

# INDONESIA: COMPANY PERSPECTIVES

AN ITC SERIES ON  
NON-TARIFF MEASURES





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Country report, part of a series of publications assessing the impact of Non-Tariff Measures (NTMs) on the business sector, based on a large-scale survey conducted in Indonesia with companies directly reporting burdensome NTMs and the reasons why they consider them to be trade barriers; analyses survey findings and compares them to other sources on NTMs to identify regulatory, procedural and infrastructural obstacles in Indonesia and its partner countries; covers food and agro-based products, chemicals, other basic manufacturing, and machinery; outlines policy options discussed at stakeholder meeting; includes NTM classification, and bibliographical references (pp. 64-65).

Descriptors: **Indonesia, Non-Tariff Measures, Trade Policy, SMEs.**

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English

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## Acronyms

ASEAN	Association of Southeast Asian Nations
BPS	Indonesian Statistics Board ( <i>Badan Pusat Statistik</i> )
EU	European Union
GDP	Gross Domestic Product
GMP	Good Management Practice
HACCP	Hazard analysis critical control point
HS	Harmonised System
INSW	Indonesian National Single Window
ITC	International Trade Centre
MFN	Most favoured nation
NTB	Non-tariff barrier
NTM	Non-tariff measure
PO	Procedural obstacle
SME	Small and medium-sized enterprise
SPS	Sanitary and phytosanitary
TBE	Trade-related business environment
TBT	Technical barriers to trade
WTO	World Trade Organization

Unless otherwise specified, all references to dollars (\$) are to United States dollars. \$ equivalents for IDR are calculated based on an annual average United Nations rate for the period September 2012 – August 2013 of \$9.747 for IDR 100,000.

All references to tons are to metric tons.



## Executive summary

### Introduction

*Compliance with NTMs at reasonable cost, a cornerstone of export success.*

Across the world, trade tariffs are at a historical low and some would even argue that never before has trade been freer. And yet over the past few decades there has also been a relative growth of trade barriers resulting from non-tariff measures (NTMs) which, to some extent, are offsetting the benefits of trade liberalization.

NTMs often reflect the best policy intentions of consumer and environmental protection but they can also be a deliberate government strategy to protect import-competing domestic production and to compensate for diluted or lost protection following tariff liberalization. Regardless of policy objectives, NTMs impose real compliance costs that have a negative impact on trade competitiveness. Complying with these regulations may be beyond the reach of companies seeking to export, particularly small and medium-sized enterprises (SMEs) that form the economic backbone of many emerging and developing countries.

The World Trade Organization (WTO), the main international body regulating global trade, seeks to ensure that such regulations, standards, testing and certification procedures do not create unnecessary obstacles, but research shows that such impediments continue to be a major concern. In this context, it has become essential to undertake a systematic analysis of the adverse impact of NTMs and to develop technical cooperation aimed at building the capacities of governments and businesses in developing countries to address these hidden barriers to trade.

*ITC surveys are designed to cover the full range of hindrances and challenges associated with NTMs.*

The International Trade Centre (ITC) is engaged in these efforts from both an analysis and cooperation standpoint and has been conducting large-scale surveys of companies in developing and emerging countries to learn from their experiences and perspectives on NTMs with a view to enhance trade competitiveness and better monitor and control the cost of complying for businesses.

NTMs include technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, certification and testing requirements. They also include quantitative restrictions and financial measures. They can take a myriad of forms and involve a wide range of regulatory and enforcement authorities with varying institutional, technical and resource capacities to formulate and implement their use. ITC surveys are designed to cover the full range of hindrances and challenges associated with NTMs, including procedural obstacles (POs) and inefficiencies in the trade-related business environment (TBE).

*NTM surveys have been carried out in some 30 countries to date.*

Working in close cooperation with local partners, ITC has conducted surveys in some 30 countries around the world to date. In recent years several surveys were conducted in South-East Asia (e.g. Cambodia and Thailand). The survey in Indonesia was carried out in 2013.

### Country context

Following a dip in 2009 resulting from the global economic crisis, Gross Domestic Product (GDP) growth has remained relatively steady in Indonesia at just above 6% with a slight drop-back in 2013 brought about by falling export commodities' prices coupled with higher oil imports. Due to parliamentary and presidential elections, a further contraction is anticipated in 2014 but growth should resume at the 6% level in 2015.

*Agriculture and manufacturing are important contributors to trade and GDP.*

While minerals and fuels still account for over a third of Indonesia's export revenues, progress has been made in the diversification of the economy with exports of manufactured goods currently accounting for up to a quarter of GDP. The contribution of agriculture to GDP has declined from 50% in the mid-1960s to around 15% today, but agriculture, forestry and fishing still remain important sectors employing over one-third of the nation's workforce.

*Indonesia's medium-term trade policy objective is to diversify its export portfolio.*

To withstand fluctuations in global fuel prices, Indonesia's medium-term trade policy objective is to increase exports of less volatile products by encouraging the development of manufactured goods and downstream processed food industries. Traditional exports include textiles and textile products, rubber, cocoa, coffee, palm oil and wood products. More recent export products include electronics, footwear, rubber articles, automotive products, shrimp and other marine cultivation products, among others.

*Indonesia's imports serve as inputs to further develop its industry.*

Manufactured goods dominate Indonesian imports at over 60%. Significant import sectors include chemicals, non-electrical machinery, office machines, telecommunications equipment and automotive products. Indonesia also imports products that serve as inputs for industrial processes such as chemical polymers for the plastics industry and cotton for textile. Agricultural products make up only 11% of total imports, a relatively high share consisting of commodities such as wheat, corn, sugar and rice.

