POSITION PAPER

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1. BACKGROUND

Asia’s emerging economies are recovering rapidly from the Global Financial Crisis and the automotive market is recovering with them. Low cost vehicles are driving the growth of the automotive industry in countries such as Indonesia and Thailand, offering immense opportunities for global players in these markets. Thailand, Philippines, Indonesia, and Malaysia are expected to be some of the highest growing markets for the automotive sector due to various provisions of AFTA (ASEAN Free Trade Area). From a long-term perspective, cheap financing and price discounts, rising income levels, and infrastructure development will drive growth in the majority of the ASEAN automotive market.

ASEAN has a combined GDP of some USD 1.8 trillion, the eighth largest in the world with a market of about 600 million people. EU is ASEAN's largest investor and second largest trading partner after China, accounting for 11.2% of ASEAN trade, while ASEAN is the EU's fifth largest trading partner and accounts for some € 118 billion of imports and exports. Machinery and transport equipment are among ASEAN’s key exports to the EU.

ASEAN vehicle sales as of August 2012 increased by 23% from 1,770,559 in August 2011 to 2,180,619 units in August 2012:

ASEAN AUTOMOTIVE FEDERATION

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1. MOTOR VEHICLES

Country	Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD Aug
Brunei	2012	1,334	1,674	1,726	1,543	1,546	1,695	1,561	1,777					12,856
	2011	1,100	981	1,307	1,267	1,023	1,043	1,205	1,742					9,668
	Y-O-Y	21.3%	70.6%	32.1%	21.8%	51.1%	62.5%	29.5%	2.0%					33.0%
Indonesia	2012	76,442	86,482	87,918	87,144	95,535	101,746	102,512	76,373					714,152
	2011	73,987	69,589	82,163	60,726	61,053	70,154	89,056	73,279					580,007
	Y-O-Y	3.3%	24.3%	7.0%	43.5%	56.5%	45.0%	15.1%	4.2%					23.1%
Malaysia	2012	40,948	44,013	53,583	47,777	58,299	56,665	59,467	51,823					412,575
	2011	54,781	40,387	63,264	50,936	46,045	41,790	50,252	58,382					405,837
	Y-O-Y	-25.3%	9.0%	-15.3%	-6.2%	26.6%	35.6%	18.3%	-11.2%					1.7%
Philippines	2012	8,296	10,681	13,631	12,304	14,265	13,697	14,503	11,351					98,728
	2011	11,046	11,472	13,775	11,816	10,913	10,978	11,550	11,558					93,108
	Y-O-Y	-24.9%	-6.9%	-1.0%	4.1%	30.7%	24.8%	25.6%	-1.8%					6.0%
Singapore	2012	2,775	3,411	3,518	3,413	3,145	3,298	3,377	2,789					25,726
	2011	3,769	2,311	3,651	3,781	3,440	4,119	3,550	2,792					27,413
	Y-O-Y	-26.4%	47.6%	-3.6%	-9.7%	-8.6%	-19.9%	-4.9%	-0.1%					-6.2%
Thailand	2012	77,019	91,325	110,977	87,788	115,943	123,496	131,646	129,509					867,703
	2011	68,398	77,213	93,008	67,283	55,851	70,259	72,902	79,043					583,957
	Y-O-Y	12.6%	18.3%	19.3%	30.5%	107.6%	75.8%	80.6%	63.8%					48.6%
Vietnam	2012	4,274	6,116	7,732	6,004	5,710	5,858	6,737	6,448					48,879
	2011	10,424	7,889	9,513	9,409	7,661	7,611	8,544	9,518					70,569
	Y-O-Y	-59.0%	-22.5%	-18.7%	-36.2%	-25.5%	-23.0%	-21.1%	-32.3%					-30.7%
TOTAL	**2012**	**211,088**	**243,702**	**279,085**	**245,973**	**294,443**	**306,455**	**319,803**	**280,070**					**2,180,619**
	2011	**223,505**	**209,842**	**266,681**	**205,218**	**185,986**	**205,954**	**237,059**	**236,314**					**1,770,559**
	Y-O-Y	**-5.6%**	**16.1%**	**4.7%**	**19.9%**	**58.3%**	**48.8%**	**34.9%**	**18.5%**					**23.2%**

Source: ASEAN Automotive Federation 2012 Statistics, http://www.asean-autofed.com/files/AAF_Statistics_ytd_august12.pdf

Following the increase in sales of vehicles, ASEAN total production as of August 2012 also increased by 24.2% from 2,127,897units in August 2011 to 2,642,121 units in August 2012.

