Chapter 6

A Case of the Automotive Industry in Indonesia

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CHAPTER 6

A Case Study of the Automotive Industry in Indonesia

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[1] Introduction and Country Context

This chapter is based on a series of activities conducted by the Centre for Strategic and International Studies as part of the study of the Economic Research Institute for ASEAN and East Asia on reducing unnecessary regulatory burdens (RURB) for business. The centre conducted a country study in Indonesia aimed at identifying and developing solutions to RURB in a specific sector. Discussion in this chapter is limited to the automotive sector, which is among the most important of the Association of Southeast Asian Nations (ASEAN) priority integration sectors for Indonesia.

The country study should be put into the context of regional (ASEAN) economic conditions in general and Indonesia's in particular. Recent indicators in the country have shown a consistent slowing down in the economy in the last six years. Indonesia's real economic growth in 2015 was 4.76%, the lowest in six years, before slightly improving to 5.02% in 2016.

Many external and internal factors contribute to this slowing growth. Evidence suggests that some key sources of economic growth (e.g. trade activities) have weakened in recent years. More importantly, however, numerous domestic issues have been hampering the entry of foreign investment into the country. One such issue relates to the current regulatory regime.

The regulations in Indonesia are seen as restrictive, excessive, and poorly designed or administered. The Organisation for Economic Co-operation and Development (2014) shows that the value of Indonesia's Services Trade Restrictiveness Index is higher than the world average in each of the 18 services subsectors observed, indicating how restrictive the regulatory climate in Indonesia is towards foreign investment.

Addressing the issue of excessive regulations, the president of Indonesia has recently trimmed down around 42,000 regulations that hinder investment. These are administered by a diverse set of public agencies from the presidential, ministerial, and central government levels down to the local government and district government levels. This speaks volumes of the excessive amount of regulations in Indonesia and, hence, the complications arising from it.

A National Development Planning Agency tool for regulatory review process (Bappenas, 2015) lists options or checklists such as 'Inconsistent', 'Duplication', 'Multi-interpretative', and 'Inoperative', suggesting that many regulations fall into one or more of those categories. The lack of good regulatory practices is also well-documented by the IMD Survey of Competitiveness 2015 (IMD, 2015).

To boost a weakening economy amid problematic domestic regulatory regime, the government has set up a massive deregulation initiative, embedded in several economic policy packages launched under President Jokowi's administration. The government has been trying to streamline the number and procedures of regulations to facilitate even more economic activities. It is in this context that the findings from this study will become useful.

[2] Context of Indonesia's Automotive Industry

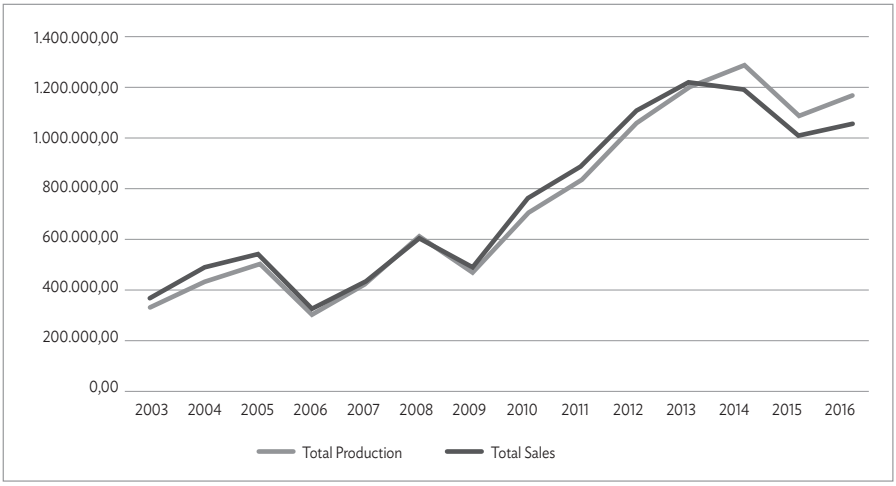
2.1 | An Important and Vibrant Economic Sector

As one of the 12 ASEAN priority integration sectors, the automotive sector of Indonesia is chosen for the case study. According to data from the Association of Indonesia Automotive Industries (GAIKINDO, 2016), the automotive industry is an important economic sector for Indonesia, contributing more than

US$5 billion worth of exports in 2015. In 2016, Indonesia exported 194,397 completely built-up vehicles and 202,626 completely knocked-down units, alongside 6,233,114 components, in what has been an upward trend since 2012. Despite a slight drop in export performance in 2016, the automotive sector remains among the leading export sectors for Indonesia, its growth rate continuing a more positive trend compared to most other commodities, particularly in the weakening trade environment.

Figure 1 shows Indonesia's automotive industry's growth from 2003 to 2016. The average growth rate for total sales and total production was 12.2% and 14% per year, respectively.

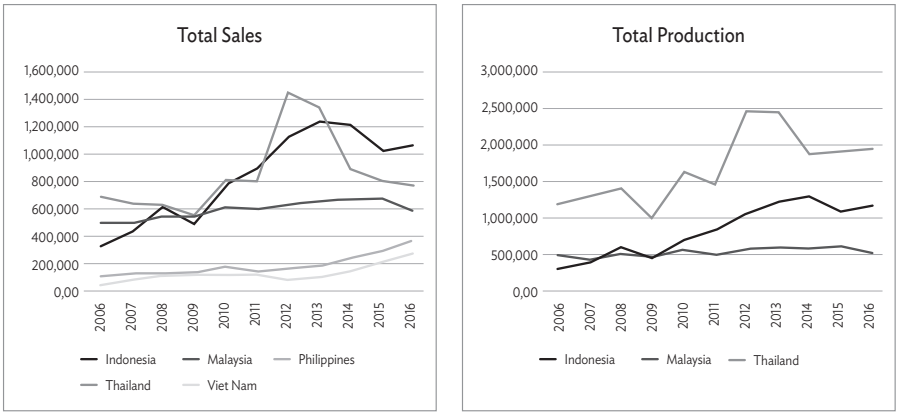
Figure 1: Total Sales and Production, Automotive Sector, 2003–2016 (in units)s



Source: Association of Indonesia Automotive Industry (GAIKINDO).

Indonesia is currently the biggest market for the automotive sector in ASEAN, surpassing Thailand in 2013–2014 (Figure 2). A relatively stable domestic political situation and the surge in the members of the population of productive age and the middle-class have been the major reasons behind this increase even if automotive sales slightly decreased in 2014–2015 due to the global economic slowdown, among other things.

Figure 2: ASEAN Automotive Market and Production by Country, 2007–2014 (in units)



Source: Association of Indonesia Automotive Industry (GAIKINDO).

However, despite being a huge market, Indonesia's automotive production capacity and capability remain below Thailand's (Figure 2). The Association of Indonesia Automotive Industry or GAIKINDO estimates that despite possessing an installed production capacity of almost 2 million vehicles per year, only about 62% are effectively utilised. Labour productivity level is lacking. Furthermore, Indonesia's production cost structure is not efficient as its relatively competitive automotive production at the factory level is cancelled out by external bottlenecks in logistics and regulatory problems.

