



**International
Finance Corporation**
World Bank Group

Improving Indonesia's Competitiveness: Case Study of Textile and Farmed- Shrimp Industries

Volume 2



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Annex 1

Table 1

Old spinning equipment bought in 1995 produces 1kg of yarn using 4.5KwH at a cost of US\$0.10/KwH. This is equal to about 20% of the selling price. However, with newer equipment bought in 2006 the manufacturer now produces 1 kg of yarn using 3.5KwH – about 16% of the selling price. The energy efficiency gains from the new equipment alone save the producer up to 4% of the sale price. The new equipment also allows the operator to improve productivity of machine operators because the new machine requires 4 operator minutes to produce 1kg of yarn, compared to 10 operator minutes for the older equipment. Hence the manufacturer saves 60% on labor costs.

(Source: Interviews with Turkish yarn manufacturers)

Table 2:**Comparison of Weaving Methods**

	Shuttle (SL)	Projectile (SLL)
Actual Production/loom-hr ⁽¹⁾	5	13.2
Looms Installed	672	256
Annual Output (million mtrs)	28.2	28.4
Investment \$Millions ⁽²⁾	19.2	26.2
Personnel	350	200
Power Usage KwH/hr	2020	1690
Maintenance \$ / loom-hr	0.12	0.06
Yarn Waste \$ / loom-year	100	300
Capital Recovery Factor ⁽³⁾	0.142	0.142

⁽¹⁾ At 91% efficiency ⁽²⁾ Machinery, buildings & services ⁽³⁾ At 7% interest over 10 years

Weaving Cost Comparisons - US\$ Per 100 Metres of Fabric ⁽¹⁾

	Shuttle	Projectile
Capital Recovery (2)	9.7	13.1
Labor (3)	2.6	1.5
Power (4)	4.2	3.5
Maintenance	2.4	0.5
Yarn Waste	0.2	0.3
Total	19.1	18.9

⁽¹⁾ Based on Cretonne Ne 20 x 20 and 24 x 24 threads/cms; ⁽²⁾ Based on 10 years at 7%; ⁽³⁾ Based on US\$1/hour (incl. social charges) and 2080 hours/year ⁽⁴⁾ At 7 US¢/KwH

Table 3 Electricity Tariff in Indonesia

Electricity Base Tariff				
Classification Tariff	Power	Block	Loading Cost (Rp/kVA)	Usage Cost (Rp/kWh)
B-1	450 VA	I: 0-30 kWh	23,500	254
		II: > 30 kWh		420
	900 VA	I: 0-108 kWh	26,500	420
		II: > 108 kWh		465
1300 VA	I: 0-146 kWh	28,200	470	
	II: >146 kWh		473	
2200 VA	I: 0-264 kWh	29,200	480	
	II: >264 kWh		518	
B-2	2201 VA s/d 200 kVA	I: 0-100 JN II: >100 JN	30,000	520 545
B-3	> 200kVA	WBP LWBP	28,400	Kx452
M	TR/TM/TT	-	26,000	1380
I-1	450 VA	I: 0-30 kWh	31,500	160
		II: > 30 kWh		395
	900 VA	I: 0-72 kWh	31,800	315
		II: >72 kWh		405
	1300 VA	I: 0-104 kWh	32,000	450
II: >104 kWh		460		
2200 VA	I: 0-196 kWh	32,200	455	
	II: >196 kWh		460	
I-2	> 14 kVA s/d 200 kVA	I: 0-80 JN	32,500	455
		II: >80 JN WBP LWBP		460 Kx440
I-3	> 200 kVA	0-350 JN Block WBP	29,500	440
		>350 JN		Kx439
		Block WBP		439
		Block LWBP		439
I-4	> 30.000 KV _a		27,000	434

B Business

I Industry

JN Usage Period

WBP Peak Load Hours (18.00-22.00 wib)

LWBP Normal Load Hours

* K= Standard comparison factor between peak load hours (WBP) and normal load hours (LWBP) according to the local load's characteristic electric system (1,4-K-2) as required by the board of directors of PLN

*P= Multiplier factor to differ between S-3 pure social purposes (P=1) with commercial purposes (P=1,17)

Source: PT PLN (Persero)

Table 4: Cost of Electric Power

Cost of Electric Power (US\$/per KwH)	
Country	US\$ Cost/KwH (2003/4)
Nicaragua	0.12
Honduras	0.12
Costa Rica	0.08
China	0.06
India	0.08
Brazil	0.03
Turkey	0.07

Table 5: Cost of Financing 1 Year Delay in VAT Refunds at 10% interest Rate

R% ⁽¹⁾	F% ⁽²⁾	F as % of net profit
45	0.45	9
50	0.50	10
55	0.55	11
60	0.60	12
65	0.65	13

⁽¹⁾ raw materials to selling price ⁽²⁾ financing as a proportion of selling price

These hypothetical examples in Table 5 above illustrate the cost of 1 year delay in VAT refunds given varying levels of raw material compositions. The **cost of delays** if VAT refunds were delayed by one year is given by: $R \cdot I \cdot V / 10000$, where:

R= Raw material cost as a % of FOB price -- usually 45% to 65%

I = Interest Rate on Working Capital -- assume 10%

V = VAT = 10%

For example assuming a textile firm with an annual turnover of \$50 million, and a net profit of \$2.5 million, if the companies raw material cost is 65% of turnover (\$50 million) ~ \$32.5 million. A 10% VAT on this is equivalent to \$3.25 million. If VAT refunds are delayed by 1 year, at 10% interest charge on the amount tied down -- this equals \$325,000 for the firm. As a percentage of net profit (\$2.5 million) the interest charge due to the VAT refund delay equals 13% of net profit. Other iterations assuming the same interest rate (10%) and VAT of 10% are presented in Table 5.

Table 6: Unit Labor Costs Comparisons and Normal Hours Worked Per Day

	Labor costs per hour (US\$)	Normal Hours per week
Indonesia	0.55	40
Thailand	1.29	48
Vietnam	0.28	48
Bangladesh	0.30	48
India	0.67	48
China (Coastal/Inland)	0.76/0.48	44
Pakistan	0.37	48

Source : *Werner International 2004/5*

Table 7: Comparison of Restrictions on Employment Contracts

	Type of Restriction on Fixed Term Contract	Type of Restriction on Temporary Work Contracts
Indonesia	Strict Restrictions <ul style="list-style-type: none"> ▪ Limits on duration ▪ No renewals 	<ul style="list-style-type: none"> ▪ Limits to non-core activities of business ▪ Limits on duration
Japan	No Restrictions	<ul style="list-style-type: none"> ▪ Limit on certain sectors ▪ Limits of renewals and duration
Thailand	No Restrictions	
Korea	No Restrictions	<ul style="list-style-type: none"> ▪ Limit on certain sectors ▪ Limits of renewals and duration
Malaysia	No Restrictions	<ul style="list-style-type: none"> ▪ Must be direct hires
Philippines	Strict Restrictions	

Source: Kelly Bird (2005), "Labor Markets and Regulation: International Experience" Presentation on Indonesia.

Table 8: World Trade in Textiles & Clothing 2004

	Textiles	Clothing
Value \$ bn	195	258
World Share (1)	3%	3.9%
Change 2000/4	6%	7%
Major Exporters \$ bn		
China / Hong-Kong	48	87
EU	24	19
USA	12	5
Korea	11	3.4
Taiwan	10	-
Japan	7	-
India	7	7
Turkey	6.4	11
Bangladesh	-	4.4
Indonesia	3.2	4.4

(1) Percentage export of manufacturers. Source: WTO

Table 9: Total US MFA Fiber Imports

COUNTRY	2004	2005	Import Share Market 2004	Import Market Share 2005	Import Market Share 3/2006	Change in 04/05	Change 3/05 - 3/06
WORLD	83,310,441,937	89,205,496,062	100.00	100.00	100.00	0.00	0.00
CHINA P	14,558,077,350	22,405,218,721	17.47	25.12	22.76	7.64	0.11
_CBI	10,022,788,740	9,661,125,925	12.03	10.83	9.86	-1.20	-1.52
MEXICO	7,793,309,097	7,246,284,905	9.35	8.12	7.28	-1.23	-0.82
INDIA	3,633,272,564	4,616,585,471	4.36	5.18	6.74	0.81	1.05
HONG KONG	3,959,144,577	3,606,558,032	4.75	4.04	3.59	-0.71	0.42
INDONESIA	2,620,189,905	3,081,333,113	3.15	3.45	4.41	0.31	0.85
PAKISTAN	2,546,069,072	2,904,414,243	3.06	3.26	3.58	0.20	0.55
VIETNAM	2,719,641,348	2,880,541,132	3.26	3.23	3.67	-0.04	0.65
CANADA	3,085,535,812	2,844,427,589	3.70	3.19	3.36	-0.52	-0.25
HONDURAS	2,677,506,698	2,629,050,201	3.21	2.95	2.73	-0.27	-0.32

Source: ORTEXA

Table 10: Indonesian Import Market Shares - US\$ Millions ⁽¹⁾

	2004	2004	2004	2005	2005	2005
Textiles	World	Indonesia	% share	World	Indonesia	% share
Yarns	1648	61	3.7	1714	71	4.1
Fabrics	5638	73	1.3	5719	68	1.2
Made-ups	11257	83	0.7	13059	67	0.5
Garments						
Cotton	37399	1053	2.8	41142	1545	3.8
Wool	3964	46	1.1	4130	50	1.2
MMF	20446	1258	6.1	20764	1248	6
Silk(2)	2959	46	1.6	2678	33	1.2

Source: Otexa (1) rounded to nearest (2) including vegetable fiber

Table 11: Indonesia's Top Textile and Apparel Exports to US Market

CATEGORIES	US\$ Value of US Imports in 2004	US\$ Value of US Imports in 2005	% Share of US\$ Import Market 2004	% Share of US\$ Import Market 2005	% Share of US\$ Import Market 3/2005	% Share of US\$ Import Market 3/2006	Rank Using 2005 Market Share	# of Competing Countries in 2005
607 OTHER STAPLE FIBER YARN	10,398,153	18,177,095	21	32	6	29	1	45
641 W&G NOT-KNIT MMF SHIRTS & BLOUSES	188,436,580	163,477,643	25	20	23	22	2	119
604 YARN >/85% SYNTHETIC STAPLE FIBER	13,798,892	18,626,065	13	19	13	23	2	45
603 YARN >/85% ARTIFICIAL STAPLE FIBER	5,304,572	7,948,853	10	18	12	30	2	31
314 COTTON POPLIN & BROADCLOTH FAB.	18,734,982	15,080,937	18	12	16	10	3	70
617 MMF TWILL AND SATEEN FABRIC	1,634,939	4,850,220	3	12	13	7	3	42
649 MMF BRAS & OTH BODY SUPPORT GARM	158,236,626	183,092,417	10	12	11	13	3	94
648 W&G MMF SLACKS/BREECHES/SHORTS	194,034,677	178,034,631	11	11	10	9	3	136
341 W&G COT. SHIRTS/BLOUSES,N-KNIT	139,283,413	165,304,323	10	11	9	13	3	142
354 W&G DOWN-FILLED COATS	2,787	496,770	0	11	-	-	2	36
733 M&B SUIT-TYPE SILK COATS	650,335	2,280,621	4	11	18	10	3	43
614 MMF POPLIN & BROADCLOTH FABRIC	5,468,457	3,390,201	15	10	9	7	3	37
625 MMF POPLIN&BROADCLTH STAP/FIL	1,029,822	2,404,463	3	10	8	3	5	34
340 M&B COTTON SHIRTS, NOT KNIT	184,710,621	236,159,821	8	9	9	9	4	141
647 M&B MMF TROUSERS/BREECHES/SHORTS	158,391,755	159,594,872	9	9	10	9	5	123
642 MMF SKIRTS	39,025,485	44,215,138	7	8	9	12	3	118
434 OTHER M&B WOOL COATS	5,695,727	9,610,486	4	6	0	3	6	87
335 W&G COTTON COATS	45,296,205	105,013,521	4	6	5	6	2	131
636 MMF DRESSES	61,822,192	44,884,152	8	6	9	7	2	123
219 DUCK FABRIC	4,552,577	4,048,704	6	6	10	17	5	53
61 MAN-MADE FIBER APPAREL PRODUCTS	1,257,760,855	1,247,614,069	6	6	7	7	4	178
646 W&G MMF SWEATERS	29,590,216	33,745,913	6	6	7	1	4	97