ASEAN AUTOMOTIVE FEDERATION

PRODUCTION : JANUARY - AUGUST 2012 Page 2 of 2

1. MOTOR VEHICLES

Country	Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD Aug
Indonesia	2012	76,992	86,426	85,438	84,351	97,334	94,340	97,300	71,143					693,324
	2011	70,721	63,928	74,308	54,556	54,649	64,444	83,591	69,107					535,304
	Y-O-Y	8.9%	35.2%	15.0%	54.6%	78.1%	46.4%	16.4%	2.9%					29.5%
Malaysia	2012	51,394	43,958	46,607	44,828	46,284	48,989	53,690	39,346					375,096
	2011	60,232	40,897	53,124	37,419	38,909	42,723	53,453	44,789					371,546
	Y-O-Y	-14.7%	7.5%	-12.3%	19.8%	19.0%	14.7%	0.4%	-12.2%					1.0%
Philippines	2012	4,557	6,496	7096	5,498	6,603	6,347	6,472	6,556					49,625
	2011	5,636	5,811	6,885	3,905	3,100	5,483	6,375	6,718					43,913
	Y-O-Y	-19.1%	11.8%	3.1%	40.8%	113.0%	15.8%	1.5%	-2.4%					13.0%
Thailand	2012	140,534	168,096	190,731	145,176	207,501	205,600	209,917	210,334					1,477,889
	2011	146,231	150,743	172,004	89,179	98,804	153,646	147,236	153,180					1,111,023
	Y-O-Y	-3.9%	11.5%	10.9%	62.8%	110.0%	33.8%	42.6%	37.3%					33.0%
Vietnam	2012	5,098	6,034	6,272	6,406	5,847	5,112	5,445	5,973					46,187
	2011	9,432	6,869	9,365	8,572	6,911	7,633	7,992	9,337					66,111
	Y-O-Y	-45.9%	-12.2%	-33.0%	-25.3%	-15.4%	-33.0%	-31.9%	-36.0%					-30.1%
TOTAL	**2012**	**278,575**	**311,010**	**336,144**	**286,259**	**363,569**	**360,388**	**372,824**	**333,352**					**2,642,121**
	2011	**292,252**	**268,248**	**315,686**	**193,631**	**202,373**	**273,929**	**298,647**	**283,131**					**2,127,897**
	Y-O-Y	**-4.7%**	**15.9%**	**6.5%**	**47.8%**	**79.7%**	**31.6%**	**24.8%**	**17.7%**					**24.2%**

Source: ASEAN Automotive Federation 2012 Statistics, http://www.asean-autofed.com/files/AAF_Statistics_ytd_august12.pdf.

With ASEAN Economic Community (AEC) 2015 approaching, ASEAN will move towards becoming a single market which will be one of the biggest growth markets for the automotive industry in Asia together with China and India. Under the AFTA, all internal tariffs on manufactured products have been lowered to 0-5 %. Currently ASEAN is the fifth largest export market, behind Canada, Mexico, China and Japan. Some economies, however, will continue to fare much better than others.

The top three automotive producers in ASEAN: Thailand, Malaysia, and Indonesia, have all taken advantage of various governments schemes to promote a thriving automotive industry and account for 90% of motor vehicle output (passenger vehicles and trucks) in ASEAN. Currently "eco-car" manufacturers have also responded favourably to tax incentives provided by governments. On the other hand, they generated unit sales representing 86% of the entire market. The remaining countries, which are home to no less than 43% of ASEAN's population, have been largely irrelevant which is due to the diversity of the ASEAN countries reflected in the size of the individual markets and in the importance of cars as a means of transport. It needs to be underlined that trucks are very important in the ASEAN countries compared with the established motoring nations, constituting around 46% of vehicle production and 36% of unit sales.

European automotive producers still have a relatively small market share in ASEAN (approximately 2-3%). However, the shares of Japanese automakers in local auto production and also in unit sales of new vehicles in Indonesia and Thailand are both over 80%. In the smaller ASEAN countries, too, it is mostly Japanese firms that top the production and unit sales rankings. Among the primary reasons for this are strong economic links through bilateral trade relations between Japan and individual ASEAN states that have facilitated Japanese firms' entry into the respective markets. Malaysia is the only ASEAN country with an important domestic "home grown" manufacturer.