Although capital intensive, the automotive industry still utilises a significant amount of labour. About 1.3 million people were employed within the entire value chain of the industry in 2015 (GAIKINDO, 2015). The industry is one of the primary absorbers of manufacturing jobs in Indonesia, alongside the electronics, garments, footwear, and textile industries. Among the automotive subsectors, the component industry has the highest number of employees.

2.2 ‖ Global Value Chain Consideration

With a population of 250 million, Indonesia is a huge automotive market. Thus, many foreign investors are interested in setting up production bases in this country. The challenge for Indonesia's government is how to ensure that

unnecessary regulatory burdens are not becoming impediments for foreign investment. From Indonesia's perspective (especially for small- and medium-sized enterprises), producing automotive parts and components is one of the major ways by which Indonesia can join the global production network.

To cater for the Indonesian market, assembling vehicles domestically should entail less cost compared to importing completely built up cars. Local suppliers have considerably increased in the past 10 years, leading complete-unit manufacturers to enlarge their production. Partly, this is why some automakers have been heavily investing (or at least planning to invest) in Indonesia. Announcements of either expansion of existing activities of original equipment manufacturers or new strategic investment by them have been numerous in the last three years. Recent cases of political instability in Thailand may also have driven many automotive firms to consider Indonesia as an option to set up local production facilities. In other words, Indonesia has the potential to become a regional automotive production hub.

In summary, the importance, volume, scope, and diversity of this sector are the primary reasons for exploring unnecessary regulatory burdens (URBs) in greater depth.

[3] Current Regulations in the Automotive Industry

3.1 | Overall Regulatory Mapping

The automotive sector is highly regulated and the regulations are diverse in terms of both the authorities producing and administering them and the domains they cover. Regulatory bodies include technical and/or line ministries that may or may not be directly related to the automotive business process. To the first belong the Ministry of Industry, the Ministry of Transportation, the Ministry of Trade, and the Investment Coordinating Board while to the second belongs the Ministry of Environment. Many of these regulations are imposed universally across industries, particularly those related to permits and/or licences to start a business, various environmental licences, and fiscal incentives for the export-oriented manufacturing sector.

The Appendix lists regulations related to the business process of the automotive industry in Indonesia, which can be divided into five stages: (i) starting a business; (ii) expanding a business; (iii) sourcing raw materials and/or input; (iv) producing or assembling; and (v) distributing, selling, and financing. The list does not cover every piece of regulations and each regulation may not be universally applicable for all automotive firms, as they have different production, territory, and sales orientation (i.e. export vs domestic).

The list does not include the large number of highly specific (and thus, not easily traceable) local government regulations that hint at even the slightest intersection with business activities of automotive firms operating in regions. Unnecessary regulatory burdens potentially exist among these regulations, which rarely follow good regulatory practices. This study does not delve into all these regulations as such will require a more thorough research with more extensive resources.

The regulations included in the Appendix cover an extensive area of automotive business activities, from obtaining business permits, vehicle registration, import or export documents, national standards, labour safety, to environmental licensing. Most are compulsory while some are means to obtain incentives, e.g. duty drawbacks or government-borne duty, especially for export-oriented or strategic manufacturing industries, of which the automotive sector is considered as one. Most are at the level of law and ministerial regulations. Implementing regulations stipulating the administrative procedures that firms need to go through to comply are not listed in this chapter.

Using the method and theoretical framework developed by the Malaysia Productivity Corporation (2014), and based on our engagement with several automotive firms, this study identifies which regulations qualify as URBs. Given the limitation of resources and time, we only cover three URBs in this study, which are further elaborated in the next sections.

3.2 Recent Regulatory Improvements in the Automotive Sector

Before exploring the URBs identified in this study, this section will highlight Indonesia's recent progress with respect to reducing regulatory burdens in the

automotive sector. Some of the successful minor regulatory reforms include initiatives in the Indonesian National Single Window, an online system for vehicle registration; priority lane customs; and technical consideration for the Indonesian National Standard (SNI), among others. Such reforms have, to some extent, facilitated business activities in the automotive sector.

3.2.1. RURB on Starting and Expanding a Business

The establishment of a National Single Window to licence starting and/or expanding businesses is a concrete measure to improve the business climate. Currently, every required document can be processed and obtained within the Indonesian Single Window platform under the Investment Coordinating Board, whereas they were previously regulated and administered separately by different ministries. Developing such an online platform has reduced firms' administrative and transportation costs. The Investment Coordinating Board now has a database of firms' information so that firms no longer need to repeatedly scan corporate data when applying for business expansion as application forms are now available online. The only data needed is the expansion plan. The time saved due to this reform is noticeable as the process only takes three to four hours, albeit only for large enterprises.

3.2.2 Incorporating a Business Licence – Company Registration

Based on MoT Regulation No. 36/2007, a business licence (SIUP) grants permission to firms to conduct trading. Meanwhile, the Certificate of Company Registration (TDP) based on Law No. 3/1982 on the mandatory list allows the government to collect official information on all registered firms. The SIUP also contains this information and can also be used to collect company information (previously through TDP). Therefore, merging SIUP and TDP into a single licence with two functions is necessary. Improvements to this regulation have been made by the Ministry of Trade (MoT) through MoT Regulation No. 77/2013 that facilitates applicants submitting both an SIUP and a TDP simultaneously. Such a reform can be a reference point towards simplification of procedures.

3.2.3 Priority Lanes in Customs Process

Priority lanes in customs process are important for the automotive industry, which is characterised by just-in-time production. Priority lanes assure easier

and quicker entry of imported parts and/or components. These lanes have been provided for reputable importers who have regularly complied with a specific set of customs requirements, including exemplary historical tax compliance, minimum capital limits, and recurrent and periodic import of goods, among others. Priority lanes have helped importers reduce dwelling time of imported goods in ports as they are, on average, twice faster than the ordinary red lines. Importers under this category also have their tax duties deferred and are not required to submit supporting documents to the Ministry of Industry, the Ministry of Trade, and the Customs for every import process.

3.2.4 Online System for Vehicle Registration

After the manufacturing and/or assembly process, vehicles must be registered with the police, with specifications of the cars provided during the process. Previously, the vehicle registration system was conducted manually, requiring businesses to submit many documents containing the specifications of each vehicle that would be input manually by police officers. Under this system, human error was high. However, since 2007, an online mechanism has been used for vehicle registration, minimising the number of documents required and, in the process, human error as well.

Before vehicles are registered, businesses must conduct numerous tests and obtain approvals from the Ministry of Industry (MoI) and the Ministry of Transportation. These tests and approrvals include homologation, vehicle type registration for testing, vehicle physical testing, type testing certificate (SUT), and type testing registration certificate (SRUT). Previously, businesses would have to go to MoT to apply for a type registration for testing, an SUT, and an SRUT with all the required documents that would later be keyed in manually by the MoT staff. However, on 31 March 2016, the Ministry of Transportation launched a vehicle type approval online application system that allows businesses to apply for an SUT and an SRUT online and reduces to approximately seven working days the time for getting certificates. Prior to this implementation, it took more than one month to obtain an SUT and an SRUT.

[4] Issues Identified as Possible Unnecessary Regulatory Burdens

To identify issues that are considered burdens for business, we conducted interviews with several firms operating in the automotive industry, both from the original equipment manufacturers and component producers, as well as business associations. From these interviews, we classified three unnecessary regulatory burdens considered the most burdensome for business: (i) government-borne import duties (BMDTP), environmental licences, and (iii) SNI.