Table 12: Indonesia Top 40 Largest Textile and Apparel Export Categories in the US Market (US\$m)

	CATEGORY	2004	2005	US Import Market Share 2004	US Import Market Share 2005	# Competing Countries in 2005	\$ Value of Market Share Gain/(Loss)	Indo Ranks	India Ranks	China Ranks
1	348 W&G COTTON TROUSERS/SLACKS/SHORTS	200,418,332	317,710,620	3	5	150	100,364,754	7	15	2
2	340 M&B COTTON SHIRTS, NOT KNIT	184,710,621	236,159,821	8	9	141	28,118,784	4	2	3
3	649 MMF BRAS & OTH BODY SUPPORT GARM	158,236,626	183,092,417	10	12	94	22,908,861	3	45	1
4	339 W&G KNIT SHIRTS/BLOUSES, COTTON	105,159,947	182,669,845	2	3	155	64,920,951	15	14	6
5	648 W&G MMF SLACKS/BREECHES/SHORTS	194,034,677	178,034,631	11	11	136	(2,900,233)	3	24	2
6	341 W&G COT. SHIRTS/BLOUSES,N-KNIT	139,283,413	165,304,323	10	11	142	18,168,418	3	1	2
7	641 W&G NOT-KNIT MMF SHIRTS & BLOUSES	188,436,580	163,477,643	25	20	119	(33,820,116)	2	18	1
8	647 M&B MMF TROUSERS/BREECHES/SHORTS	158,391,755	159,594,872	9	9	123	(1,105,915)	5	31	1
9	347 M&B COT. TROUSERS/BREECHES/SHORTS	95,557,266	133,668,949	2	3	137	33,011,186	14	11	3
10	338 M&B KNIT SHIRTS, COTTON	46,483,851	117,357,183	1	2	145	67,515,745	17	5	8
11	335 W&G COTTON COATS	45,296,205	105,013,521	4	6	131	30,451,885	2	3	1
12	659 OTHER MMF APPAREL	90,766,451	80,260,020	4	3	146	(19,890,691)	9	13	1
13	639 W&G MMF KNIT SHIRTS & BLOUSES	69,461,918	76,422,045	3	3	133	9,579,234	11	14	1
14	635 W&G MMF COATS	54,470,435	62,966,397	4	4	126	2,871,183	4	12	2
15	342 COTTON SKIRTS	20,046,220	55,353,925	2	5	138	26,906,581	5	2	1
16	239 BABIES' GARM. & CLOTH. ACCESS.	64,030,319	54,230,277	3	3	119	(12,403,146)	8	5	1
17	638 M&B MMF KNIT SHIRTS	52,238,157	53,006,725	3	3	122	371,158	9	2	1
18	636 MMF DRESSES	61,822,192	44,884,152	8	6	123	(11,219,984)	2	3	1
19	642 MMF SKIRTS	39,025,485	44,215,138	7	8	118	5,984,990	3	25	1
20	352 COTTON UNDERWEAR	40,530,404	43,559,645	2	2	121	2,382,679	17	7	8

	CATEGORY	2004	2005	US Import Market Share 2004	US Import Market Share 2005	# Competing Countries in 2005	\$ Value of Market Share Gain/(Loss)	Indo Ranks	India Ranks	China Ranks
21	634 OTHER M&B MMF COATS	33,505,655	42,683,663	3	3	111	7,106,148	7	18	2
22	351 COTTON NIGHTWEAR/PAJAMAS	27,370,061	37,315,117	3	4	117	6,687,224	7	4	1
23	646 W&G MMF SWEATERS	29,590,216	33,745,913	6	6	97	358,397	4	28	1
24	640 M&B NOT-KNIT MMF SHIRTS	29,191,462	31,331,362	4	5	115	4,984,001	8	15	1
25	652 MMF UNDERWEAR	24,540,471	29,039,663	3	4	103	5,000,425	11	10	2
26	345 COTTON SWEATERS	35,238,358	24,071,643	6	4	108	(18,523,305)	4	14	2
27	670 MMF FLAT GOODS, HANDBAGS, LUGGAGE	30,209,834	19,849,150	1	1	111	(14,031,058)	8	2	1
28	604 YARN >/85% SYNTHETIC STAPLE FIBER	13,798,892	18,626,065	13	19	45	6,146,028	2	16	15
29	334 OTHER M&B COATS, COTTON	11,841,258	18,414,730	2	3	109	5,643,602	8	5	1
30	607 OTHER STAPLE FIBER YARN	10,398,153	18,177,095	21	32	45	6,003,199	1	5	12
31	669 OTHER MMF MANUFACTURES	22,239,450	17,653,092	3	2	91	(7,278,115)	7	6	1
32	336 COTTON DRESSES	10,134,406	16,905,118	3	5	130	6,327,935	5	2	1
33	314 COTTON POPLIN & BROADCLOTH FAB.	18,734,982	15,080,937	18	12	70	(6,606,307)	3	15	1
34	847 TROUSERS/BREECHES/SHORTS, SILK&VEG	24,182,901	15,062,393	2	1	100	(6,127,577)	2	6	1
35	359 OTHER COTTON APPAREL	14,980,252	13,141,547	2	1	149	(2,291,135)	14	4	1
36	644 W&G MMF SUITS	12,510,093	13,135,000	4	5	78	1,820,240	3	26	2
37	350 COTTON DRESSING GOWNS, ROBES ETC.	10,684,264	12,065,825	3	3	110	1,910,521	8	9	1
38	654 W&G MMF DOWN-FILLED COATS	13,520,096	11,762,113	6	5	52	(976,058)	2	5	1
39	301 COMBED COTTON YARN	17,071,986	10,777,556	7	5	54	(3,696,689)	6	7	9
40	600 TEXTURED FILAMENT YARN	6,201,236	10,661,214	2	2	69	3,098,251	6	7	10

Table 13**Summary of Inefficiencies and Constraints for Input Sourcing Logistics in Indonesia (LPEM 2006)**

The report further suggests that costs associated with inefficiencies are due in part to:

- Terminal handling charges in Indonesia which cost 2.5X that in Thailand, 1.6X that in Malaysia, and almost 1.5X that in Singapore. Analysts suggest that this is due to a combination of low economies of scale and low productivity in port operations
- Inefficiencies in the freight forwarding business caused by inadequacies in road infrastructure and port facilities. Poor roads and port infrastructure that lead to delays and queues, which in turn reduce the number of trips freight forwarders can make on a daily basis. Freight forwarders offset this by charging higher prices per trip.
- Although trucking fees in Indonesia are not as expensive, poor road conditions undermine efficiency of vehicle operations such that unit costs of transportation become relatively more expensive. Road congestion results in a 5% increase in cost of fuel and maintenance. Informal payments also add another 10% to cost of transport
- Some evidence of nuisance fees (e.g. EDI, Doc Fee, Lift on/off fee) etc add additional costs to port charges without direct benefits to users.
- Service quality of logistics operators were also found to be below expectations.

The report also shows that logistics costs of procuring imported raw materials are much higher in the textile and apparel industry than other sectors¹. Addressing the above constraints will certainly help to reduce costs of input sourcing, which in turn will help improve the competitive situation of textile and apparel firms in Indonesia.

¹ Although Surabaya region had the lowest logistics cost of procuring domestic inputs, and logistics costs of procuring imported raw materials in the region was the highest compared to Medan, Jabotabek, and Makassar. In contrast, Makassar had the highest logistics costs of procuring domestic inputs, but costs of import logistics were negligible. This is attributed to Makassar's status as the epicenter of agriculture exports in Indonesia

Table 14: Changing Patterns of Indonesia's Textile and Apparel Imports (Sourcing)

Partner Name	1995	Percentage	2000	Percentage	2004	Percentage	2005	Percentage
China	72,538	5.6%	108,593	9.0%	150,860	22.0%	196,528	26.8%
Taiwan, China	295,394	22.9%	311,430	25.8%	133,837	19.5%	110,184	15.0%
Korea, Rep.	426,510	33.1%	269,142	22.3%	103,475	15.1%	77,203	10.5%
Japan	168,134	13.1%	127,226	10.5%	57,061	8.3%	55,208	7.5%
United States	82,944	6.4%	51,205	4.2%	55,556	8.1%	54,225	7.4%
Hong Kong, China	69,846	5.4%	103,048	8.5%	35,068	5.1%	25,650	3.5%
Pakistan	11,131	0.9%	13,145	1.1%	17,141	2.5%	22,469	3.1%
Singapore	9,401	0.7%	26,203	2.2%	19,457	2.8%	21,593	2.9%
Thailand	13,385	1.0%	26,562	2.2%	17,616	2.6%	19,191	2.6%
Germany	31,427	2.4%	26,190	2.2%	15,436	2.2%	15,641	2.1%
India	9,125	0.7%	29,888	2.5%	16,115	2.3%	15,592	2.1%
Malaysia	9,353	0.7%	11,704	1.0%	9,215	1.3%	14,299	1.9%
Australia	11,431	0.9%	19,391	1.6%	7,215	1.1%	8,391	1.1%
United Kingdom	10,165	0.8%	10,376	0.9%	6,396	0.9%	7,148	1.0%
France	11,608	0.9%	7,465	0.6%	8,547	1.2%	4,797	0.7%
Others	55,590	4.3%	66,767	5.5%	33,647	4.9%	86,440	11.8%
Total	1,287,981	100.0%	1,208,336	100.0%	686,642	100.0%	734,560	100.0%

Table 15**Summary of Energy Efficiency Programs in Taiwan and India*****Small and Medium Sized Industries in Taiwan***

Energy productivity has increased significantly in Taiwan, given the government active promotion of energy saving measures. One of the main tools that have been used is the energy audit procedures. These audits usually have the following objectives; (1) assisting energy users to establish energy audit systems, and to implement energy management and set energy saving goals (2) providing on-site energy audit and guidance, technology and information services related to energy saving. Following the energy audits, for example, some recommendations were developed for the textile industry as follows:

Industry	Areas	Energy Efficient Measures Recommended
Textile	Thermal oil boilers	Add inverters to blowers for thermal oil boilers to save electricity Control discharge oxygen concentration and minimize excess air Lower the discharge temperature below the original design setting
	Motors	Add inverter to motors to save energy
	Dyeing machines and spinning frames	Use high-speed dyeing machines and high speed spinning frames to save on fuel oils and electricity
	Air compressor systems	Improve air compressor systems and ventilation in air compressor rooms, and reduce inlet air temperature

Between 2000 and 2004, a total of 314 firms were audited in Taiwan including all. Energy saving potential identified was about 1.1 MWh of electricity, 175,000 ton of fuel coal, and about 98,000KL of fuel oil and over 10,000KM3 of natural gas.