Within ASEAN, Indonesia has a special potential for future automotive sales with a strong domestic demand, skilled labour and a growing components industry. The large size of its population, an increasing income per capita - creating a larger middle class population, a stable currency, and a current low level of car ownership are the key elements for a constant expansion of the automotive sector. Some analysts say that Indonesia, Southeast Asia's biggest economy, could overtake Thailand as a regional manufacturing hub by 2014 because of a jump in economic development, growing national wealth and a more stable currency.

Indonesia produced more than 830,000 units in 2011 (almost 500,000 units in 2009). During the last five years, the growth of the market reached around 10% a year. The largest assemblers are Japanese-owned or linked to Japanese companies through joint ventures. As passenger car ownership has been discouraged through progressive taxes, and because utility vehicles are well suited to local usage patterns, approximately 80% of the market is made up of commercial vehicles and multi-purpose vehicles (MPVs).

Keen to tap into this potential and to contribute to the development of the Indonesian automotive industry and the Indonesian economy in general, the EU automotive industry invested almost 300 million USD in 2010/2011 in Indonesia. Furthermore, the EU Automotive industry is generally a key industry in providing jobs, exports income, R&D and innovation and plays a decisive role in the transition to sustainable growth and mobility.

- The EU Automobile manufacturers provide over 10% of EU manufacturing employment, with 3.5 million direct jobs and another 9.1 million jobs indirectly.
- Automobile manufacturers are the world's technology leaders.
- They are the largest private investors in R&D in the EU and play a large role in the innovation and knowledge-based economy of today and tomorrow.
- Automobile manufacturers are among the biggest exporters in the EU,

However, despite the growth of the automotive sector in Indonesia and the clear assets provided by the EU industry, the market share of the European automotive producers remains small. As a result, the EU Trade and Investment flows in this sector still tend to prefer neighboring countries such as Malaysia and Thailand where the environment is regarded as more conducive.

Despite clear incentives' initiatives from the Government of Indonesia towards the automotive industry and its attentiveness towards the EU automotive industry specific issues, the present position paper aims to recommend further solutions to reverse this trend and to allow the EU Industry to unleash its full potential in supporting the development of the Indonesian economy.

2. Recent Improvements

2.1 Government of Indonesia incentive initiatives for the automotive industry

The Government of Indonesia is targeting an annual production of 1.7 million vehicles by 2015. In order to achieve this target, the issuance of some regulations that could support the development of the national automotive industry needs to be done by the Government – such as the revision of the IKD (Incomplete Knock-Down) Scheme, Low Cost and Green Car Regulation, Low Carbon Emission (LCE) Regulation and Inland FTA Regulation.

2.1.1 Minister of Finance Regulation No. 76/PMK.011/2012 on Revision of Ministry of Finance Regulation No. 176/PMK.011/2009 on Exemption from Import Duty on the Imports of Machines, Goods and Materials for the Establishment or Development of Industry in the Frame of Investment ("MOF Regulation No. 76/2012")

The issuance of MOF Regulation No. 76/2012 as a revision of MOF Regulation No. 176/2009 is an important step for the improvement of the investment climate in Indonesia, as it stipulates the exemption of import duty for certain industries.

In the MOF Regulation No. 176/2009 a company increasing its investment capacity by 30% is entitled to an exemption of import duty for two years. Moreover, the MOF Regulation No. 76/2012 stipulates further tax incentives for automotive assemblers which were not provided previously in the MOF Regulation No. 176/2009. It entitles motor vehicle assemblers to an import duty relief for the importation of production equipment and material for production purposes.

2.1.2 Proposals on New IKD Scheme

It has been proven that the implementation of the IKD scheme could strengthen the structure of the national automotive industry and could increase the amount of investment. The same trend was seen in the truck and bus industries which are already benefitting of 0% of import duty since the revision of the IKD scheme in 2010. Based on this observation, the European automotive industry, together with GAIKINDO, have proposed to broaden the IKD Scheme to all types of vehicles, to revise the IKD breakdown condition and to harmonize the IKD tariff for non truck and buses to 0 % (from the current 7.5%). This new IKD scheme could have significant and positive impacts on the development of the national automotive industry, therefore, it is strongly recommended to issue this regulation.

