



Tariffs are applied on an MFN basis to a majority of imports. Through a series of reforms, Indonesia has lowered its average tariff, including surcharges, to 20%. However, tariffs escalate quickly and remain very high in industries such as transport equipment, textiles and paper products. Although Indonesia undertook, in the Uruguay Round, to bind approximately 95% of its tariff lines at a ceiling rate of 40%, key manufacturing sectors remain outside those commitments such as transportation equipment and food-processing equipment. In addition, while import surcharges have been greatly reduced in recent years (and are to be eliminated by 2005 on 95% of tariff lines bound in the Uruguay Round), for non-bound tariff lines, import surcharges remain, and, in manufacturing sectors, the average effective protection is 50%.

The recent elimination of the state-trading monopoly on the import and distribution of certain agricultural products, including wheat and wheat flour, will open up new markets for exporters. Finally, the handling of shipments in Indonesia can be controversial. The Government of Indonesia has introduced an electronic data interchange (EDI) system for customs clearance to eliminate opportunities for corruption and bribery. While the system is now operating, there is still ongoing collusion and bribery. The Association of Indonesian Importers claims that customs officials continue to insist on inspection for spurious reasons, and that this results in bribes to avoid unnecessary delays.

Agri-food and Grain

Since February 1, 1998, Canadian exporters of food products have faced a maximum tariff of 5% on their exports to Indonesia. Non-food agricultural tariffs are also being reduced, in line with the January 15, 1998, Memorandum on Economic and Financial Policies, to a maximum of 10% by 2003. These lower rates represent a significant liberalizing of Indonesia's previous commitment (e.g. the tariff on wheat flour was 20%, and, on milk, the in-quota rate was 40%, while the ex-quota rate was over 200%).

Effective February 1, 1998, National Logistics Agency (BULOG), the state-trading entity, no longer enjoys its monopoly over the import and distribution of several agricultural goods, including wheat and wheat flour. As a consequence of the enhanced market access, due to lower tariffs and the removal of NTBs,

Canadian agri-food exporters should see increased opportunities. Canada will seek to bind these lower barriers in the WTO.

Licensing and Surcharges

Notwithstanding the laudable achievements in over 10 years of trade liberalization, Indonesia still retains licences and surcharges that create considerable obstacles for Canadian goods' exporters. Until February 1, 1998, around one third of agricultural and manufacturing production was protected by a complex mixture of import licensing and surcharges on top of tariffs; however, while the agreement between the IMF and Indonesia on January 15, 1998 calls for elimination of many of these measures, it is impossible to judge at this time to what degree and at what pace these changes will be implemented. Canada will continue to urge Indonesia to reduce or eliminate remaining import licensing schemes, as well as the number of tariff lines, particularly for agricultural products, subject to surcharges.

Anti-dumping and Countervailing Measures

In keeping with its Uruguay Round obligations, Indonesia has recently put into place formal anti-dumping and countervailing legislation. Prior to this, Indonesia used import surcharges to provide relief to domestic firms complaining of damage from imported products. In the fall of 1997, Indonesia commenced an investigation into the alleged dumping of newsprint by certain exporters, including Canadian exporters. In part because of quick intervention by the Canadian government, the Government of Indonesia announced on January 28, 1998, that they had discontinued the investigation into the alleged anti-dumping of newsprint. Canadian officials will remain vigilant to ensure that Indonesia does not improperly use its new legislation to nullify or impair the export of Canadian goods into the market.

Financial Services

Canadian financial firms have been active in Indonesia for years. Indonesian authorities have gradually relaxed controls on the nature of foreign participation in the Indonesian banking and insurance sectors. The banking crisis in early 1998 caused the Indonesian authorities to open up the market much more quickly than previously envisaged.