In 2003, the textile industry consumed about 6m KLOE of energy (about 3.2% less than 2002). However, it is important to note that though there has been growth in productivity of energy in Taiwan, this growth still rides on the back of government assistance to firms.

Excerpt from David Yih-Liang Chan et al, "Current Situation of Energy Conservation in High Energy-Consuming Industries in Taiwan", Energy Policy 33 (2005).

India's Textile Industry

Energy costs account for 15-20% of total production costs of important textile and apparel and other industrial products like paper, chemicals, cement, and so on. In India where the energy-GDP ratio is 50-60% higher than those of developed nations, the industrial sector is the largest consumer accounting for about 52% of total commercial energy consumed. More recently however, due to adoption of modern energy efficient technologies energy-intensity has began to reduce in the last couple of years. It is estimated that over 5-8% energy saving is still possible through better housekeeping, while another 8-15% savings can be achieved through the development of co-generation facilities, introducing renewable energy policies, improving capacity utilization, and better industrial heat and waste management. Estimates are that energy conservation potential can be up to 15,000 MW (equivalent to about 15% of the country's total generating capacity).

Certain programs and policies under review to achieve this potential:

- ⇒ Tightening co-generation policy, especially:
 - the formulation of commonly applicable policy between central and state governments
 - allowing energy permitted through co-generation for third-party sales by putting in place better policy and legal framework governing third party sales and related activities (e.g. banking, wheeling, contract enforcement etc)
- ⇒ Encouraging use of renewable energies
- ⇒ Setting standards and guidelines for selection of energy efficient technologies and equipment used in energy intensive industries. For example the average specific energy use for producing 1 ton of yarn in India is about 2400 KwH which is relatively higher than those of developed economies. Hence providing best practice guidelines on energy efficiencies of different technologies and practices adopted could improve energy conservation and costs.

Excerpt from C. Palanichamy and N. Sundar Babu, "Second Stage Energy Conservation Experience with a Textile Industry, Energy Policy 33 (2005) 603-609.

Table 16**Some Global Practices for Addressing Problems with VAT System**

Some of the following practices that have been adopted in other countries:

- *Harmonize and increase the threshold for VAT registration.* This should help reduce amount of VAT administration resources devoted to registrants that pay little or no VAT. Government may also consider establishing a minimum threshold below which there will be no allowable VAT refund claims. This practice has worked well in countries like Italy, France, and Peru where the tax offices have set a minimum amount for which refund claims will be processed.
- *Transform current timelines for VAT refund processing into statutory deadlines* to reduce ambiguity in expectations for refund claiming processing time, and increase transparency against rent seeking activities and abuse. Most countries have statutory deadlines for payment on the tax authority to make VAT refunds within a prescribed period (usually between 30-40 days). Some countries further advocate payment of interest on late refunds. About 40% of the countries (including Indonesia) surveyed by Harrison and Krelove (2005) adopt this practice. The imposition of such deadlines is also expected to help reduce avenues for corruption and provide a basis for firms to file complaints.
- *Modify and scale up current tax payer profiling system to a more elaborate **risk-based** system anchored on intelligent profiling, and backed by an effective post-refund audit system.* Attempts at computerized 100% large scale invoice verification systems made by China and Korea seem to have been very useful but may impose excessive costs on tax authority's administrative resources as well as the tax payer. A risk-based system where verification and investigation is focused more on potential fraudsters and evaders is a more efficient and cost effective approach. Profiling of so-called "good compliers" is one of the practical steps some countries (e.g. Pakistan) have taken towards establishing an effective risk-based system. Here tax payers are ranked using their past records and profile of responsible practices. Firms with a stronger history of responsible tax and payment practices get priority in the refund process.
- *Zero-rating suppliers to exporters.* This scheme is effective in eliminating need for refund, but it breaks the VAT credit chain by shifting the problem of refund claims from exporters to downstream suppliers. To deal with the shift in refund claims down the chain, for example, Indonesia's tax authorities introduced the PET status in 1997 granting zero-rate to indirect exporters. This gave them entitlement to receive VAT refunds within 7 days of filing. Although this scheme was well intentioned to reduce refund processing times, it ultimately led to an increase in costs of administering the VAT system and higher risks of fraud and VAT refund abuse (KPMG, 2000).
- *Strengthen capacity of tax office to improve performance of the VAT refund process.* This could also include empowering the tax authority to make use of certified third parties (e.g. external auditors, chartered accountants etc) to speed up verification process for refund claims. This system is believed to have been successful in Kenya where chartered public accountants are required to validate VAT claims. However, it adds to the tax payer's costs.
- *VAT Bank Accounts* – In countries like Bulgaria VAT payments and refunds are administered through a special VAT bank account belonging to each tax payer. Funds held in the VAT bank account are then used for payment to suppliers of VAT included in the price of goods and

services, and for payment of net VAT liabilities payable at the end of a prescribed period. Although this system helps establish a process and paper trail for limiting VAT fraud, the tax payer still bears to opportunity cost of capital tied down in the bank account.

- *Exemptions on VAT on Imported Capital Goods versus Deferred Accounting Schemes.* Exemptions on VAT usually leave room for VAT refund abuse; as a result, governments are not usually open to this option. An alternative supported by IMF Foreign Affairs Department is to permit investors to defer the VAT liability on the imported capital goods, and offset with input tax credit. The use of deferred schemes on VAT on imported equipment is usually limited to imports of very expensive equipment.

Authors Extract based on Survey by Harrison, Graham and Krelove, Russell (December, 2005), "VAT Refunds: A Review of Country Experience", IMF Working Paper WP/05, Fiscal Affairs Department

Table 17: Summary of Compliance Requirements Facing Firms in Indonesia

General & Specific Public Sector Compliances					
Category	Description	Agency	Frequency	Official Fees (Rupiah)	Unofficial Payoffs (Rupiah)
Taxation					
Property	Property Rent (HGB)	State Government	each transaction	10% of Transactional value (VAT)	
	Property Tax (PBB)	State Government	annual	0.5% X Tariff X NJKP	
	Land and Building Transfer Duty (BPHTB)	State Government	each transaction	5% X (NJOP-NPOPTKP)	
Income Tax	Corporate Income Tax-Article 21*	Directorate General of Tax	monthly	10-30% of taxable income	
	Income Tax-Article 22 (imports, payments from Govt's, etc.)	Directorate General of Tax	monthly	2.5-7.5%	
	Income Tax-Article 23 (domestic payments)	Directorate General of Tax	monthly	15%	
	Income Tax-Article 25 (monthly installment of tax)	Directorate General of Tax	monthly	generally calculated with reference to the most recent corporate tax return	

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	Income Tax-Article 26 (non-resident individual tax)	Directorate General of Tax	monthly	20%	
	Capital Gains Tax**	Directorate General of Tax	annual	10%	
	Capital Allowance	Directorate General of Tax	annual	up to 30%	
	Surcharge on Import Duty	Directorate General of Tax	every import	5-30%	
Value Added Tax	Taxable Goods	Directorate General of Tax	each transaction	10% of VAT	
	Taxable Goods-on export of taxable goods	Directorate General of Tax	each transaction	0%	
Sales Tax	Luxury Goods	Directorate General of Tax	each transaction	10-50%	
	Luxury Goods-on export of taxable goods categorized as luxury goods	Directorate General of Tax	each transaction	0%	
Stamp Duty	Nominal Amount of Transaction (>IDR 0.25m - IDR1m)	Directorate General of Tax	each transaction	IDR 3,000	
	Nominal Amount of Transaction (>IDR1m)	Directorate General of Tax	each transaction	IDR 6,000	
Business Operation					
Factory	Factory/Plant Environmental Certificate (ISO 14000)	PT Sucofindo	certificate	US\$ 3,000-4,000	
	Trade Business License (SIUP)	Agent	certificate	IDR 1,000,000	IDR 50,000-450,000
	Company Registration Code (TDP)	Agent	certificate	IDR 850,000	IDR 50,000-250,000
	Industrial Business License (TDI)	Agent	certificate	IDR 7,150,000	IDR 50,000-650,000
	Vehicle Registration	Ministry of Transportation	annual	IDR 150,000	
Vehicle	New Driving	Ministry of	annual	IDR 75,000	IDR

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	License	Transportation			150,000
	Extension Driving License	Ministry of Transportation	annual	IDR 60,000	
	Vehicle Pollution Inspection	Ministry of Transportation	annual	IDR 50,000	
	Plate Number	Ministry of Transportation	annual	IDR 20,000	
Utilities	Electricity Charges (>200 kVA)	PT. PLN	IDR./kVA/month	IDR 31,300	
	Electricity rate	PT. PLN	hourly	5.5 -6.5 cents (US)	
	Water Charges (III B, > 20m3)	PAM JAYA	m3	IDR 5,000	
	New Installment of Phone Line	PT Telkom	new installment	IDR 450,000	IDR 500,000 - 1,000,000
	Telecommunication Abonement	PT Telkom	monthly	IDR 57,600	
Labor	Income Tax-Article 21(individual remuneration)*	Directorate General of Tax	monthly	5-35% of taxable income	
	Pension Fund	Jamsostek	monthly	5.7% of salary	
	Health Care Program	Jamsostek	monthly	3-6% of salary (max. IDR 1m)	
	Work-accident assurance	Jamsostek	monthly	0.24-1.74% of salary	
	Death coverage	Jamsostek	monthly	0.3% of salary	
Expat/Resident Travel Visa	New Work Permits & Stay Permits for Expatriate	Agent		IDR 3,465,000	
	First or Second Extension of Work Permits	Agent		IDR 3,465,000	
	Single Exit Re-entry Permit	Agent		IDR 440,000	
	Representative Office of Foreign Company	Agent		IDR 8,800,000	
	Single Entry Business Visa	Agent		IDR 605,000	
	Multiple Entry Business Visa	Agent		IDR 935,000	
	Indonesian Passport	Agent		IDR 825,000	
	Temporary	Agent		IDR	