2.1.3 Low Cost and Green Car

The Government of Indonesia is currently drafting the Low Cost and Green Car Regulation ("LCGC Regulation"). The LCGC Regulation lists incentives given by the Government of Indonesia to the vehicle manufacturers producing low cost vehicles using green technologies, either willing to invest or to expand their initial investment. Among others, one of the requirements to the manufacturers is to raise their production by 30%.
The LCGC Regulation will be issued in 2012.

2.2 Transition period for the mandatory requirement of SNI for Tires based on Minister of Industry Regulation No. 11/M-IND/PER/1/2012 ("MOI Regulation No. 11/2012")

While previous regulations used to require the application of the SNI marking on tires by sticker, the Minister of Industry Regulation No. 11/2012 on SNI for tires requests a SNI marking by embossment or permanent stamp. The Minister of Industry Regulation No. 11/2012 was effective immediately - starting on the 1st of March 2012 – and therefore leaving the industry only 30 days to adjust to the new requirement. EuroCham's Automotive Working Group members together with the EU Delegation addressed this issue to the Ministry of Industry and requested a three month adjustment period. The Ministry of Industry agreed to a transition period and the new requirement was applied starting the 1st July 2012.

2.3 New Classification for Electric Car

On 14 December 2011, Minister of Finance ratified Regulation No. 213/PMK.011/2011 on Classification of Products and Import Duty Tariffs Imposition ("MOF Regulation No. 213/2011"). MOF Regulation No. 213/2011 is effective on 1 January 2012. Based on Minister of Finance Regulation No. 213/2011, electric car is now classified under:

- **CKD: HS Code 8703.90.13.00**

  Import Duty: 10 %

  Luxury tax: 0%

- **CBU: HS Code 8703.90.19.00**

  Import Duty: 40 %

  Luxury Tax: 0 %

2.4 Master Plan of Acceleration and Expansion of Indonesia Economic Development 2011-2025

On May the 27th 2011, the Government of Indonesia unveiled its ambitious 'Master Plan for the Acceleration and Expansion of Indonesia's Economic Development' (MP3EI). The MP3EI aims to grow the Indonesian economy in order to reach the "advanced economy" status by 2025. The MP3EI outlines strategies to strengthen the national and international connectivity while enhancing the human resources capacity. The plan focuses on 22 economic activities and 6 economic corridors throughout the country, which, among other objectives, will also focus on the infrastructure development. The private sector will have an important role in implementing the Master Plan, in investment, production and distribution, together with the Government who will act as the regulator and also as a facilitator, and with strengthened coordination among related ministries and regional government. The plan includes USD 470 billion of investments, the majority expected from the private sector.

3. KEY RECOMMENDATIONS

3.1 Regulatory issues

3.1.1 Minister of Trade Regulation No. 59/M-DAG/PER/9/2012 on Revision of Minister of Trade Regulation No. 27/2012 on Import Identification Number

On the 21st of September 2012, the Minister of Trade issued the **Minister of Trade Regulation No. 59/M-DAG/PER/9/2012** on the revision of the Minister of Trade Regulation No. 27/2012 on Import Identification Numbers ("MOT Regulation No. 59/2012"), effective immediately.

Some significant revisions:

- Definition of *Hubungan Istimewa* (special relationship)

  A relation between a company with API (was: API-P) with an overseas company whereas one of the parties is controlling the other party, or has significant influence on the other party according to applicable accounting standard (Article 1 point 6).

  This special relationship can be acquired through a contractual agreement, shares ownership, agent/distributor agreement, loan agreement or supplier agreement (Article 4 paragraph 6 and Article 9 paragraph 2)
- Certain goods imported as complementary goods should be in line with industry business licenses or other business licenses obtained by the API-P company, and such goods are originated by the overseas' company having the special relationship with the API-P company (Article 9).
- The appointment as Importer-Producer is granted for the period of time in accordance with the period of time stipulated in the recommendation issued by the supervisory government institution (Article 11 paragraph 3).
- The issuance of API-U and API-P is delegated to BKPM for investment companies (Article 18).
- API-U companies can import goods under more than one section, as long as the API-U company can provide a statement letter with stamp duty issued by the API-U company confirming the special relationship with the overseas company, legalised by the Indonesian Trade Attaché or diplomatic/counsellor official in the country where the overseas company is located (Article 22).