4.1 Government-borne Import Duties

The BMDTP policy is a fiscal facility provided by the Ministry of Finance (MoF) and regulated under the State Budget Law (not under Customs Law).[1] The purpose of the policy is to increase consumer welfare by providing goods with higher quality or cheaper prices, to increase competitiveness of Indonesian firms, and to increase absorption of manpower. Through this facility, the government bears the import duties for certain products that should have been paid by the importing firms. The BMDTP facility is only for imported goods that are not produced locally, and for those good produced locally but do not meet yet the specifications required or industrial demand. It is also not available for zero-tariff goods, anti-dumping goods, imported goods with other fiscal incentives, or goods from countries with which Indonesia already has preferential trade agreements.

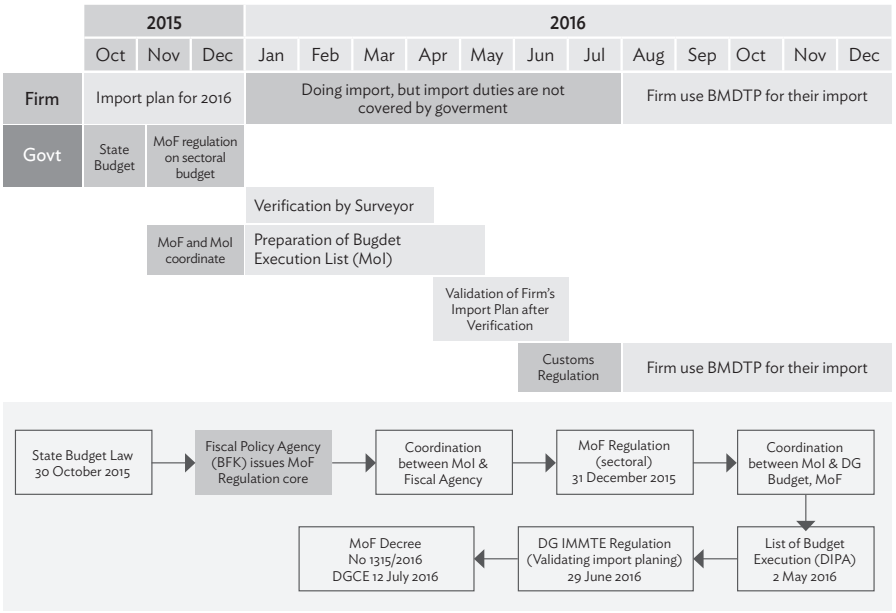
The BMDTP facility was formed after the new Customs Law was passed in 2006, which abolished MoF's power to reduce import duty as a fiscal incentive instrument for local firms. The utilisation of BMDTP depends on MoI, which is responsible for supervising industrial activities in Indonesia and has the right to choose which industries are eligible for the BMDTP facility in any given year. In the last five years, the automotive sector has been its biggest beneficiary, indicating the importance of this policy for automotive firms.

[1] Usually, various forms of fiscal incentive in Indonesia are regulated under the Customs Law such as duty drawbacks and tax allowances.

The BMDTP facility is delivered on an annual basis as it is regulated under the State Budget Law. Figure 3 depicts the process of preparing the regulatory requirements for the BMDTP facility in 2016 involving various government agencies. It started with the passing of the State Budget Law and concluded with a decree from MoF (specifically by the Directorate General of Customs and Excise).

After the State Budget Law was passed, the Fiscal Policy Agency (BKF) proceeded with the MoF regulation (core) to deliver the BMDTP facility. This was followed by coordination and discussion between BKF and MoI to determine the budget ceiling for each sub-industrial sector, which was further regulated by an MoF regulation (sectoral) by the end of 2015. This sectoral MoF regulation consisted of information on the BMDTP budget ceiling for MoI as an aggregate.

Figure 3: The Regulatory Process of Preparing BMDTP Facility, 2016



BMDTP = Government-borne import duties; DIPA = DG Directorate General; DGCE = Directorate General of Customs and Excise; IMMTE = Metal, Machinery, Transportation, and Electronics Industry; MoF = Ministry of Finance, MoI = Ministry of Industry.
Source: Ministry of Finance.

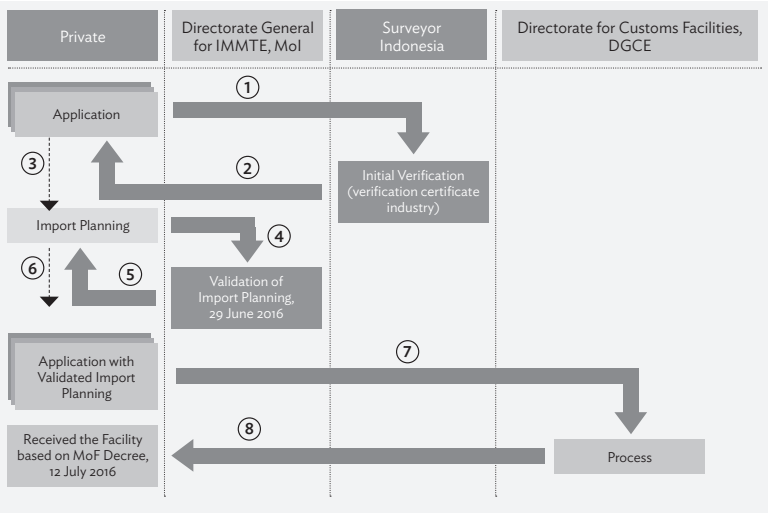
A firm can apply to MoI for this facility. Initially, an auditor from PT Surveyor Indonesia will check the firm's documents, industrial activities, and import plan to find out which products (by Harmonized System codes) are eligible for

BMDTP, and whether or not those products are in line with the firm's actual industrial production and capabilities in factories. After the initial verification, PT Surveyor Indonesia issues a certificate of industrial verification (SKVI) informing the firm that it has passed the initial verification and is thus eligible for BMDTP by a certain amount for some products.

A firm then has to revise its import plans that should refer to the recently issued SKVI, and to be submitted later to MoI. It then waits to get its plans validated and legalised by the directorate general (DG).

At the same time, MoI coordinates with the DG of Budget in preparing the state budget execution list (DIPA)[2] to be able to withdraw funds that had been previously allocated for BMDTP in the state budget. For MoI to obtain its DIPA, it needs to submit to MoF validated documents related to the detailed budget plan. Without the DIPA, the fund for the BMDTP facility cannot be distributed to MoI and, hence, cannot be used yet by business even with the issuance of validated import plan documents by each DG.

Figure 4: Process of Applying for BMDTP



BMDTP = government-borne import duties; DG = Directorate General; DGCE = Directorate General of Customs and Excise; IMMTE = Metal, Machinery, Transportation, and Electronics Industry; MoI= Ministry of Finance
Source: Ministry of Finance.

[2] DIPA consists of details of the budget utilisation planning for each DG in each ministry and agency. The BMDTP for the automotive sector is under the DIPA document prepared by DG of metals, machinery, transportation, and electronics in the MoI.