	Working Visa			1,265,000	
	Expatriate Manpower Utilization Plan	Agent		IDR 330,000	
Trade Facilitation					
Port	entry-exit of quay				IDR 5,500,000
	20 feet export charge				IDR 250,000
	40 feet export charge				IDR 400,000
	20 feet import charge				IDR 170,000
	40 feet import charge				IDR 200,000
Loading-unloading	Container Handling Charge (CHC) 20 feet	PBM (Perusahaan Bongkar Muat) / Loading-unloading Company		US\$ 62.5	US\$ 37.5
	CHC 40 feet	PBM (Perusahaan Bongkar Muat)		US\$ 88	US\$ 52.8
	Demmorage	PBM (Perusahaan Bongkar Muat)		US\$ 8,000 to 18,000 per day	
	Pile-up Cost	PT. Pelindo II - SOE		IDR 3,700/20 feet and IDR 7,400/40 feet	
Special Zones	KB - Bonded Zone	Agent		IDR 30,250,000	
	Capital Goods Masterlist	Agent		IDR 6,600,000	
	GB - Bonded Warehouse	Agent		IDR 22,000,000	
	Temporary Import	Agent		IDR 3,250,000	
Shrimp					
	Certificate of Origin (SKA)	PT Sucofindo	certificate	US\$ 4,000	
	Port Entry Cost		each truck		IDR 200,000

Textile					
	Terminal Handling Charge (THC)	PPA(Perusahaan Pelayaran Asing)-Foreign Liner Companies		US\$ 93/ 20 feet and US\$ 130/ 40 feet	US\$ 150/ 20 feet and US\$ 230/ 40 feet
	Document fee (B/L redemption)	Liner Companies			US\$ 40
	Imported Raw Material (Cotton)	Directorate General of Tax		10% of VAT	

Source: PWC pocket tax book, 2004

Jamsostek

Directorate General of Tax

PT Sucofindo

PT Roda Cipta Semesta - agent

PT Pelindo II

PT Timur Jaya Cold Storage

PT South Pacific Viscose

PT Polyfin Canggih

PT Sunrise Bumi Textile

PT Cerah Garmino

Abbreviation

NJOP	Nilai Jual Objek Pajak
NJOPTKP	Nilai Perolehan Objek Pajak Tidak
BPHTB	Bea Perolehan Hak atas Tanah dan
PBB	Pajak Bumi dan Bangunan
NJKP	Nilai Jual Kena Pajak
NJKP	NJOP - NJOPTKP
NJOPTKP	Nilai Jual Objek Pajak Tidak Kena
Tariff	20% - 40%
PTKP	Penghasilan Tidak Kena Pajak
PTKP	13.2 million p.a.

***Rates**

Companies are

Taxable income (IDR)	Corporate Tax rate
50m or less	10%
over 50m to 100m	15%
over 100m	30%

Special tax rates are

Taxable income (IDR)	Individual Resident Tax rate
25m or less	5%
over 25m to 50m	10%
over 50m to 100m	15%
over 100m to 200m	25%
over 200m	35%

**Indonesia: An additional tax of 0.5 percent applies to the disposition of founder shares (effective as of May 29, 1997). In this case, if the taxpayer does not want to use the facility of 0.5 percent, the normal progressive tax rate of 30 percent is applied.

Table 18: Evaluation of the different VAT approaches:

Approach	Performance Criteria				
	Reduces or Eliminates Refund Delay	Reduces Number of Refund Claims	Enhances Protection of VAT Revenue Base	Reduces Tax Payer Compliance Costs	Saves Admin Resources
Zero Rated Supplies to Exporters	Yes	Yes	No	No	No
Large-scale Cross-Checking of Invoices	No	No	Yes	No	No
Certification of Refund Claims By CPA	Yes	No	Yes	No	Yes
Preferential Treatment of Good Compliers	Yes	No	Yes	Yes	Yes
Purchases paid through Banking System	Yes	No	Yes	No	No
Use of VAT Bank Accounts	No	No	Not Proven	No	No
Deferment of VAT on capital Goods	Yes	Yes	No	No	No

Source: Harrison and Krelove, IMF Working Paper WP/05/ (December 2005), "VAT Refunds: A Review of Country Experience", IMF Working Paper WP/05, Fiscal Affairs Department

Table 19 Indonesia: Yarn Spinning (YS)

	2004			Total Shipments 1995-2004		
	SS (2)	LS (3)	RTRS (4)	SS	LS	RTRS
World	182.7	14.9	8.3	40.9	2.7	2.6
Indonesia	7.9	0.1	0.1	1.3	Neg	Neg
China	63.9	3.7	1.1	11.8	0.8	0.8
India	37.8	1.0	0.5	10.1	0.2	0.2
Pakistan	10.7	Neg	0.1	3.4	Neg	Neg
Turkey	6.8	0.8	0.6	3.5	0.4	0.4

(1) Nominal, does not allow for disposal or second-hand machines. (2) short staple (3) long staple, (4) open-end rotors, neg=negligible - Source: ITMF

Table 20: Indonesia: Fabric Forming Cotton Weaving Looms (excl. hand looms) - 000's units

	2004 Installed		Total Shipments 1995-2004	
	SLL(1)	SL(2)	SLL	SL
World	860	1450	513	120
Indonesia	29	197	11	5
China	260	686	258	98
India	11	105	9	5
Pakistan	25	10	6	Neg
Turkey	21	30	21	Neg

Source: ITMF (1) Shuttleless looms (2) Shuttle looms

Table 21: ITMF Shipment Data (1995-2004) - Units 000's

	Circular Knit	Flat-Knitting	
	Machines	Semi-auto	Electronic
World	103	87	11
China	21	10	3
India	6	Neg	Neg
Indonesia	3	Neg	neg
Pakistan	2	Neg	Neg
Turkey	9	0.3	1

Source: ITMF

Table 22.**Marketing in The Textile and Apparel Industry****Marketing strategies of Indonesian competitors in garment manufacturing****Bangladesh**

In this country the promotion of the industry is almost exclusively in the hands of the Garment Industry's own association: Bangladesh Garment Manufacturers Export Association, BGMEA. They receive no financial support from the government and are funded from their members' contributions.

When officials are requested to support the industry's efforts abroad, or attend meetings, the project or organisation will have to pay for the official's travel and expenses. An example is the recent UNIDO project aimed at establishing a working relationship between the London School of Fashion and the Bangladesh University that wants to run courses for the industry. Official representatives would only attend if all expenses and fees were paid.

On the positive side, the Bangladesh United Nations representatives are very active on behalf of the industry in seeking trade benefits such as duty free entry with the USA and the reduction of trade barriers.

BGMEA are active in promoting the industry, and run seminars at exhibitions, as well as participating in garment fairs in the country, such as the recent fair in Chittagong (CAFAXPO-2006) during February of this year.

In 2004 BGMEA co-operated with the IFC office in Dhaka (SEDF) in providing workshops for exporters who were going to exhibit at two trade fairs, one in Canada and the other in Japan.

The strategy was to develop direct links between customer and supplier, and in doing so, obtain stronger working ties with the eventual buyer for better working relationships. This results in improved reaction times, better communication and reducing the number of mistakes which occur when working through a third party (local buying agents). The emphasis was upon marketing and selling skills at these workshops, and they were well attended. Trade fairs of this type are a good marketing tool as manufacturers get the opportunity to meet potential buyers face to face and to developing the initial business contacts.

In addition SEDF commissioned a sales manual for garment exporters to be distributed and sold throughout the industry. A summary of the subject matter is shown in the appendix to this report.

The BGMEA web site shows a number of links for exporters covering events and export information. This is aimed at its members, and as a general information service, not as a primary marketing/promotional tool for the industry. (www.bgmea.com).

To improve their creditability with buyers, private companies have in the main concentrated upon compliance with international standards of environmental conditions in factories. This compliance is a pre-requisite for all major brands and their buyers. It is widely accepted however that some of the work put out to sub-contractors goes to factories not working at these standards.

In an effort to encourage international business, upon arrival at Dhaka International Airport, there is

a special channel for “investors” which helps to avoid the long immigration delays. It is not clear what exactly is meant by the term “investors”. The visitor is usually approached by an official to go through a special process and a payment will be made to the official who will take the investor to a separate process area for clearance. However immigration staff are not always there and there are still delays. The concept is fine, but if such initiatives are not very well organised, the impression made on the visitor is the opposite of that which is intended.

Pakistan

In this more mature, garment producing country, the garment/textile industries receive official support for marketing the industries by a levy, which is charged on all exports. The money collected is then directed to the TAPD organisation which arranges Seminars, Trade fairs for exporters, stands at exhibitions and other promotions for the industry.

The advantage with this system is that every exporter contributes, while in Bangladesh only the members of BGMEA are contributing.

Sri Lanka

The industry trade association, the National Apparel Exporters Association (NAEA) appear to have direct links to government, which is seen on the links within their web site. The recent simplification of customs and other governmental procedures designed for speeding up the response time demanded by buyers are as a result of good integration between government and industry. Details are published, and are helpful in promoting Sri Lanka to buyers.

Information on trade matters such as quotas and trading opportunities are linked to official announcements in regular news letters, published by the NAEA, and promoted through the web site.

Another useful initiative has been the formation of a professional organisation for local buying offices, the Sri Lankan Garment Buyers Association, run by the NAEA since 1995. Through this they claim that the members of this association represent 70% of the country's exports of textiles and apparel. The membership represents all the major importers of the principle export markets.

Such a trade organisation helps to assure new or prospective buyers that the standards of local buying offices and agents, recognise internationally required standards of business, as well as supplying quality assurance on samples, technical matters and procurement procedures.

Conclusions

Strategy

The best marketing strategy is found to be that which is directed by the private sector through a strong and efficient industry association, due to its members' vested interest in marketing the industry. Through its trading members, the organisation understands the demands of export buyers, and is in direct contact with manufacturers. But promotion and marketing efforts must be supported by government departments responsible for trade and industry.

Communication

The web sites of trade association are where buyers will look when investigating new sources of supply. They are a very effective means of imparting the right message to potential buyers and need

to be set up specifically for that purpose.

Visitors

In countries such as Bangladesh and Indonesia where current unrest and cultural differences make it uncomfortable for female western buyers to move freely on buying trips, such organisations as the Sri Lankan Buyer's Association, can be useful in providing guidance and assurance for these buyers. Many of the large retail customers in Europe have young female staff as merchandisers and buyers, and they need to be encouraged to visit their suppliers.

Person to person working visits provide the opportunity between buyer and supplier to develop good working relationships, and for the Indonesian suppliers to spread positive messages about the country through the buying community.

Official support

Governmental support is essential if the industry is to obtain the best trading conditions for target markets. The Government can be instrumental in easing and simplifying the procedures for importing and exporting so that turn round times can be reduced. In the garment industry the shorter the lead time, the better level of sales for the retail supplier, who can then react to market changes in fashion, since these can be very fast.

Promoting Indonesia

To create buyers' interest in the country, Indonesia will have to market "Indonesia" as the place to do business in the garment industry. To this end it must provide higher levels of customer service than its competitors.

