfer their technology within five years of starting local production.

Transport

New airline: Lion Air has announced the establishment of a new full service airline called Batik Air which will operate in March 2013 focusing on International routes. It will use 10 Boeing 737-800 Extended Range (ER) aircrafts, in line with the 2009 Aviation Law which stipulates minimum 10 aircrafts for full service airlines.

Commodity

Indonesia becomes No.1 sustainable CPO producer: According to International multi-stakeholder certification body, Indonesia has become the world's biggest sustainable palm oil producer for the first time on the back of greater certified sustainable palm oil (CSPO) production. In the first quarter of 2012, local grower generated around 2.71 million tons of CSPO, overtaking Malaysia, traditionally the largest CSPO producer which produced 2.69 million tons, based on statistics.

US Palm oil Policy challenged: Indonesia has formally challenged the recent greenhouse gas analysis of palm oil issued by the US Environmental Protection Agency (EPA), saying that palm oil based biofuel is qualified to join the renewable fuel program in the world's energy market. According to the Indonesian Palm Oil Producers' Association, greenhouse gas emissions can be reduced by palm oil-based biofuel by up to 50 percent, higher than 20 per cent required by the EPA. EPA argued that palm oil-based biofuel could cut greenhouse emission by only 17 per cent, falling short of the 20 per cent threshold, to be included in US renewable fuel standard.

Bilateral- India

PHARMEXCIL: The Pharmaceuticals Export Promotion Council of India (PHARMEXCIL) took part in the Convention on Pharmaceutical Ingredients-South East Asia (CPhI-SEA) at the International Expo Jakarta on 10-12 May 2012. The Indian companies numbering 35 took part under the aegis PHARMEXCIL in the India Pavilion. Another 10 Indian companies participated on their own and were located at different places in the hall. A seminar on "India-Indonesia: Towards Affordable Pharmaceuticals and Healthcare" was also organized by Pharmexcil in cooperation with the Mission on 10th May 2012 at the exhibition venue. Indonesia stakeholders from the Ministry of Health, National Drug and Food Regulation (BPOM), GP Farmasi and Mrs.

Zunilda Djanun Dept. Pharmacology and Therapeutics from Medical Faculty University Indonesia also made presentations at the seminar.

Business delegation: A 20-member business delegation arranged by the Embassy of Indonesia in New Delhi visited Indonesia on 5-13 May 2012 on a business and investment mission. The business representatives from sectors like pharmacy, farming, gas and fuel and coal, tourism, and creative economy as well as paper and wood products were part of the delegators.

INDO INTERTEX 2012: About 25 Indian companies participated in the 10th Indonesia International Textile and Garment Machinery & Accessories Exhibition at Jakarta International Expo, Jakarta, from April 19 to 22, 2012. More than 550 exhibitors of textile machinery and accessories took part in the Indo Intertex 2012.

Bilateral - Other Countries

United States: Representative of 17 small and medium enterprises (SMEs) from a wide array of sectors from the Unites States visited Indonesia for business opportunities. The business representatives visited as part of an annual program organized by the US Department of Commerce. The visiting delegates had meetings with potential local business partners in pharmaceuticals, ports and shipbuilding, healthcare and information services, etc.

Portugal: Portuguese President visited Indonesia accompanied by five members of the Portuguese parliaments and more than 20 businessmen. This visit was the first official visit of Portuguese state leader to Indonesia since 1950 when the two countries began bilateral relations. Indonesian and Portuguese Foreign Minister signed several MoUs including on economic cooperation.

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