Afterwards, the firm will have to file its application of BMDTP to DG of Customs and Excise with the validated import plan attached. The DG will finally issue an MoF decree stating that the particular company is entitled to the BMDTP facility for that year. Only after the issuance of the MoF decree can the firm take advantage of the BMDTP facility.

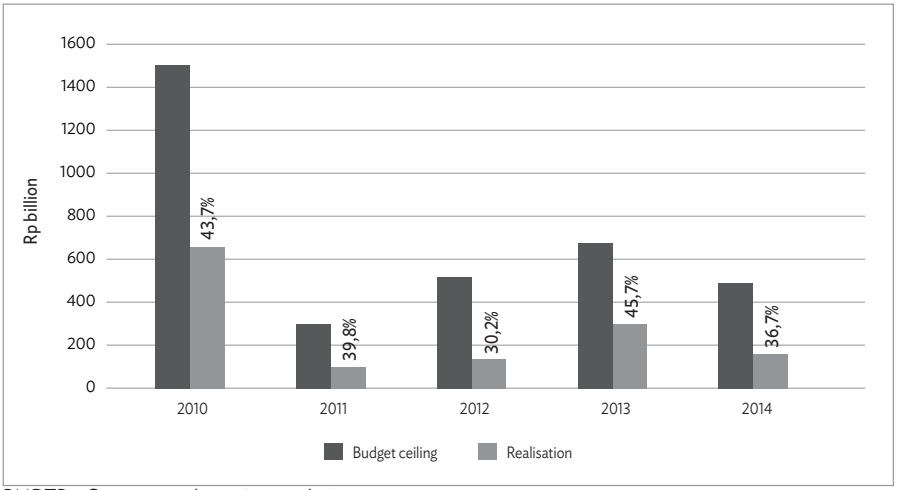
Indeed, there have been efforts to improve and speed up this process, i.e. by converting MoF Core Regulation No 248/2014's validity from one year to several years. This has cut one regulatory checkpoint, as BKF can now directly discuss with MoI the budget ceiling of BMDTP for every sector after the passing of the State Budget Law.

During our interviews with businesses, we found that their common concern with regard to BMDTP is the lengthy process of preparing BMDTP in various government ministries and/or agencies, which significantly reduces the time window for firms to actually use the facility. Moreover, the whole process has to be repeated each year as it is regulated under the State Budget Law, which comes annually.

The lengthy procedure has affected the use of this facility and caused the relatively low budget absorption of BMDTP. This is shown in Figure 5, where the budget realisation for the BMDTP facility has never reached 50% of the budget ceiling since 2010. As such, other government agencies and policymakers question the effectiveness of the BMDTP facility and call for a reduction of its allocation for the coming years (which is ultimately undesirable for business).

Based on our observations, at least three bottlenecks could have been addressed to speed up the whole process: (i) the time-consuming process to complete verification; (ii) the lengthy process to obtain the State Budget Execution List (DIPA) of MoI; and (iii) the lengthy process to obtain validated firms' import plans that are eligible for the BMDTP facility.

Figure 5: Comparison Between Budget Ceiling and Realisation of BMDTP



BMDTP = Government-borne import duties.
Source: Ministry of Finance.

4.1.1 Streamlining the Process and Advancing Timeline of Initial Verification

PT Surveyor Indonesia's initial verification process was time consuming as it took 3.5 months from January to mid-April. Furthermore, the initial verification was conducted only after the issuance of MoF sectoral regulation on 31 December 2015, making the process even longer. To respond to such conditions, there are four policy options from which to choose.

OPTION 1: Maintain status quo

Maintaining the current conditions will prevent the early issuance of SKVI, which will delay the issuance of the validated import plans by DG, MoI.

OPTION 2: Start conducting early verification (before the beginning of the year)

The government could conduct initial verification before the issuance of MoF sectoral regulation so it could be completed sooner. This could be implemented, considering the fact that businesses that want to apply for the BMDTP facility have already sent their application documents to MoI earlier. These application documents are received and used by BKF to determine BMDTP's budget ceiling for each sector.

OPTION 3: Create a 'track record-based' mechanism exempting trusted firms from initial verification

A 'track record-based' system is currently often used by DG Customs as a reward for trusted and reputable companies (passing through green lines) by exempting such firms from lengthy verification and, hence, speeding up their goods-clearance process in the ports. The government could alternatively implement such a system for initial verification of BMDTP. With such a system, PT Surveyor Indonesia does not have to conduct the initial verification (which tends to be repetitive each year, particularly on checking documents) of the companies that apply for BMDTP. This way, the verification could be finished earlier.

OPTION 4: Implementing two- or three-year business plan for importing materials

By this scheme, businesses have to submit their import plans for two or three years so they do not have to re-apply for BMDTP every year. The DG of Budget, MoF will only need to adjust the percentage or ratio that firms can get with the 'up and down' BMDTP allocation budget from the national budget. This mechanism can work well if given the assumption that firms, or at least sectors, are the same for the next two or three years. The MoI could also prioritise which sector should get this facility for those years referred to in the national industrial planning.

RECOMMENDATION: Options 2 and 3

Initial verification by the time the State Budget Law has been enacted and exempting trusted companies based on their track records can speed up BMDTP's timeline (despite impediments in other stages). At the very least, results of the initial verification can be issued by the end of January.

4.1.2 Lengthy Internal Process in MoI to produce State Budget Execution List Document (DIPA)

Another obstacle for businesses in getting a BMDTP is the lengthy process in issuing DIPA for MoI due to the latter's inefficiency in internal budgeting. Aside from the content of DIPA itself and audits by the inspector general, MoI is seen as a source of this long internal process. Currently, DIPA for MoI is one of the last to be issued. Three policy options emerge from this study.

OPTION 1: Leave as it is
Maintaining the current conditions will rule out any possibility for earlier utilisation of the BMDTP facility despite progress and/or acceleration in other earlier stages (such as the initial verification process).

OPTION 2: Increase the effectiveness of internal information system of MoI
The long time it takes to issue a DIPA is due to the inefficiency in MoI's internal process. This is evident by comparing its DIPA from those of other ministries/agencies. Using information systems such as the National Industrial Information System can tackle or accelerate the coordination problem at MoI's level, particularly in preparing DIPA. With this option, other subjects within MoI (aside from BMDTP) can also benefit from more efficient coordination and quicker issuance of DIPA.

OPTION 3: Use the Vooruitslag system for BMDTP
Vooruitslag is a customs facility under Customs Law that can be used by businesses whose application for fiscal facility is awaiting approval or while the facility is still being prepared. Such facility for BMDTP enables businesses to clear their imported BMDTP-eligible goods from customs by paying a guarantee using a reference or note that contains information of the business. Once the business gets confirmation to receive BMDTP (which may come much later), it will get reimbursed.

RECOMMENDATION: Options 2 and 3
Vooruitslag can be an alternative to enable applicants to benefit from this facility for a full fiscal year, although it might need further refinement to be technically workable, especially for Option 3, as it could require different accounting treatments.

4.1.3 Lengthy Process for MoI to Produce a Validated Import Plan Eligible for BMDTP

For the 2016 fiscal year, the DG of the Metal, Machinery, Transportation, and Electronics Industry of MoI legalised and validated the revised import plans only in late June despite the fact that PT Surveyor Indonesia had finished verification

by mid-April. To validate the revised import plan, MoI should check first whether the import plans match with the SKVI from PT Surveyor Indonesia.