It must search for, and promote those unique attributes of the Indonesian Garment Industry, which will help it gain competitive advantage.

The need will be for training in those skills required to raise the operating performance, promotion of the garment industry in a focused and dedicated way, and support this with efficient trading procedures

Source: Authors' Interviews

Annex 2

Table 23

Examples of Programs to Improvement Shrimp Quality in Different Countries

- (1) Thailand's enforcement of good management practices at the farm level through the CP program
- (2) Sri Lanka's implementation of applicable EU directives in its aquaculture legislation in 1998
- (3) Jamaica's adoption of a special law for inspection and certification of various categories of aquaculture, inland, and marine products intended for exports. The law also contains provisions for licensing of persons and facilities engaged in production, harvesting, processing, handling, storage, and transport for export of such products (including development of an HACCP plan) – *FAO Aquaculture News Letter No. 31*
- (4) Australian National Strategic Plan for Aquatic Animal Health 1998-2003. The Plan outlines the objectives and projects in order to develop a national approach to emergency preparedness and response and to overall management of aquatic animal health in Australia. Key elements of the plan consist of quarantine, surveillance, monitoring and reporting, research and development as well as legislation, policies and jurisdiction. *FAO Aquaculture News Letter No. 31*.
- (5) Vietnam's establishment of the NAFIQAVED (quality control labs) and provide support to quality control and marketing
- (6) India's MPEDA Program

Table 24: India's MPEDA and Bangladesh Shrimp Seal of Quality Program

The Bangladesh Shrimp Seal of Quality Program (SSOQ)

The objective of the SSOQ program was to achieve a sustainable improvement in the volume and value of Bangladeshi shrimp exports. The SSOQ approach in the short and medium term was to intervene in the shrimp farming sector by introducing better farm management practices and improving the quality of the primary input, shrimp larvae. On another front, SSOQ introduced a program to certify shrimp producers (including processors, farmers, transporters, and potentially hatcheries as well) with the aim of creating a stable supply of quality shrimp from reliable suppliers for the export market. In the long term, SSOQ would continue to operate as a private certification agency for Bangladeshi shrimp producers. Its interventions in the post larvae supply and shrimp farming sectors would eventually either cease or be minimized, with the goal of shifting responsibility for the continued supply of technical assistance and quality larvae to the private sector or other participant

For more Information see "THE SHRIMP SEAL OF QUALITY PROGRAM/ Dhaka, Bangladesh" for more information about this program

India's MPEDA Program

The MPEDA program is a 3-year “Shrimp disease control and coastal management program” started in 2000 by the Marine Products Export Development Authority (MPEDA), Ministry of Commerce and Industry, Government of India with technical assistance from the Network of Aquaculture Centres in Asia-Pacific (NACA). The success of this initiative suggests that it is possible to reduce risks of crop losses from shrimp disease and improve productivity and profitability of shrimp farms through:

- ⇒ Providing access to science based information on best management practices (BMPs)
- ⇒ Providing technical support that enables farmers to adapt BMPs to their own circumstances
- ⇒ Promoting the concept of self-help groups (aquaclubs) to facilitate cooperation and communication to collectively address health management issues.

The initiative involved research activities to determine which best management practices were most suitable to a farming community. This was then followed by demonstration activities at the farm level. NACA and MPEDA provided technical assistance to demonstration farmers for on-farm testing of BMPs, and supported monitoring and evaluation to understand benefits and constraints. The demonstrations were also used to more widely disseminate information on risk management strategies to farmers.

Although the adoption of BMPs did not completely eliminate shrimp disease problems, the outcomes as judged by participating farmers and the MPEDA/ NACA study team were very promising. Adoption of pond level risk management practices led to improvements in both profits and productivity. In demonstration farms, returns shifted from a loss in 80% of ponds in 2001 to a profit in 80% of ponds in 2002.

A further objective was to support the village to organize a “self-help group” (aquaclub) for organization among farmers in the village to collectively address common shrimp health and farm management problems. Established “aquaclubs”, facilitated weekly farmer meetings, and organized “service provider - farmer” contacts and exchange of information thus trying to build up mutual trust among these parties. Aquaclubs met regularly and promoted widespread adoption of the BMPs among their members, and among neighboring villages. The demonstration provided better understanding of the constraints faced by farmers in adopting BMPs. Not all the farmers could take up all the BMPs due to their level of skills, attitude and willingness to implement BMPs. Some simply did not have the funds to invest in pond improvements for example. The experience suggests a need to carefully develop locally specific BMPs with farmers (based on general BMP principles) tailored to the farming systems (based on stocking densities, ability to maintain water reservoirs, source water quality etc) and investment capacity of individual farmers.

The program also included the organization of the small sub-group of farmers for screening and selecting quality seeds from hatcheries. This aspect was a major outcome well received by farmers. Farmers within the same club were also encouraged to cooperate in water supply and draining especially during disease outbreaks thus reducing risks of disease spread. And with farmers being organized better as a group, farmers were also able to negotiate their needs better with shrimp hatcheries, processing plants, feed manufacturers, and concerned government agencies.

One of the salient features of the BMPs is the emphasis on avoiding antibiotics, and other banned chemicals. Aquaclubs adopting BMPs therefore have a further potential advantage – they produce quality shrimp without harmful residues. This advantage could open the way for organization of trace-ability and possibly certification in line with international trends and requirements. The aquaclub approach where farmers work together indeed may be the only way of supporting small-scale farmers to access international markets, with increasingly stringent requirements for trace-ability

and food safety.

Overall the evaluation results of the MPEDA show that extension through farmer clubs could be one important strategy for motivating, and bringing farmers together to disseminate extension messages and discuss solving of common problems.

Extract From – “Extension in shrimp health management: experiences from an MPEDA/NACA program in Andhra Pradesh, India” by Padiyar, MJ Phillips et al (2003)

Table 25: Some Examples of Reforms Influencing on Trade Facilitation and Industry Performance in Indonesia

Prior reforms related to trade facilitation issues in Indonesia included the following:

A 50% devaluation of the rupiah and substantial improvements in the duty-exemption (but not duty suspension) scheme for imported inputs used in export production, faster border clearance of goods through the replacement of Indonesian Customs and Excise by the Société Générale de Surveillance (SGS), relaxation of foreign investment ownership restrictions with an export orientation, and a general program of reduced protection that entailed tariff rationalization and reduction. In particular, foreign-investment deregulation proceeded in steps, starting with gradual relaxation of foreign-ownership restrictions and divestment requirements for export-oriented investments and businesses in bonded zones. By the end of the process in 1994, full foreign ownership, with few restrictions, was allowed, the divestment requirements were virtually eliminated, and nine public goods sectors, such as power generation and telecommunications, were opened to foreign participation.

A new form of stand-alone export-processing zone (EPTE) was also introduced where the producer's duty free imported inputs would bypass SGS and the duty exemption scheme, furthermore allowing the producer to sell up to 25% of its output in the domestic market subject to applicable duties for inputs and sales tax on output. Tariff reform also proceeded gradually and by the mid-1990s the unweighted tariff declined to 15% (from 27% in 1986) and tariff lines subjected to non-tariff barriers declined to 12% (from 32% in 1986) – luxury goods and nontariff barriers in the agriculture sector were excluded.

Boosted by a wave of export-oriented investments from Japan, Korea and Taiwan that relocated production to Indonesia, FDI jumped from \$4 billion in 1986 to more than \$50 billion by the mid-1990s. Local firms and joint ventures responded to the export incentives and the result was a dramatic growth in non-oil exports. During this period of growth, manufactured exports grew from 18% of total exports in 1986 to about 55% by the mid-1990s. In terms of trade value, manufactured exports grew by more than a factor of 10 from \$2.6 billion in 1986 to almost \$30 billion by the mid-1990s, a performance boosted by the rise of electronics products and textiles and garments. The value of textile and garment exports increased more than 10-fold to about \$8 billion, with the sector accounting for slightly less than 33% of total manufactured exports, whereas the growth of electronics exports, especially audio and video products, increased from negligible amounts to nearly US\$1.7 billion, with this sector accounting for close to 10% of total manufactured exports.

Table 26: US Trade Remedy Regime

The trade remedy laws applied by the United States for antidumping (AD) and countervailing duty (CVD) laws, and import relief (safeguard) cases are contained in separate statutes legislated at different times as the need arose. The AD statute comes under Section 731, Title VII of the U.S. Tariff Act of 1930 (Tariff Act), as amended. A related statute is Section 701 of the same act, which applies to subsidized exports from foreign suppliers. In addition, there is Section 201 of the Trade Act of 1974, which provides for temporary restrictions on imports which are deemed to be causing injury to a domestic industry (not unnecessarily unfairly traded imports).

Collectively known as “administered” protection, Sections 701 and 731 authorize the U.S. Department of Commerce (DOC) and the U.S. International Trade Commission (USITC) to jointly administer AD and CVD law, while Section 201 mandates the USITC, President of the United States, and CBP) to jointly administer the safeguard law. In administering the AD and CVD laws, the responsibilities between DOC and USITC are clearly divided. The DOC first determines whether an import commodity is being dumped or subsidized and then the USITC decides whether or not the U.S. industry has been injured as a result. If the DOC finds that an imported product is dumped or subsidized and the USITC finds that a U.S. industry is materially injured, an antidumping duty order or countervailing duty order will be imposed. When an antidumping or countervailing duty order is imposed, DOC instructs Customs and Border Protection (CBP) to assess antidumping or countervailing duties on imports of the product into the United States to offset the unfair trade practice. Antidumping and countervailing duties collected by CBP are then distributed annually to affected domestic producers through a list supplied by USITC (those producers who publicly expressed support for the petition during the investigation) provided those producers submit certifications to CBP. Furthermore, DOC and the USITC review each outstanding antidumping and countervailing duty order every five years.

Administration of the safeguard law (Section 201 of the Trade Act of 1974) lies with separate responsibility between USITC and the President. The USITC first determines whether an article imported into the United States is increasing in such quantities as to be a substantial cause of serious injury or threat of serious injury to a domestic industry. If so it recommends to the President relief that would remedy the injury and facilitate industry adjustment to import competition. The President makes the final decision concerning whether to provide relief and the type and duration of relief, as well as instructing CBP the implementation of his decision should it be affirmative. Relief is temporary and for the purpose of providing time for the industry to adjust to import competition. Relief may take the form of increased tariffs, tariff-rate quotas, quotas, adjustment measures (including trade adjustment assistance), and negotiation of agreements with foreign countries. In making its determination, the USITC is not required to find an unfair trade practice.