Recommendation

The European automotive industry and GAIKINDO request that the Ministry of Trade provides a sufficient transition period for the industry to adjust and comply with the new requirements listed in the regulation. Indeed, new legal entities might need to be established in order to obtain the API-U licence supporting the import activities and for which the deadline of 31st December 2012 is insufficient. Furthermore, it is strongly advised that the Ministry of Trade, together with BKPM, organize a socialization campaign towards the industry concerning the changes in the regulation and reassure the companies that, until all relevant systems are in place to accommodate the implementation of the new decree, they are still allowed to import goods for trade – as their current practice was permitted under the previous regulations.

3.1.2 The implementation of certain mandatory SNI (Indonesia National Standard) affects the development of the Indonesian automotive industry

The Government of Indonesia is planning to develop several mandatory SNIs for car components, e.g. an SNI for braking system, rear-view mirrors, etc... Furthermore, the Government announced the implementation of mandatory SNI certification for CBU (Completely Built-Up) cars, which will require SNI certification for tires, mirrors, windscreens and other components. Other SNIs to be introduced are for safety glass, rims, battery, safety belts, plastic seats, brakes, noise and emissions.

This development is seen as highly problematic since the SNI certification and testing system have proved to be lengthy and costly, adding an unnecessary burden on manufacturers and importers:

- SNIs do not always deviate from international (UN/ECE) standards for automotive products;
- The testing should be done in Indonesia and no longer in the laboratory of the foreign factory, which undoubtedly used to significantly increase the time for approval. In addition, requesting audits and annual surveillance in all the foreign factories by Indonesian certification bodies, creates bottlenecks.

Recommendation

In general, the application of domestic automotive standards, different from international standards, can potentially contribute to setting Technical Barriers to Trade (TBT) and non-tariff barriers (NTB) to both EU and Indonesian exports, affecting bilateral trade. Therefore, whenever possible, the Government of Indonesia should avoid using standards that deviate from international standards or create unnecessary burdens for producers and manufacturers.

Furthermore, Indonesia should sign the UN/ECE 1958 Agreement in 2012 if possible, and adopt some of the relevant UN/ECE standards instead of SNIs. The benefits of signing the agreement are numerous, both for Indonesian consumers, manufacturers and authorities:

- The participation in the international regulatory process will ensure that the Government of Indonesia and the national manufacturers have influence.

- While implementing international and harmonised standards, the Indonesian producers will raise the quality of their productions and it will automatically grant them access to all foreign markets recognising those standards (mutual recognition).
- The Indonesian consumers will highly benefit from increased vehicle safety and environmental performance.

3.1.3 Minister of Industry Regulation No. 59/2012 on Mandatory SNI for rim under M, N, O, L category ("MoI Regulation No. 59/2012")

On the 28th of May 2012, the Minister of Industry ratified Regulation No. 59/2012, effective immediately, and revoking the previous Minister of Industry regulation No. 120/2010 and No. 53/2011 on the same subject.

Within the framework of the new regulation, the companies will have to comply with the SNIs starting either on December 31st 2012 or July 1st 2013, depending on the product scope and with conditions further stipulated in the regulation.

No	Product	SNI Nr	HS Nr	Validity
a 1	Wheel rim for vehicle category M1	1896 : 2008	8708.70.32.90	applied on Dec 31, 2012 onward
a 2	Wheel rim for vehicle category N1	1896 : 2008	8708.70.39.00	
a 3	Wheel rim for vehicle category L	4656 : 2008	8714.10.90.30	
a 4	Assy wheel rim and tire for vehicle category M1	1896 : 2008	8708.70.22.00	
a 5	Assy wheel rim and tire for vehicle category N1	1896 : 2008	8708.70.29.00	
b 1	Wheel rim for vehicle category M2, M3, N2 and N3	1896 : 2008	8708.70.39.90	applied on Jul 1, 2013 onward
b 2	Wheel rim for vehicle category O	1896 : 2008	8708.70.31.00 8716.90.19.00	
b 3	Assy wheel rim and tire for vehicle category M2, M3, N2 and N3	1896 : 2008	8708.70.29.00	
b 4	Assy wheel rim and tire for vehicle category O	1896 : 2008	8708.70.21.00 8716.90.19.00	

To be mentioned: the new SNI will not be applied for a wheel rim with a diameter of 20 inches or more (Article 2 paragraph 3).