The tight schedules of DGs, who regularly travel overseas, have often delayed this process which, unfortunately, cannot be done by or delegated to other government officials. Also, there might be some problems aligning the revised import plan with SKVI as this is done manually (meaning, more mistakes) and no integrated information system among firms, MoI, and PT Surveyor Indonesia currently exists. To this situation, our study offers two policy options.

OPTION 1: No change to the situation
The lengthy process to get validation from DG will remain and will cancel out any benefit that may come from the initial verification and/or earlier DIPA issuance.

OPTION 2: Use online information system to speed up the validation process
Developed in mid-2016, a current industrial information system integrates all information related to industrial policy and stakeholders and connects to other ministries and/or agencies. This system might benefit from adding the BMDTP feature to create a single-window portal for the application and/or processing of BMDTP documents involving firms, auditors, and MoI. This system will support MoI to check more efficiently the revised import plans with SKVI and will make it easier for firms to revise their import plans after initial verification while committing fewer mistakes. This system also enables DGs to legalise the import plan online without having to be physically present in the office.

RECOMMENDATION: Option 2
Option 2 can deliver a more effective and efficient online system to validate a firm's import plans. Better coordination within the system will result in the early issuance of a validated plan.

4.2 Environmental Licences and Inspections

The Environmental Impact Assessment (AMDAL) is a requirement for businesses with significant impact to the environment while the Environmental Management and Monitoring Efforts (UKL-UPL) is for businesses with less significant impact to the environment. Once operational, companies have

to provide reports outlining how they monitor and manage the waste and hazardous materials they produce.

Still, some points are still considered burdensome and need to be addressed, such as: (i) frequency of environmental self-assessments and inspections that is higher than necessary; (ii) lack of synergy of environmental reporting and inspection between central and local government administrations; and (iii) conflicting regulations regarding environmental licensing and inspection in an industrial zone (IZ).

4.2.1 Frequency of Environmental Self-assessment and Inspection is Higher than Necessary

Regarding efforts to control and manage the environment, a business has to conduct self-assessment and report to the environmental commission every six months. The report is followed with an inspection from the commission. Although the purpose of the report is to keep monitoring the business to preserve the environment, the details and calculations needed for the report and the frequency of reporting (i.e. twice a year) make this burdensome for business. Moreover, no valid, explicit argument is offered by MoE to justify the reporting frequency. For environmentally complying firms, twice a year is considered too often.

OPTION 1: Maintain as is
Firms have to produce highly detailed reports every six months, which will impose a regulatory burden on them.

OPTION 2: Reduce frequency of self-assessment to once a year
The MoI suggests that one reason for the required periodic self-assessment and reporting is to get time series data of companies' efforts to manage the environment. Therefore, an annual self-assessment and reporting will not harm the essence of the regulation, particularly as there is no explicit justification for the current frequency.

The regulators' concern that reducing the frequency of self-reporting and/or inspection might lead to a greater possibility for firms to commit environmental violations can be addressed by conducting time-random inspection. Also, a

more effective mechanism for public complaints will enable regulators to more swiftly act on any environmental violations by firms.

OPTION 3: Implement risk-based assessment for surveillance
This would oblige MoE to classify firms based on their risk level to the environment. With this system, MoE could inspect high-risk firms every six months but only once a year for low-risk firms.

OPTION 4: Use technology for surveillance and early detection of environmental hazards
Technology is an important tool for regulators to detect possible environmental violations.

RECOMMENDATION: Options 2 and 4
Options 2 and 4 are recommended. Besides reducing the frequency of reporting, technology for early detection can more effectively and efficiently monitor and control business activities in terms of environmental preservation.

4.2.2 Lack of Synergy between Central Government and Local Governments on Environmental Reporting and Inspection

As no clear coordination mechanism exists between the central government environmental commission and the local environmental commission, their overlapping authority sometimes causes double inspections. As shown in Table 1, firms could face six possible combinations of inspections with regard to the administration of environmental licence, and protection and management of the environment.

Numbers 2–5 (Table 1) involve two different inspectors from two different government levels. This could happen if, for example, a company located in one district should be inspected by the local environmental commission. However, if this firm's waste flows into a river passing several other districts, the province's environmental commission will also conduct an environmental inspection on this firm. Numbers 1 and 6 are the optimum condition, where reporting and inspection are conducted only under one authority. Some potential challenges, however, prevent this from happening:

- Concerns from local government.
- Difference of knowledge and expertise of local environmental review commissions across regions.
- Ensuring the drafting document process, especially by the local government, is consistent with and follows the norms/standard procedures and criteria of AMDAL.

Table 1: Current Condition of Overlapping Central and Local Government Inspection

No.	Environmental Licence (IZ in Lingkungan)	Protection and Management of Environment Licence (IZ in PPLH)
1	Central	Central
2	Central	Central and Local
3	Central	Local
4	Local	Central and Local
5	Local	Central
6	Local	Local

IZ = industrial zone; PPLH = Development Supervision and Environment
Source: Ministry of Environment.

OPTION 1: Maintaining status quo

Not changing the current situation means that double environmental inspections in firms could still happen.

OPTION 2: Shift the responsibility of inspection to one government agecny for each firm

This delegates the authority of inspection to only one agency for each firm, either at central or local level. This might involve giving authority of full inspection to the one responsible for the environmental licence, as stipulated by MoE Regulation No 8/2013. However, systematic capacity building is required to improve the capabilities of local reviewer commissions so that any environmental inspection follows standards across regions.

OPTION 3: Develop an integrated environmental information system to improve coordination

An integrated information system containing the data of licencing and inspection results and accessible to both central and local governments would be useful to improve the exchange of information and coordination regarding the results of

environmental inspections. The system would also enable governments at both levels to analyse inspection results and devise a more informed and efficient strategy of inspection to avoid over-inspecting environmentally complying firms.

OPTION 4: Joint inspection of central and local government
Joint inspection by central and local governments could tackle the central government's concern regarding the lack of quality in local governments. This option, however, does not solve the problem because central and local governments have to find a suitable schedule for conducting a joint inspection.

RECOMMENDATION: Options 2 and 3
A combination of Options 2 and 3 is recommended. Shifting inspection responsibility is necessary to eliminate overlapping inspections. An integrated information system will better inform central and local governments if inspections have been done.

4.2.3 Conflicting Regulations regarding Environmental Licence in Industrial Zones

Currently, businesses located within an IZ still need to prepare a UKL-UPL even if that IZ already has a regional AMDAL. Table 2 shows the historical timeline of these conflicting regulations for environmental licencing in industrial zones.

OPTION 1: Maintain as is
Maintaining such conditions will not solve the confusion of businesses operating in IZs (both tenants and developers). It could also be a disincentive for firms and industries to operate in industrial zones (despite the mandatory requirement to do so in the latest regulations).

OPTION 2: Revise, with caveat, the regulation to its pre-2000 state
Government Regulation No. 142/2015 will need to be revised to exempt tenants in IZs from having to prepare a UKL-UPL. The IZ tenants should not need to obtain a full environmental licence as this is part of the incentive to attract companies into an IZ (especially for the designated special economic zones). In this case, firms only need to report their environmental management and monitoring to the IZ developer.