The investigation process also has a time limit imposed by statute. In the case of antidumping and countervailing duty, the investigation is comprised of five stages, each having a statutory deadline that ends with a determination by either DOC or the USITC. For a normal case, the stages of investigation and associated deadlines are: (1) initiation of the investigation by DOC – 20 days after the filing of the petition, (2) the preliminary phase of the USITC’s investigation – 45 days after the filing of the petition, (3) the preliminary phase of DOC’s investigation – 115 days after the USITC’s preliminary determination in antidumping cases or 40 days in countervailing duty cases, (4) the final phase of DOC’s investigation – 75 days after DOC’s preliminary determination, and (5) the final phase of USITC’s investigation – 120 days after DOC’s preliminary determination or 45 days after its final determination, whichever is later. Though there is a partial overlap in some of these stages, a negative determination by either DOC or the USITC in any of these stages (with the exception of DOC’s preliminary determination in stage 3) would result in a termination of proceedings at both

agencies. This timetable implies that a normal investigation would be completed in 280 days for antidumping cases and 205 days for countervailing duty cases, which is in accordance with the 12 month time frame set by the WTO. In complicated or extended cases, the deadline for these investigations would be a maximum of 420 days for antidumping and 300 days for countervailing duty, which is still within the maximum time frame of 18 months set by the WTO. When the investigations have determined that dumping or subsidization has occurred, DOC publishes an Antidumping or Countervailing Duty Order which will be announced in the Federal Register. At this point, Commerce directs the CBP to collect the duties.

As to safeguards, the investigation process is less formalized in the statute with respect to the different stages. Once an application has been filed, USITC makes a determination within 120 days (180 days if the petition alleges that critical circumstances exist) whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry. If before the 100th day the Commission determines that the investigation is extraordinarily complicated, the Commission is required to make the determination within 150 days (210 days if the petition alleges that critical circumstances exist). In making the determination, USITC takes into account all economic factors which it considers relevant to serious injury (e.g., idle productive facilities, inability to carry out production at a reasonable level of profit, etc.) threat of serious injury (e.g., sales or market share decline, higher and growing inventory, etc.), and substantial cause (e.g., surge in imports, increase in market share, etc.). If the Commission makes an affirmative determination, it would also recommend the action that would address the serious injury, or threat thereof, to the domestic industry, including specifying the type, amount, and duration of the action that would facilitate positive adjustment to import competition. A report is submitted to the President at the earliest practicable time, but not later than 180 days (240 days if the petition alleges that critical circumstances exist) after the date on which the petition is filed.

In summary, the U.S. trade remedy regime is derived from several statutes legislated at different times as the need arose rather than based on a single remedy law. At the same time, administration of the different laws (antidumping, countervailing duties, and safeguard measures) is also placed with separate agencies consisting of DOC, USITC, and the President rather than on one key institution. And, each year the regime reviews between 36 to 116 antidumping and countervailing duty cases (based on 2000 to 2004 data) and a much lower number of safeguard cases amounting to 3 in the same period.

Table 27: Reforming Customs and Border Management in Peru

Background

In 1990, Peru's customs administration was disorganized, inefficient, and corrupt, and it had a negative public image. Out of 4,700 personnel, only 2 percent were professionals. Salaries were low and training was inadequate. In addition, discipline was poor and the incidence of corruption was high. Laws and regulations were uncoordinated and contradictory, and neither customs personnel nor the private sector were familiar with them; as a result they were not properly applied. Working without guidelines or instructions, personnel acted on suspicions rather than on good faith. Discretionary action was the rule. Procedures were bureaucratic and cumbersome, with excessive clearance controls. Customs valuation was subjective; thus the duties and taxes charged on import shipments were unpredictable. On average, goods were not released from customs until more than 20 days after the presentation of declarations.

Computing equipment was inadequate, and the customs administration lacked professional staff members with adequate computer skills. The customs process was almost entirely based on

paperwork. Statistics, prepared only after huge delays, were obsolete by the time they were ready. Infrastructure was precarious and, at some customs offices, nonexistent. Vehicles were not available for operational activities, and communication links between headquarters and field offices were lacking.

The customs administration's collection function was not effectively controlled. Revenue collection procedures lacked rigor and resulted in a large number of disputes and litigation cases. In addition, many payment checks lacked deposit coverage, but the customs administration failed to take action to recover revenue. Customs policy was not clearly defined, and institutional development plans did not exist. Also the customs administration failed to provide the public with information about rules, procedures, and activities. Personnel changes in senior management positions were frequent. Finally, the customs administration depended on the Ministry of Economy and Finance for its budget. There was no investment budget, and budgetary programs were not properly implemented.

Reform Process

With strong political support from the President, Customs administration was radically reformed. New legislation created the National Customs Service (Superintendencia Nacional de Aduanas) and empowered it with the operational flexibility to improve services and to be held accountable for the results. The reform program was comprehensive in that, in addition to new legislation, it included streamlining procedures, implementing full automation of operations based on an integrated, domestically developed computer program, introducing risk management and post-release audits; and initiating broadly based personnel renewal. Granted with administrative and financial autonomy, the new organization was able to introduce effective management and personnel policies that included restructuring the salary scale and the removal of unqualified and corrupt staff members. The use of pre-shipment inspection services was introduced and it contributed to effective and efficient customs operations.

Results

The reform process transformed Customs administration with the following results:

- Oriented Customs objective away from rigid revenue collection towards revenue collection and trade facilitation;
- Simplified the tariff structure by reducing the number of tariff rates from 56 to 7 and decreasing the range of rates from 10% - 110% to 4-25%, while banned products declined from 539 to 25 items;
- Replaced contradictory and dispersed Customs laws and regulations by a transparent and consistent regime;
- Transformed the dysfunctional Customs administration into an effective organization housed in new facilities with administrative and technical autonomy, modern administrative structure, and decentralized decision-making that operates with an institutional development plan, a budget and investment program;
- Changed Customs operations from manual to automated mode through a system with 1,600 computers and 50 servers and connected all customs offices through an e-mail system and foreign trade operators through electronic data interchange (and e-mail).
- Changed Customs control based on incoherent, multiple, and discretionary procedures, manual and paper-based processing, and actions based on suspicion to uniform computerized procedures, electronic declaration and processing, and clearance based on good faith principle;
- Diminished the multiple contacts of Customs officers with importers and exporters to little or no contact so that rent seeking opportunities are reduced;
- Replaced the 100% shipment inspection practice with risk management scheme which resulted in an inspection rate of 18.9% (law mandates 15% inspection rate);
- Introduced post-release audit system as a major control instrument administered by a staff of 50

to supplement the risk management scheme, in light of the discontinuance of 100% inspection program;

- Established new clearance facilities, such as advance declaration system and temporary admission regime, which were not available before for reliable importers and exporters;
- Improved clearance times from an average of 20 days to 24 hours for the red channel (physical inspection), 12 hours for the orange channel (document verification) and 1-2 hours for the green channel (immediate release);
- Revenue collection that previously was not effectively controlled became tightly controlled and as a result the recovery of revenue improved from USD 626 million (1990) to USD 2.03 billion (2002) which accounted for 23% to 36% of budgetary revenue respectively.

Table 28: Reforming Cambodia's Customs and Border Management

Background

In early 2001 the Cambodian Customs and Excise Department of the Ministry of Economy and Finance embarked on a customs reform and modernization program. The objective was to develop a modern efficient customs administration that met the requirements of the government for revenue collection and efficient facilitation of trade, as well as the needs of the trade for efficient, predictable customs services. A related goal was for customs to meet international customs standards and best practices. At that time the Customs and Excise Department was suffering from a number of weaknesses, both internal and external. The customs legislative base was inadequate for a modern customs administration; human resource capacities were limited; management was weak particularly at middle and lower levels; clearance procedures were time consuming, complex, poorly documented and unpredictable; corrupt practices were endemic; smuggling and tax evasion were widespread and open; the Departmental infrastructure and equipment were inadequate; and inter-agency cooperation was virtually non-existent. Political support for customs appeared to be uncertain, and levels of trader compliance were extremely low. The overall situation was serious and major improvements in all areas of operations were required.

Customs Reform Strategy and Process

With technical assistance provided through a multi donor-funded initiative (the Technical Cooperation Action Plan – TCAP) including the provision of a long term resident IMF customs advisor and short term experts, the Customs and Excise Department developed a customs reform and modernization strategy and plan. The approach taken was to focus initially on developing the foundation or base in terms of legislation, systems and procedures and organization needed to develop the department into a modern administration that met international best practices and the international commitments of Cambodia (e.g. World Customs Organization, WTO membership, ASEAN commitments). The strategy encompassed several major elements including; strengthening the legal framework (a new customs legislative regime including tariff restructuring); modernizing and streamlining procedures and systems including automation; strengthening international relations including WCO membership and supporting Cambodia's accession to the WTO; improved enforcement and anti-smuggling programs; organization and human resource development; infrastructure improvements; and improved service to the public and trade facilitation. These priority areas were supported by detailed action plans supported by the provision of technical assistance.

At the termination of TCAP in 2003, a completely new law had been drafted and submitted for approval, customs processes had been reviewed and streamlined, enforcement programs and capacities greatly strengthened, the department headquarters reorganized and a comprehensive

training program developed (to be delivered in a new training center at the headquarters). Of particular note is the improvement in anti-smuggling performance brought about largely as a result of the dedication of additional resources by customs to anti-smuggling operations, political commitment and support, and the much greater inter-agency cooperation. Building on this progress, the Customs and Excise Department developed a new reform plan covering the period 2003 -2008 that includes increased focus on the application of risk management and WTO commitments. In addition, the Royal Government of Cambodia recognized that the impacts of the reforms in customs, particularly on trade facilitation and trade operations in general, would be limited unless the reforms were extended to other government agencies involved in border management. Based on an Investment Climate Survey carried out by the World Bank in 2003, the Government created a Special Inter-Ministerial Task Force on Trade Facilitation and Investment Climate, Chaired by the Minister of Economy and Finance and co-chaired by the Minister of Commerce, this Task Force was, among other things, tasked with improving Cambodia's investment climate and trade facilitation. To accomplish this, the Task force pursued an integrated approach to border management.

With World Bank funding, and assistance from other donors (AusAID, the European Commission, IMF), the Royal Government of Cambodia launched a comprehensive Trade Facilitation and Competitiveness Project in 2005. This new, integrated and broad based approach to border management building on the earlier work done in customs is beginning to show results already. Working closely together the various government agencies involved in trade facilitation are developing an integrated risk management strategy for border management with the stated goal of reducing physical inspections using risk based techniques. An automated Single Window Approach for border clearances has been developed and will be supported by customs automation (ASYCUDAWorld). A new single administrative document (SAD) has been designed that meets the information requirements of all government border agencies. Combined anti-smuggling operations involving the military, police, local authorities working together with customs has produced significant increases in interceptions and seizures.

Early Results

The results of these reform initiatives are impressive. Customs revenue has increased from 852 billion riel in 2001 to 1,405 billion in 2005. Over the same period customs seizures increased from 1500 to 7600. Clearance times for both imports and exports have dropped by as much as 75%. And the informal charges for trade related transactions have reportedly reduced from approximately 5% to 2% of the value of goods. These improvements are significant, albeit preliminary indications of the impacts these reforms are having on Cambodia's trade and revenue situation. While the authorities recognize that a great deal more improvement is required in order to attain the trade facilitation goals, they are confident that future gains will be even greater through this truly integrated approach to trade administration and border management.