According to the MoI, in very urgent case the MoI will issue exemption for 20 pieces of wheel rims per shipment with pre-inspection.

Vehicle Category

M1	4(four) or more wheelers; for person transport ≤ 8 seats excl. driver seat
M2	4(four) or more wheelers; for person transport > 8 seats excl. driver seat; GVW ≤ 5T
M	4(four) or more wheelers for person transport > 8 seats excl. driver seat; GVW > 5T
N1	4(four) or more wheelers; for good transport; GVW ≤ 3.5T
N2	4(four) or more wheelers; for good transport; GVW > 3.5T
N3	4(four) or more wheelers; for good transport; GVW > 12T
O	Trailer or semi-trailer
L	< 4 (four) wheelers

The compliance to the MoI Regulation No. 59/2012 implies consequences in terms of:

- Samples for testing (Article 5): for the local production, the samples will be taken from the overall production lot within 6 months. For the imported products, the samples will be taken out of every shipment (overall amount).
- Importer (Article 6): To be allowed to import the wheel rim, the importer should either be listed as an official importer at the Ministry of Trade, or should be included in a list submitted by the wheel rim manufacturer for after sales purposes (with a maximum quantity allowance of 20 units for each importation).

Recommendation

The European automotive industry and GAIKINDO recommend that this SNI should not be applied to the wheel rims used in production and its spare parts. EuroCham has sent a letter to the Minister of Industry requesting that the SNI listed in MOI Regulation No. 59/2012 will be applied only to the wheel rims with trading purposes, therefore separating it from the wheel rims for production purposes.

It is also highly recommended to issue the technical guidelines regulation on the application of the SNI before December 2012, as it is mandatory and applicable from December 31st 2012. The Ministry of Industry is still discussing internally with its legal department whether the proposal can be accommodated in the upcoming revision of the Ministry of Industry regulation.

3.1.4 ASEAN Mutual Recognition Agreement

The ASEAN member states have agreed that the UN/ECE 1958 Agreement's regulations should be the basis for the harmonisation of the automotive technical regulations in the region. To date, there is a total of 140 UN/ECE regulations and the ASEAN member states have agreed to include 19 of them in the draft of the ASEAN Mutual Recognition Agreement (giving the fact that some of the UN/ECE regulations are only suitable for cold climates and that consequently, the immediate adoption of all regulations would be inefficient).

Indonesia is also participating in the ASEAN MRA and is planning in its first phase of the harmonization to include the standardization of 14 automotive components:

Braking systems	R13
Braking systems (passenger car)	R13H
Seat belt anchorage	R14
Seat belt	R16
Seats	R17
Head restraints	R25
Pneumatic tyre–passenger	R30
Safety glass	R43
Rear-view mirror	R46
Diesel emission	R49
Noise emission	R51
Pneumatic tyre–commercial	R54
Steering equipment	R79
Exhaust emission	R83

However, there is currently a slight difference of interpretation between the Government of Indonesia and the automotive industry. Two options to implement the ASEAN MRA are as proposed**:**

1) Marketed products: ASEAN countries must accept the test report from the country of origin for the products manufactured by non-ASEAN countries which are marketed in the ASEAN countries.

2)Manufactured and marketed products: Non-ASEAN products marketed in ASEAN should be tested by ASEAN test facilities.

Recommendation

The European automotive industry and GAIKINDO propose to apply the marketed option. The ASEAN MRA needs to be established based on the type of approval system covering parts, system and components.

3.1.5 Revision of Government Regulation No. 52 Year 2011 on Income Tax Facilities for Investment in Certain Business Lines and or in Specific Areas ("GR No. 52/2011")

Previously, under the Government Regulation No. 62 Year 2008, all cars assemblers were eligible to apply for a Tax Allowance Facility. However, the implementation of the Government Regulation No. 52/2011, exclude the cars assemblers of the sectors eligible for the Tax Allowance Facility (whereas car component companies can still apply for the Tax Allowance Facility).

Recommendation

The European automotive industry and GAIKINDO propose to include the automotive industry as a business sector eligible to get an income tax facility in the frame of investment.

3.1.6 Proposal for Inland FTA (free zone) Schemes

Thailand has already installed the 'Customs free trade zones' aiming at attracting foreign investment and promoting exports. To obtain the licence to enter those free trade zones, the companies have to comply with certain legal and financial criteria and prove that they are using at least 40% of local and/or ASEAN content in their assembling chains. In return, all the companies installed in the free trade zone can import material necessary to the production with 0% import duty, and be eligible for a duty exemption or reduction if they are manufacturing goods to be exported overseas or sold domestically.