Table 2: Timeline of Conflicting Environmental Regulations Within Industrial Zones

No.	Regulation	Remarks
1	Government Regulation No. 27/1999	• Tenants with AMDAL in IZs do not have to conduct their own AMDAL. • However, tenants' monitoring and control of the environment should correspond to the Environmental Management and Monitoring Plan of IZs.
2	Government Regulation No. 24/2009 about industrial zones	• Tenants in IZs must conduct UKL-UPL. • This is inconsistent with Government Regulation R27/1999, which only requires firms in IZs to have detailed RKL-RPL. • Ultimately, this regulation also demands firms in IZs to obtain environmental licence (just as Law No. 32/2009 stipulates that every activity that requires AMDAL/UKL-UPL should be subject to environmental licence).
3	Government Regulation No. 27/2012 about environmental licences	• After several discussions between MoE and MoI, it was agreed that UKL-UPL and environmental licences are compulsory for firms operating in IZs.
4	Government Regulation No 142/2015 about industrial zones	• A revision of Government Regulation No 24/2009. • Firms in IZs are required to have UKL-UPL, but are now exempted from environmental licence. • This regulation on IZs have several conflicting points with other regulations: • Inconsistent with Law 32/2009, which clearly suggests firms required to have UKL-UPL are also required to have environmental licence. • If what is meant by this government regulation is only 'detailed RKL-RPL', then this regulation is in conflict with Government Regulation 27/2012, which requires each firm in IZs to have UKL-UPL.

AMDAL = referring to the Enviromnetal Impact Assessment; IZ = Industrial zone; MOE = Ministry of Energy; MoI = Ministry of Industry; UKL-UPL = referring to the Environmental and Monitoring Efforts.
Source: Ministry of Environment.

However, to address the concern that some tenants might take advantage of this regulation and damage the environment (at the developer's cost and responsibility), some technological innovation might be necessary to enable IZ developers to systematically and more efficiently monitor their tenants' activities in preserving the environment in the IZs. This option might also require a special legal mechanism between IZ developers and their tenants where the latter would be held accountable if proven to have deliberately committed environmental violations. Without such mechanism, IZ developers would likely reject this proposed regulation for fear of being held responsible for their tenants' environmental violations.

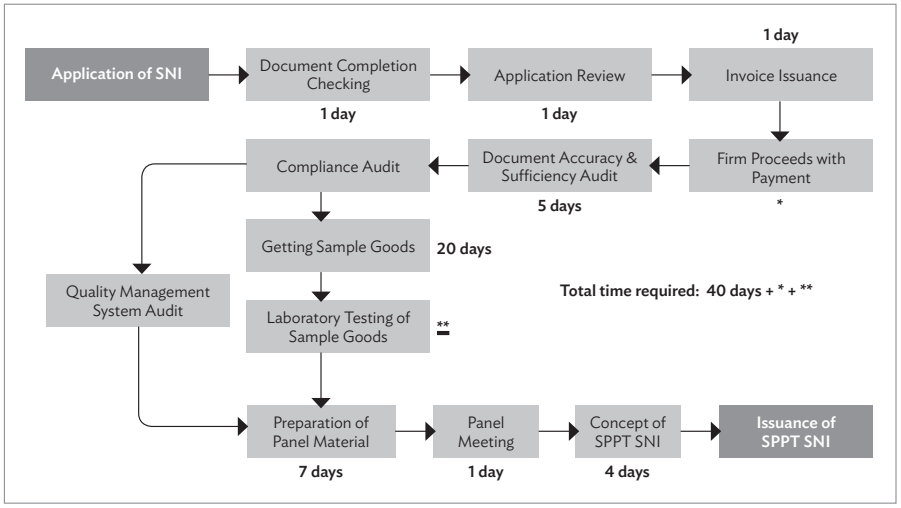
RECOMMENDATION: Option 2

Option 2 is to create more incentives for business by providing greater simplicity while also addressing the concern of IZ developers and regulators. Option 2 might ultimately be beneficial to keep attracting investment into IZs.

4.3 Lengthy Process and High Cost in Obtaining National Standards

The government's stance on SNI is to impose it voluntarily except for certain types of goods directly related to safety, health, or environmental preservation, for which it is mandatory. In the automotive sector, mandatory SNIs are imposed for tyres, alloy wheels, and safety glass.

Figure 6: Process of Indonesian National Standards Certification



SNI = Indonesian National Standard; SPPT SNI = Certificate of Product Use Mark for SNI.
Notes: * = Required total time depends on how long firms will settle the payment; ** = Required total time depends on the availability of equipment in laboratory testing.
Source: Industrial Research and Development Agency, Ministry of Industry.

Some businesses have voiced complaints on the lengthy process and the high cost needed to obtain SNI certification for their products. Figure 6 shows the full process of obtaining an SNI certification, which takes at least 41 days, plus an uncertain testing period. Two possible bottleneck points could be addressed:

- The lack of qualified testing laboratories for SNI.
- Unnecessary quality management system (QMS) audit even with the existence of mutually recognised agreements (MRAs).

4.3.1 Lack of Qualified Testing Laboratories for SNI

Currently, the only available laboratory qualified to test all the parameters required by SNI is the Balai Besar dan Bahan Teknik (B4T Lab) in Bandung. This has created long queues for testing sample goods, increasing the time needed for the whole certification process.

Some private laboratories (such as Enkei) can technically run the testing, although the cost is usually higher and most still cannot handle all the parameters required by SNI.

OPTION 1: Continue as is
Although investing in new public laboratories would incur cost to the government during this fiscally tight period, not doing so will keep the waiting times long for testing the sample goods.

OPTION 2: Build new public laboratories and revitalise available ones
The government could either build new public laboratories or revitalise some of the currently available ones so they can test all SNI parameters, like the B4T laboratory in Bandung. This option will require substantial investment from the government.

OPTION 3: Outsource some tests to private laboratories
Alternatively, the government could designate private laboratories to conduct testing. To reduce costs, the government might need to provide subsidies and increase the technological capabilities of private laboratories to handle all SNI parameters.

RECOMMENDATION: Option 3
Option 3 is recommended. It is the best solution to time uncertainty and lengthy waiting time. With this option, the government does not need to use much of its budget.

4.3.2 Unnecessary Quality Management System Audit even with the Existence of Mutually Recognised Agreements

One of the main complaints from businesses (especially small- and medium-sized enterprises) is that SNI certification process is costly, with one of the biggest costs coming from the compliance audit or, more specifically, the QMS audit. A QMS audit might involve expensive auditors from abroad auditing Indonesia's factories. Although costs are borne by the exporter, they will be added to the price of the imported goods. A QMS audit is still required despite the MRAs between QMS certification agencies in Indonesia and some other countries.

In many cases, however, MRAs are recognised without being accepted, particularly in dealing with more developed countries (the EU, the United States, etc.). For instance, the EU only recognises the audit results of Indonesia's QMS certification agency but will not accept Indonesia's products unless EU auditors do the auditing and ensure that Indonesian firms' QMS are according to European standards. Thus, the effectiveness of MRAs is government-to-government in nature.

OPTION 1: Maintain status quo
Maintaining the present conditions will mean that the current cross-country QMS audit still needs to be done (in export/import cases).