Table 29: US Government Response and Action to Illegal Transshipment Activities²

Though the evidence of transshipment could be witnessed by the receiving country, the authorities had little ability to prove transshipment or to distinguish the goods that were authentically produced in the exporting country from those that were transshipped illegally from China or Vietnam using false and fraudulent documents. Transshipment is a clever and effective scheme to avoid the protectionist trade barriers of developed countries and over the years the relevant authorities of the importing countries instituted creative measures of increasing stringency to address the transshipment issue. In the case of the U.S., Customs implemented the following measures:

- Intensive, physical inspection of all textile shipments from suspect countries;
- Requirement of payment of duties prior to release of goods;
- Single entry bonds on each individual textile shipment rather than a term bond;
- Request to the suspected transshipment countries for permission to visit the factories and premises of companies to verify their capacity to produce the goods and to review their records and documentation;
- Review of the production documents at the U.S. ports of entry. Goods are detained and the documents are reviewed. If the documents do not support the country of origin as declared to Customs, the goods may be excluded from entering the commerce of the United States.

The first three of these actions were applied unilaterally by U.S. Customs (in U.S. territory) on shipments from suspect countries. Though not all shipments were affected by these actions, a highly targeted risk-management approach was adopted that added to the time, cost, and complexity of the import process which had a negative impact on all transshipments (those in compliance as well as those that were fraudulent) from the suspect countries. While there was material impact at the time, these actions proved less effective as the transshipment schemes became increasingly sophisticated. In particular, physical examination of the goods is now virtually useless, as is the single entry bond which is considered passé.

The fourth action, that is, visit the factories in the suspect transshipment countries was extra-territorial and not within Customs authority without the cooperation of the host country. This is the only remedy that would get at the root of the problem and separate the compliant from the fraudulent shipment. Some countries cooperated with U.S. Customs request for factory visits and some did not. Those that did recognized that transshipment was a violation and a technique that benefited neither the U.S. nor their own country and that it was in the best interests of their nation and the legitimate producers, as well as the U.S., to be able to distinguish between compliant and fraudulent shipments. Both the U.S. as well as the suspected transshipment countries recognized too that the best way to solve the problem was through cooperation. The U.S. had the information on imports from the country and the country had the authority to inspect the premises. Thus a partnership was developed between U.S. Customs and a number of primarily Asian countries to address the transshipment issue and to identify the fraudulent schemes, companies, and shipments and penalize and prevent future violations. Those countries that did not initially cooperate with Customs saw their textile shipments continue to receive the intensive scrutiny and requirements to the detriment of their honest and legitimate manufacturers and exporters. Later, they also came aboard when they saw the positive results achieved by the cooperative efforts of the countries that

² This section benefited substantially from the advice and insightful comments of Mr. Michael Lane, a retired senior U.S. Customs official.

partnered with U.S. Customs, as well as the competitive disadvantages of non cooperation on their domestic industries.³

The fifth action was a supplement to the previous action (site inspection of the exporter's production facility), as it was a further step towards ensuring that the shipment of goods entering the U.S. was a compliant shipment and not a fraudulent one. Conducted at the U.S. border, the inbound shipment would be detained for validation by proper and authentic documents against the goods before allowed entry into the U.S. market.

Table 30: Standard Provisions Expected by U.S. in a Memorandum of Understanding Concerning Cooperation in Trade in Designated Products

The importing country and the exporting country designate their respective Customs administrations as the authorities for achieving the mutual objective of eliminating violations of their respective laws, regulations, and procedures affecting trade in the designated products, and in particular of eliminating violations that disrupt legal trade in the designated products.

When an importing country provides information on trade irregularities and requests the exporting country to investigate the matter, the exporting country should promptly conduct a verification visit to review whether a company, enterprise or unit has violated relevant laws, regulations, or procedures, and report the results to the importing Party within 30 days of the completion of the visit.

The importing country could also request the customs authorities of the exporting country to conduct examinations of exports of specified trades on targeted basis in order to ensure the effective enforcement of relevant laws, regulations, and procedures of both countries. At the conclusion of the examination, the exporting country should report the results to the importing country, including all evidence and information regarding the suspected violation, in a form admissible in judicial or administrative proceedings of the importing country. And, the importing country should respect the confidentiality of information received.

The exporting country should ensure that the exporter provides name and address of actual manufacturer on the commercial invoice or other documentation to accompany the shipment.

Both countries should make available experts from competent authorities, including Customs, to meet under convenient circumstances or periodically to discuss or report on law enforcement matters by the authorities and compliance issues by the enterprises.

The responsible officials from Customs administration of both countries agree to conduct joint visits of plants to determine whether they are engaged in activities circumventing laws and regulations, or procedures of both countries under the following arrangement:

- i. A country intending to conduct a visit should provide written notice 15 days in advance to the responsible officials of the other country, identifying the number of plants and facilities to be visited and the intended dates of the visits.
- ii. Before conducting the visit, the responsible officials of the countries shall obtain permission

³ These countries/territories included Hong Kong, Taiwan, Macau and Bangladesh. In particular, U.S. had a formal arrangement with Hong Kong through a Memorandum of Understanding.

from the plant or facility. If permission is denied, the visit shall not be conducted.

- iii. If permission to conduct the visit is denied, either country may take appropriate action, which, for the importing country, may include denying entry.
- iv. If permission to conduct the visit is granted, the joint visit shall go forward and the countries shall determine whether the plant or facility is engaged in production or practices that have contributed to the circumvention of laws, regulations, or procedures of either country.

When requested by the importing country in consideration of a claim of origin, the exporting country will provide documents pertaining to bills of lading, contracts or invoices for the finished goods, as well as its raw materials or components, in support of claim of origin at request of importing party.

Both countries should consult at regular intervals regarding the effective implementation of the MOU.

Table 31: Comparison of EPZ vs. Non-EPZ Firms in China

		Firms in Export Processing Zone (EPZ)	Firms with State-Level Production Zones	Difference of Cost	
				IN EPZ	OUTSIDE EPZ
A. Property (building materials for construction of building and equipment etc.)					
1.	Import	Exemption of import duty & VAT	Import duty & VAT	- import duty & VAT	+ import duty & VAT
2.	Domestic purchase	VAT can be refunded to Supplier	VAT cannot be refunded.	- VAT (13%)	+ VAT (17%)
B. Production Equipment					
1.	Import	All companies registered in EPZ enjoy exemption of import duty & VAT	Only the company approved as "Chinese Encouraged Industry" enjoys exemption of import duty & VAT.	Same	Same
2.	Domestic	VAT can be refunded to Supplier.	Only supplying to the company approved as "Chinese Encouraged Industry", the company can get VAT refunded.	- VAT	- VAT (only for "encouraged industry" project)
C. Parts & Components for Equipment					
1.	Imported	Exemption of import duty & VAT	Import duty & VAT	- import duty & VAT	+ import duty & VAT
2.	Domestic	VAT can be refunded to Supplier	Supplier cannot get VAT refunded.	- VAT	+ VAT
D. Raw Materials					
1.	Import	All import materials are bonded.	Import materials used for export processing are bonded; Import materials used for domestic sales shall be levied import duty & VAT.	All Bonded	Parts for domestic sales will be levied import duty & VAT.
2.	Domestic	Supplier can get VAT refunded.	Domestic materials used for export products can get VAT refunded. It is the company who finish export process enjoys VAT being refunded.	- VAT	- VAT (only and when for export products)

E. Consumable materials					
1.	Import	Bonded	Import duty & VAT will be levied	- import duty & VAT	+ import duty & VAT
2.	Domestic	VAT can be refunded to Supplier.	VAT cannot be refunded.	- VAT	+ VAT
F. Consumption fees on water, electricity and gas					
		VAT refunded	No VAT refunded.	- VAT (13%)	+ VAT
G. Domestic Sales of Finished Products					
		Import duty & VAT will be levied based on finished products and the import duty & VAT shall be paid by purchaser.	17% VAT is levied on value added parts, and import duty & VAT still will be levied on import materials. All shall be paid by company itself.	+ import duty & VAT on products finished in EPZ	+ import duty & VAT on import raw materials; + 17% VAT
H. Land					
		No requirements for 30% green area	30% of total land must be green area		
J. Customs Service					
		24 hours services; and separate customs office servicing for companies in EPZ	Regular work time; one customs office servicing for all companies in zone	simplified	normal

Table 32: Comparison of Bonded vs. Non-Bonded Firms in Indonesia

		Firms in Bonded Zone	Firms in Non-Bonded Zone	Difference of Cost	
				IN BZ	OUTSIDE BZ
A. Property (building materials for construction of building and equipment etc.)					
1.	Import	Exemption from import duty on machines/equipments, spare parts, and raw materials for production purpose , VAT exempted	Import duty 10% & VAT 10%	- VAT, Import Duty and Income Tax	+ Import duty & VAT
		Exemption from income tax on imported capital goods and raw materials			
2.	Domestic	Where input VAT exceeds output VAT, a refund of input VAT can be requested to the tax office on a monthly basis or the excess amount can be credited against the output tax on future periods.	Only goods and services which are not subjected to VAT by legislation and goods categorized as strategic goods are exempted from VAT	- VAT	+VAT
B. Production Equipment					
1.	Import	Exemption from import duty on machines/equipments, spare parts, and raw materials for production purpose , VAT exempted	Import duty & VAT	- VAT, Import Duty and Income Tax	+ Import duty & VAT
		Exemption from income tax on imported capital goods and raw materials			
2.	Domestic	Same as above	Same as above	- VAT	+VAT
C. Parts & Components for Equipment					
1.	Import	Exemption from import duty on machines/equipments, spare parts, and raw materials for production purpose , VAT exempted	Import duty & VAT	- VAT, Import Duty and Income Tax	+ Import duty & VAT
		Exemption from income tax on imported capital goods and raw materials			
2.	Domestic	Same as above	Same as above	- VAT	+VAT

D. Raw Materials					
			Import duty & VAT	- VAT, Import Duty and Income Tax	+ Import duty & VAT
1.	Import	Exemption from import duty on machines/equipments, spare parts, and raw materials for production purpose			
		Exemption from income tax on imported capital goods and raw materials			
2.	Domestic	Same as above	Same as above		
E. Consumable materials					
1.	Import	Bonded	Import duty & VAT		
2.	Domestic	Same as above	Only goods and services which are not subjected to VAT by legislation and goods categorized as strategic goods are exempted from VAT		
F. Consumption fees on water, electricity and gas					
		Subject to VAT	Subject to VAT		
G. Domestic Sales of Finished Products					
		Import duty & VAT will be levied based on finished products, and the import duty & VAT shall be paid by purchaser. (see attached word file)	VAT is levied on value added parts, and import duty & VAT still will be levied on import materials. All shall be paid by company itself.	+ Import duty & VAT on products finished in BZ	+ Import duty & VAT on Import raw materials (non strategic goods)
H. Land					
		No requirements for green area	There must be green area (with min KDH)		
J. Customs Service					
		Separate customs office servicing each companies in Bonded Zone, not subject to physical customs inspection	One customs office servicing for all 'regular' companies	simplified	normal

Annex 3

Table 33: Additional Details on Past and Planned Actions to Increase Aquaculture Production and Exports

Government support for credit to farmers⁴

The Government has promoted cooperation with two Banks to facilitate provision of credit to aquaculture farmers. These are the Bank Mandiri and Bank Bukopin, although the process of lending to fishers (and farmers) is reported to have run slowly. Banks require producers to have collateral for a loan, a condition that many fishers and farmers cannot fulfil. Aware of these difficulties, the Directorate General of Small Island and Coastal Area (DGSIC) and Directorate General of Aquaculture (DGA) launched two programs for development which have operated since 2001: The Project of Coastal Community Empowerment (PEMP); and the Aquaculture Intensification Program (INBUDKAN) respectively. Both programs aimed to support small scale fishers and farmers to increase their business by providing funds allocated by MMAF. The fund was intended to be used as a “revolving fund”. The PEMP had a broad scope of activities with the target community not only limited to fishers and farmers, but also to other communities living in coastal areas and small islands. At the district level, the Project of PEMP was formed. Funds were provided directly to fishers/farmers in communities through an institution of producers called LEPM3 (Micro Economic Institution or Lembaga Ekonomi Mikro) after getting a recommendation/approval from Dinas Perikanan Kabupaten/Kota. The fisher/farmer then returned the “loan” within a period of time to LEPM3 with special interest ranging from 9 – 12 % per annum.