The application of such a scheme in Indonesia could have significant impacts: development of the national industry and the infrastructure, attraction of new investments. Despite those obvious benefits, the Government of Indonesia has shown some concern concerning the cost of implementing the necessary controlling measures.

Recommendation

The European automotive industry strongly recommends the installation of such a scheme and supports the idea that the cost for the controls should be deemed by the companies entering the free trade zone. In parallel, the Government of Indonesia has to ensure a strict control over the grant of the licences to the companies. Each company applying for the entry in the free trade zone should comply with very specific, pre-determined criteria.

3.2 Environmental Issues

3.2.1 Improvement of fuel quality standards and emission regulations

A high fuel quality with low sulphur content, for both petrol and diesel fuel, is essential for the introduction of modern low emission injection technologies. The low fuel quality in Indonesia is still the biggest hurdle for the introduction of such modern low emission technologies. Therefore, we are proposing the introduction of higher fuel quality standards (EURO 4) on par with more stringent emission regulations. This would lead to lowering emissions and the overall fuel consumption in Indonesia. This lower fuel consumption would result in lower dependency on crude oil imports and exposure to fluctuating prices and have the benefit of a smaller part of the state budget being spent on fuel subsidies.

Recommendation

The European automotive industry and GAIKINDO recommend the introduction of higher fuel quality standards (EURO 4) as a pre-requisite for stricter emission regulations. The fuel quality has to be improved in order to allow the introduction of environmental-friendly low emission technologies. In preparation for 2015 an ASEAN wide alignment is necessary in order to guarantee free movement of goods without creating technical barriers. A detailed master plan of development of Euro 4 gas stations should be developed by the Government of Indonesia.

3.2.2 Bio Fuels

Indonesia, as the biggest palm-oil producer in the world, today has a major opportunity to introduce a biodiesel mixture (B5, B7). From a technical point view, engines are able to cope with biodiesel mixtures of B7 as a maximum. Higher blending would lead to technical problems and higher additional costs for both the consumer and the car producer. Additionally, in order to avoid technical problems and additional costs, a high fuel quality has to be ensured. It is therefore essential to increase the fuel quality before adding higher proportions of bio fuel.

Recommendation

The European automotive industry and GAIKINDO perceive as a necessity to improve the fuel quality before increasing the bio fuel mixings. Fuel quality should be improved to Euro 4 standards with a B7 biodiesel mixture.

3.2.3 Technology neutral and emission based vehicle incentive program

Environmental issues are a major concern in the automotive industry worldwide. It is crucial for Indonesia to consider a long term plan for its automotive industry to achieve sustainable development including CO2 reduction and the promotion of the use of clean and efficient vehicles. Therefore, the excise tax for vehicles should be based on CO2 emission. This would encourage the use of low CO2 emission vehicles, thus, creating a premium price for clean and efficient vehicles.
It is also important to promote the availability of cleaner fuel (Euro 3 or 4) in Indonesia which can be used by more advanced and environmentally friendly engines used in greener vehicles now available in the international market. Currently such cleaner fuel is not available in the Indonesian market, making the entry on the market and the use of “greener” vehicles using higher standard fuel not possible.

Recommendation
The Government of Indonesia should introduce schemes and incentives to promote the use of clean and efficient vehicles. The European automotive industry and GAIKINDO recommends a technologically-neutral and emission based taxation based on CO2 emission for all types of power-train including petrol, diesel, natural gas (CNG), hybrid, and electric vehicles. An environmental policy should be created that will promote the manufacturing of cleaner fuel for the local market to encourage the use of greener vehicles.

3.2.4 Low Cost and Green Car

The Government of Indonesia is currently drafting the Low Cost and Green Car Regulation (“LCGC Regulation”). The LCGC Regulation sets up incentives for upcoming investment or the expansion of ongoing investments for vehicle manufacturers producing low cost vehicles using green technology. The requirement, among others, is to raise the production by 30%. The LCGC Regulation will be issued in 2012.

Recommendation
The European automotive industry recommends that the Government of Indonesia also acknowledges green (low emission and low fuel consumption) cars and issue a regulation promoting tax incentives for the local production/assembling of green cars.