OPTION 2: Promoting government-to-government on MRA effectiveness that is backed up by increasing the quality of QMS certification agency to improve international reputation
One of the possible causes of recognition without acceptance is the limited capability of Indonesia's QMS certification agency compared to that in more developed countries. Therefore, government-to-government negotiations to improve the effectiveness of MRAs should be coupled with continual improvement of the agency's quality and capability to enhance its reputation internationally.

RECOMMENDATION:Option 2
A QMS audit is not necessary for imported goods because audits must have already been done by QMS certified auditor in a particular country, and in part also due to the MRAs between Indonesia and that country.

[5] Focus Group Discussions

Focus group discussions were conducted as part of the study to facilitate a dialogue between regulators and business stakeholders. These discussions were expected to clarify the primary data collected from previous interviews with stakeholders. They were also an attempt to add information in the formulation of recommendations and alternative solutions from specific findings from interviews, particularly with regard to the three specific obstacles described above. Some alternative solutions discussed are the outcome of focus group discussions based on stakeholders' advice and recommendations.

In the case of environmental licence, the Ministry of Environment believed that shifting inspection to local governments would not work due to some of the latter interpreting regulations, norms, standards, and procedures in a manner different from that of the central government. This is partly due to rotations of officials in local governments that cause a change in issuance of environmental permits.

Regarding BMDTP, the Ministry of Industry officials stated that they are currently developing the National Industrial Information System, an online system platform that can be used to accelerate the authorisation of plans to import goods and issuance of DIPA to address coordination and communication problems.

Relating to SNI, the National Standardization Agency officials repeatedly mentioned that every MRA signed in regional or international level (e.g. with the Asia Pacific Laboratory Accreditation Cooperation and the International Laboratory Accreditation Cooperation) only acknowledges recognition of standards. Such arrangement does not ensure acceptance of products using that particular set of standards. The MRA, therefore, is primarily only about recognition rather than acceptance of standards. The Industrial Standardization

Center explained that they have an MRA with the EU and that the union has given training and other technical assistance to Indonesian laboratories and assessment centres. A conflicting problem here, however, is the EU's directive that all imported goods be assessed in an assessment centre in Europe.

It is worth noting, however, that the focus group discussions in this project have not resulted in any consensus on what the government would specifically do to improve the delivery or process of obtaining environmental licences, BMDTP, and SNI. However, with regard to environmental licences in IZs, the MoI officials stated that the regulation was currently being reviewed by the Coordinator Ministry for Economy as the current administration aims at deregulation and improving efficiency. Therefore, it might be possible that tenants in IZs do not need to apply for environmental permits as long as the IZs have applied for them.

[6] Summary

Various possible URBs are within the whole value chain of the automotive industry in Indonesia. However, given our limited resources, we could not tackle all the problems and. therefore, opted for depth rather than breadth of issues. Many possible issues could not be addressed in this study, e.g. customs procedures, labour regulations, and investment licensing and/or permits.

We have selected the problems related to the lengthy or complicated processes for a business to meet regulatory demands. Some notable complaints raised by businesses include issues in environmental licensing and inspection, the utilisation of BMDTP, and SNI.

Mostly, the source of the problems is found in the internal administration and coordination processes in the government. Most government ministries and agencies can benefit from better coordination, simplification of processes, and use of technology and/or integrated information systems to reduce inefficiency, redundancy, and processing time.

The regulators' stance on RURB matters varies across ministries. Some are open for possible change and/or innovation to reduce inefficiency in their regulations, while most others resist change, dismissing any possibility of change and insisting that the current regulations are good enough (even by international standards).

Our proposed solutions are not necessarily the best ones. Despite having conducted informed regulatory conversations through focus group discussions, we can still refine the solutions. Any solution that entails new regulatory products to replace existing ones might possibly conflict with several other existing regulations (such is the complexity of Indonesia's regulatory environment). Further regulatory analyses and checking are needed to devise workable alternative solutions for the problems.

In a nutshell, there is still room for improvement in Indonesia's industrial policy, especially in the automotive industry. The industry is one of the key sectors in Indonesia, and it is important to design and construct good industrial policy that should be as simple as possible so that firms can get the full benefit of this policy. The government needs to review its industrial policy, and it could start by reviewing BMDTP, especially if Indonesia wants to compete with Thailand as the largest automotive producer in Southeast Asia.

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Appendix: List of Some Regulations Related to Automotive Industry

A. Starting a Business

#	Regulation Instruments	Acts and Regulations	Regulator	Objectives
A	Building Permit (IMB)	Government Regulation No. 36/2005 Minister of Public Works Regulation No. 24/2007 Minister of Home Affairs Regulation No. 32/2010	Ministry of Public Works Ministry of Home Affairs	Regulate construction building, from the layout, standards, and technical planning
B	Certificate of Company Domicile (SKDP)	DKI Jakarta Governor Provision No. 505/1989	Provincial Government District administered	Statement or introduction of district administered on address or domicile of company
C	Business Licence and Certificate of Company Registration (SIUP and TDP)	Minister of Trade Regulation No. 77/2013 Head of Investment Coordinating Board Regulation No. 15/2015	Ministry of Trade Investment Coordinating Board	Set the legality of trading permit and source of information on listed companies
D	Industrial Licence	Minister of Industry Regulation No. 81/2014 Government Regulation No. 107/2015 Head of Investment Coordinating Board Regulation No. 15/2015	Ministry of Industry Investment Coordinating Board	Set legality of permit to conduct industrial business activity
E	Tax Identification Number for Company (NPWP)	Directorate General of Taxation Regulation No. 20/2013	Directorate General of Taxation, Ministry of Finance	As an identity number for company in DGT, make a payment for corporate tax
F	Principle Permit for New Investment (IP)	Head of Investment Coordinating Board Regulation No. 14/2015	Investment Coordinating Board	Regulate business licensing for new investment, both foreign and domestic
G	Environmental Impact Assessment (AMDAL)	Government Regulation No. 27/2012 Minister of Environment Regulation No 16/2012	Ministry of Environment Provincial Government	Measure an important environmental impact on business, and further managing and monitoring
H	Hinder Permit	Law No. 450/1940 Minister of Home Affairs Regulation No. 27/2009	Provincial Government	For environmental control, crowds, and disturbance
I	SME Licence	Presidential Regulation No. 98/2014	Ministry of Cooperation and SME	Set the legality of permits to conduct small and medium industry (only for SME context on components industry)

B. Business Expansion

#	Regulation Instruments	Acts and Regulations	Regulator	Objectives
A	Principle Permit for Expansion	Head of Investment Coordinating Board Regulation No. 14/2015	Investment Coordinating Board	Regulate the business expansion when the production has been increased by 30%
B	Changes in Environmental Impact Assessment	Minister of Environment Regulation No. 16/2012	Ministry of Environment	Adjust the changes on environmental impact of production increase
C	Business Licence for Merger	Head of Investment Coordinating Board Regulation No. 15/2015	Investment Coordinating Board	Regulate mergers activity for one and other company
D	Licence Form Requesting to change in the investment	Head of Investment Coordinating Board Regulation No. 15/2015	Investment Coordinating Board	Regulate or adjust type of investment changing for company
E	Licence Form Requesting to change in the company	Head of Investment Coordinating Board Regulation No. 15/2015	Investment Coordinating Board	Regulate or adjust data company changing
F	Income Tax Facility for New Investment	Government Regulation No. 18/ 2015	Investment Coordinating Board, Directorate General of Taxation	Regulate exemption of tax income in new investment if company can absorb much labour/ employment