In the INBUDKAN program, the DGA also allocated budget for small-scale producers to add working capital to their operations for expansion into specific activities. Funds were given directly to the group of producers upon approval from the District Dinas Kelautan dan Perikanan. Budget was provided only for demonstration on tilapia, shrimp, seaweed and grouper culture. With similar arrangements to PEMP, funds were also intended to be used under a “revolving fund” scheme; however the funds are kept in the account of the producer group. Funds were supposed to be transferred again to other producer groups upon request as recommended by the District Dinas Kelautan dan Perikanan.

PEMP and INBUDKAN are attempts by MMAF to provide small scale fishers/farmers with access fund from the government, although there are still many constraints including mismanagement and sustainability of projects. Nevertheless, such mechanisms offer useful learning experiences, and potential mechanisms that might be reviewed.

Revitalizing Aquaculture Plan, 2006-2009

- This plan covers 10 key aquaculture species. With respect to shrimp, key strategies are:
- Development of *P. Vannamei* through easier technology, good adaptation to the environment, better resistance to disease, and high productivity

⁴ From Poseidon, 2005. PHASE 1: Initial Fact-Finding and Data Collection on Current State of the Marine Fisheries Sector. IFC/PEP Aceh

- Improved P. Monodon production through simple farming techniques with organic systems in backyard/traditional farms
- Increased use and optimization of idle farms
- Mixed forms of extensive, semi-intensive and intensive farming
- Polyculture of P. Mondon with seaweed (which improves water quality and can also be harvested)
- Increasing the number of hatcheries
- Improving fry quality through implementation of hatchery standards and virus free status of PL
- Import of SPF fry and domestication to produce SPF broodstock
- Standardisation and certification of fry
- Training of DKP and field officers
- Technology transfer through demonstration ponds
- Cooperation with related agencies for planning, accessing/using funds, market development, etc

Indonesian Plan of Action in response to September 2005 report of DGSANCO

A. GENERAL

The successive visits of the EU inspectors in 2004 and 2005 to assess the conditions of production of fishery products for human consumption have revealed serious weaknesses along the production chain. The Indonesian Government also acknowledges that the recommendations in the 2004 report were not fully implemented by the Competent Authority (CA) and as a result the Inspectors concluded in the draft report of 2005 that Indonesia is not in a position to provide the necessary guarantees foreseen in the health certificate.

In view of the overriding importance of the fishery sector to Indonesia which provides a livelihood for rural communities, the Indonesian Authorities recognise the crucial importance of remedying the deficiencies highlighted.

In terms of organisation, it has been decided that the CA needs further support from related Ministries. In particular, a Steering Committee (SC) is being set up comprising of the Ministry of Maritime and Fishery and Ministry of Trade, and the major stakeholders, will meet on a monthly basis to ensure that all necessary actions are taken to implement this plan. A monthly reporting system is being established to monitor the progress of the implementation of the different initiatives outlined.

One of the major problems highlighted in the EU reports is the weakness in the inspection, control and reporting systems. In particular, the CA continues to approve establishments even though they did not meet the requirements of the Directive concerned. The reporting systems were also found to be inadequate in terms of checks made, remedial actions taken as well as major shortcomings in controls and traceability. The system currently employed is being urgently reviewed

The team of inspectors will be strengthened and a division of labour clearly delineated. In particular, different inspectors will perform the task of inspecting vessels, establishments and pre certification.

B. ACTION PLANS TO MEET THE PROVISIONS OF THIS DIRECTIVE

1. Knowledge/understanding of Community provisions

There are two levels of training that will be implemented in the following weeks:

a. Training of Indonesian Inspectors

The inspector will be trained on the requirements of the Directive. Particular attention will be paid on how to ensure that Community requirements are actually met on freezer, fishing and factory vessels and establishments. Close attention will be paid to approval and reporting procedures, guidelines for inspectors, use of check lists, supervision of own checks and remedial actions

b. Workshops in the regions for officials and stakeholders covering vessels and establishments

Training will be extended to governments and stakeholders in the region where fish are harvested, landed and processed. Separate sessions will be implemented on requirements of Council Directive 92/48/EEC; chapters II,III,IV of the annex to Council Directive 91/493/EEC; chapter V of 91/493/EEC and chapter VI,VII and VIII of the Annex to Council Directive 91/493; freshness criteria of Council regulation (EC) No 2406/96. Particular emphasis will be placed on the importance of organoleptic, parasitological chemical and microbiological checks on certain species

In addition to explaining the requirements of the Directive, systems applied for traceability and controls will be presented.

2. Approval of freezer/fishing vessels/factory vessel and establishments

a. The proper categorisation of freezer and fishing vessels will be completed.

b. The list of approved vessels and establishments is being urgently reviewed. For that purpose, inspectors are being chosen that are able demonstrate a high level of knowledge on Community requirements. Different inspectors are being used for vessels and establishments

c. The Indonesian Authorities take account of comments made by Fish Processors in Europe during the seminar held in late November in Brussels. In particular, those Indonesian vessels and establishments that meet requirements should not be undermined by those that do not. As such, the lists will be restricted to those vessels and establishments that clearly meet the requirements of the Directives concerned.

d. Particular attention will be paid to the reporting system on the results of the inspections made. The check list will be reviewed and tailored to focus on weaknesses highlighted by the inspection teams in the past. The result of the visit will be assessed by the SC and the results sent on to the Commission.

e. Where vessels and establishments do not meet the requirements, the stakeholders concerned will be expected to propose to the CA remedial actions. These remedial actions will be reviewed and visit made to check whether the circumstances have changed.

f. Approved vessels and establishments will be visited once a year to ensure that they are meeting the requirements concerned. Stakeholders will complete a check list on a semi-annual basis against which the Inspectors can prepare the visits

g. Once the list of approved vessels and establishments has been revised, those vessels and establishments that wish to be included on the list must undergo an audit. This audit will also include an assessment of the measures to be undertaken to comply to include likely costs concerned so that the stakeholders are aware before investments are made. Furthermore, the audit will also include an assessment of whether the vessels and establishments visited are realistically in a position to meet the Community requirement. The results of the visits made are to be presented to the steering committee and made available to the EU inspectors on future visits to Indonesia

h. Stakeholders will have to nominate a company representative responsible for the implementation of Community requirements. The knowledge of the representative concerned will be subject to an annual test to ensure that knowledge is being properly disseminated on board vessels and establishments.

3. Official controls and monitoring of the production of fishery products intended for EU export.

a. The current system applied is being urgently reviewed. The emphasis is on providing a system that will be able to ensure that the requirements of the Directives are being met along the production chain from harvesting to export. The reporting system will be improved to ensure that fish product can be traced from harvesting to export to ensure that they originate from compliant vessels and establishments. Controls will be exercised at vessel, landings, storage and packing plants and reporting system applied to ensure that the results are known and kept. Under this system deficiencies highlighted should be implemented within 30 days of the problem being identified.

4. Laboratories and residue monitoring plans

The shortcoming highlighted in the Report will be addressed through rendering technical assistance at 11 laboratory centres including the identification and procurement of all necessary equipment

EU-RI Trade Support Programme. Component IV: Technical Laboratories (Ministry of Marine Affairs and Fisheries)

Project Estimate Overall Work Plan (OWP) and Annual Work Plan (AWP)

Executive Summary

The objective of the component is to ensure Indonesian companies of frozen fish and shrimp improved access to the EU market. Specific focus will be given to issues related control of food safety of frozen and fresh tuna and frozen shrimp. The objective will be reached through four major outputs and seven sub-activities including

- Training of laboratory and inspector staff in the competent authorities at central and provincial level. Training will take place in Indonesia as well as in EU, including EU and local trainers to the extent relevant for the subject.
- Funding of equipment for laboratory analysis, enabling relevant authorities to conduct analysis in compliance with EU criteria.
- Support to review and revision of legal framework, including legal texts, standards, guidelines, procedures and methods for control of food safety, as implemented by authorities and processing factories. The review and the revision shall aim to bring the Indonesian system for control of food safety of fishery products in compliance with relevant EU regulations.
- Orientation Program for the SME fish processing industry, including workshops and study tour to EU-market. The study tour shall be market oriented aiming to assist companies to understand and respond in practice to customer and consumer requirements in Europe.
- Dissemination activities, including seminars, workshops, guidelines and other relevant information materials for the processing industry and their suppliers.

The component will be managed by the Ministry of Marine Affairs and Fisheries, Directorate General of Capacity Building and Marketing (MMAF-DGCBM). The MMAF is in process of re-organization, with the aim to establish one Directorate responsible for developing and implementing legal framework for control of food safety in the whole value-chain in the fisheries sector. This means that sub-directorates from at least 3 Directorates will be collected in one Directorate under MMAF-DGCBM, which will change name to Directorate General of Processing and Marketing (DGPM). It is expected that the new organization will be official by 1. July 2005. The new organization will be the counterpart organization of the Trade Support Programme Component IV.

There is a general consensus that the project activities shall be organized and carried out in a way which facilitates the needed change process and the capacity building in the new organizational setting. This means that the project activities shall take the form mainly of technical reviews for further planning and decision making, facilitation of development processes and the related training. Relevant groups of staff-members will therefore be deeply involved in or facilitated by all activities.

The new organizational setting is the best possible base for implementation of the project, serving as an integrated, external resource to facilitate the needed and wanted change processes. In this light it is of course also obvious, that the new organization should be operational as soon as possible, and that this is vital for implementing the component with sufficient benefit for the institution.

The full success and progress of the component therefore depends also on the overall management of the change process, including strategic decision making and directions as well as assignment of the needed human resources for development and training.

The budget includes 315 man days for EU experts and 275 man days for local experts. In addition to this 1,4 mio Euro for funding of laboratory equipment, training, travelling, dissemination etc.

The component started in May 2005 and will run until early 2007.

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