C. Sourcing Input

#	Regulation Instruments	Acts and Regulations	Regulator	Objectives
A	Importer ID – Producer	Minister of Trade Regulation No. 70/2015	Ministry of Trade	Function as a legal/sign an importer (producer importer) and to control number of importer
B	Government-borne Duty Facility (BMDTP)	Head of Policy Assessment and Industrial Quality Regulation, MoI, No. 117/2011 Directorate Customs and Excise Regulation No. 19/2014	Ministry of Industry Customs Ministry of Finance Surveyor Indonesia	Improve national industry competitiveness with exemption of import duty for some sectors, such as steel
C	Duty Drawbacks Facility	Directorate General Customs and Excise Regulation No. 17/2006 Minister of Finance Regulation No. 177/2013	Ministry of Industry Customs Ministry of Finance	Improve national export-oriented industry and boost Indonesian export
D	Exemption of Import Duty for goods (machine) before production	Directorate General Customs and Excise Regulation No. 17/2006 Minister of Finance Regulation No. 176/2013	Customs Ministry of Finance	Stimulate production for re-export
E	Licence to Import Temporarily - for Returnable Package	Directorate General Customs and Excise Regulation No. 17/2006, Minister of Finance Regulation No. 142/2013	Customs Ministry of Finance	Reduce burden or cost to businesses on returnable package (rack)
F	Licence to Import Temporarily - for Testing Machine or Vehicle	Directorate General Customs and Excise Regulation No. 17/2006 Minister of Finance Regulation No. 142/2013	Customs Ministry of Finance	Reduce burden or cost from duty to import machine or vehicle for testing only
G	Recommendation Letter for complete knock down (CKD) or incomplete knock down (IKD) imports	Ministry of Industry Regulation No. 34/2015	Ministry of Industry	Aid development and deepening of Indonesia's automotive sector, and enhance domestic automotive industry's autonomy and competitiveness

D. Production and Assembly Process

#	Regulation Instruments	Acts and Regulations	Regulator	Objectives
A	Licence and Permits to Employ Foreign Employee (IMTA, Visa for Foreign Employee RPTKA)	Ministry of Manpower Regulation No. 12/2013	Ministry of Manpower	Describe procedure, administration, and requirement to employ foreign employee within Indonesia.
B	Verification of Indonesia's National Standard (SNI)	Government Regulation No. 102/2000 on National Standardization	National Standardization Agency of Indonesia (BSN)	Improve competitiveness, quality of goods and services, and ensure consumer's safety
C	Mandatory Requirement of SNI for Some Automotive Products	Numerous Ministry of Industry Regulations from 2007	National Standardization Agency of Indonesia (BSN), Ministry of Industry	Obligate producers of several type of goods (such as glass, tyres, alloy wheels) to comply with SNI, as the goods are directly related to the consumer's safety
D	Licence to Operate Warehouses (TDG)	Ministry of Trade Regulation No. 90/2014	Minister of Trade	Manage the administration and development of warehouses to improve distribution of goods, both for domestic trade and export
E	Fiscal Facilities to Produce Low Cost Green Cars (LCGCs) and Verification	• Ministry of Industry Regulation No. 33/2013 • Ministry of Industry Regulation No. 35/2013	Ministry of Industry	Provide incentives for domestic automakers to produce LCGCs as part of government's industrial policy, and explain the requirements needed to gain approval to the incentives. Verification is required to ensure the produced cars fall within government's criteria of LCGCs
F	Obligation to Put Label in Bahasa Indonesia on Imported Goods	Ministry of Trade Regulation No. 67/2013	Ministry of Trade Directorate of Customs and Excise	Protect consumer's rights for clear and accurate information on goods consumed
G	Technical Requirement for Ensuring Worker's Safety	Working Safety Act: No. 1/1970 Law No. 13/2003	Ministry of Manpower	Protect worker's rights for safety and welfare in workplaces
H	Waste Management Permit	• Law No. 32/2009 • Government Regulation No. 18/1999 • Ministry of Environment Regulation No. 18/2009	Ministry of Environment	Preserve environmental sustainability
I	Licence and Permits to Employ Foreign Employee (IMTA, Visa for Foreign Employee, RPTKA)	Ministry of Manpower Regulation No. 12/2013	Ministry of Manpower	Describe procedure, administration, and requirement to employ foreign employees in Indonesia

E. Sales, Distribution, Financing

#	Regulation Instruments	Acts and Regulations	Regulator	Objectives
A	Vehicle Type Testing	Ministry of Transportation Regulation No. 9/2004 PM 144/2015 (online)	Ministry of Transportation Independent Surveyor	Test physical and design aspect of vehicles, along with periodic test after the vehicles have been used on the road
B	Vehicle Registration Number (STNK)	• Transportation Act No. 22/2009 • Presidential Regulation No. 5/2015	National Police (SAMSAT)	Facilitate registration and identification of vehicles, so that the police will have records and legitimate evidence on all the vehicles operated in Indonesia
C	Homologation (Type Registration Certificate/TPT)	• Ministry of Industry and Trade Regulation No. 275/MPP/Kep/6/1999 • Directorate General of ILMEA Regulation No. 015/SK/DJILMEA/X/2001	Ministry of Industry	Ensure all types of automobiles are registered with the Ministry of Industry
D	Roadworthy Testing (including SUT and SRUT)	• Transportation Act No. 22/2009 • Government Regulation No. 55/2012 • Circular Letter of Minister of Transportation No. 17/2015	Ministry of Transportation	Ensure safety aspects of vehicles which will be operated on the road
E	Various regulations with regard to financing activities of automotive products	• Financial Services Authority Regulation No. 28, 29, 30/2014 • Ministry of Finance Regulation No. 130/2012 on Fiduciary Registration • Government Regulation No 9/2009	Financial Services Authority Ministry of Finance	Oversee the operations of financing institutions, issue operation permits (including permits for establishing new branches), explain regular reporting mechanism, and better administer fiduciary registration to protect consumer's right
F	Issuance of Certificate of Origin (COO) for Exports from Indonesia	• Ministry of Trade Regulation No. 24/2010 • Ministry of Trade Regulation No. 22/2015	Ministry of Trade Directorate General of Customs and Excise	Describe the procedures and institution specifically assigned to issue and distribute COO for exports from Indonesia
G	Business Permit for Motor Vehicles Repair Shop	• Ministry of Industry and Trade Regulation No. 551/1999 • Different regulations at different province or district.	Ministry of Industry Local Government	Ensure that repair shops are up to adequate standards for operating and distributing spare parts
H	Mandatory Export after 3 years of CKD Import Permit	Ministry of Industry Regulation No. 34/2015	Ministry of Industry	Ensure that companies which are given import facilities for CKD or IKD do export cars at most after 3 years of getting the incentives
I	Exporter Identity Number (APE)	• Ministry of Industry and Trade Regulation No. 558/1998 • Ministry of Trade Regulation No. 13/2012	Ministry of Trade Directorate General of Customs and Excise	Gain information on the identity of exporters

Source: Author's Compilation.