Japan, China, Singapore, the European Union (EU), the Republic of Korea, the United States of America and Malaysia are Indonesia's leading trade partners, followed by Australia, India and countries in the Arabian Gulf.

*Indonesia is a key actor of global and regional integration.*

A founding member of the WTO, Indonesia welcomed the trade facilitation negotiations which lead to the adoption of the Trade Facilitation Agreement in Bali in December 2013. Regionally, Indonesia is a founding member of ASEAN and has contributed to achieving significant progress towards the removal of intra-regional tariffs within the ASEAN Free Trade Area (AFTA), a first step towards further regional integration in the form of the ASEAN Economic Community to be established in 2015.

On the bilateral front, meanwhile, Indonesia has implemented a bilateral agreement for economic partnership with Japan, and is in the process of negotiating further agreements with a number of countries including Switzerland, Norway, Iceland, and Liechtenstein under the Indonesia-European Fair Trade Association (EFTA) Comprehensive Economic Partnership Agreement, as well as India, Pakistan and the Islamic Republic of Iran.

### **NTM survey methodology and implementation**

*The NTM survey was carried out in close collaboration with Indonesian authorities and a local consultancy firm.*

The NTM survey in Indonesia was conducted in close collaboration with government authorities from September 2012 to August 2013. ITC contracted a local consulting firm, PT Mazars to carry out the survey data collection and provided technical guidance and extensive training on NTMs and the survey methodology to the interviewers to ensure consistency across the project.

The survey was carried out in two phases. Selected companies were initially screened by phone to identify those that had experienced burdensome NTMs during the past 12 months. In the second phase, companies reporting difficulties were interviewed on a face-to-face basis to collect more detailed information on the NTMs and POs negatively impacting their trading operations.

*Of the companies initially interviewed over the phone, 37% reported being affected by NTMs.*

Of the 953 companies that participated in the phone screening, 37% reported experiencing burdensome regulations. This was much lower than the shares reported in most NTM surveys carried out by ITC which show an average rate of 53%. A total of 212 companies agreed to participate in the face-to-face interviews and provided detailed information on the NTMs and POs they experienced in both their export and import operations.

### **Aggregate results and cross-cutting issues**

#### *Problems specific to exporters*

*Exporters of fresh food were the most affected group.*

While the overall figure of exporting companies affected by burdensome NTMs and POs is relatively low in Indonesia, great variations were recorded across sectors. A total of 60% of companies exporting fresh food reported difficulties, whereas only 34% of those exporting processed food were affected. In the area of manufacturing, wood products (28%), miscellaneous manufactures (24%), basic manufactures (21%) and chemicals (17%) were the main sectors that reported difficulties when exporting.

*The high incidence of complaints recorded for SPS requirements illustrates the growing complexity of compliance procedures in partner countries.*

Technical measures comprise most of the burdensome NTMs applied by partner countries. These measures consist of technical requirements (56%) and conformity assessment procedures that certify compliance with the underlying product specifications (24%). This differs from observations in most other country surveys where exporters generally report more difficulties with conformity assessment than with technical requirements. Fumigation issues in particular were most frequently mentioned as giving rise to difficulty, including re-fumigation of previously fumigated goods in the country of destination.

The only other obstacle reported with any regularity was rules of origin and the associated certificate of origin (11%), while price control measures (4%) and quantity control measures (2%) were the only other categories to exceed 1%.

*A third of all the NTMs faced by exporters were applied by Indonesian authorities.*

Indonesian exporters reported that one-third of all the NTMs they faced were applied by Indonesian authorities. These were largely related to export inspection (52%) and export registration (32%), with just a handful of cases under other categories. These percentages are relatively high when compared with other NTM surveys, including in the region.

#### *Main partner countries applying NTMs on exports*

*EU and United States regulations proved the most difficult.*

While the EU market accounts only for 14% of Indonesia's total exports these are subject to over a quarter of all reported NTMs. The same holds true for exports to North America, which also account for 14% of total exports, and for Japan (9.3%) where SPS measures remain prevalent although delays and high charges for testing and fumigation were also frequently reported.

*NTMs affecting trade within ASEAN have yet to be addressed.*

The ASEAN market accounts for 23% of Indonesia's export revenues but still represents 18.5% of the total reported NTM cases. Member countries may have agreed to address NTMs affecting trade within the regional grouping, but this has yet to be fully achieved in practice. Within the framework of the trade agreements between ASEAN and China, compliance with specific national standards is the main difficulty encountered by Indonesian companies.

*Problems specific to importers*

*By far the greatest impediment to import activities is pre-shipment inspection and other entry formalities.*

Importing companies reported major difficulties with inspections and other entry formalities, which accounted for 59% of the NTM cases reported domestically. Under the Ministry of Trade regulation over 500 products are required to undergo pre-shipment inspection which is carried out by government-approved surveyors at the loading port. Other measures companies found restrictive included quality control measures (14%), conformity assessment (11%) and technical requirements (10%).

**Food and agro-based products**

*To add value to its exports Indonesia encourages the development of aquaculture and downstream processed food industries.*

Overall, exports of fresh and processed food accounted for more than half of the NTMs reported in the survey. While traditional products such as palm oil, cocoa, rubber and coffee form the bulk of exports, Indonesia is largely dependent on foreign supplies of such commodities as sugar, soya beans and wheat, while self-sufficiency in rice production is still not assured. With 95,000 kilometers of shoreline, Indonesia’s aquaculture industry has great potential for growth, particularly for shrimp and seaweed. Although current operations remain small in scale, raw products are increasingly being transformed as Indonesia strives to add value to its exports by encouraging the development of downstream processed food industries.

*Data show a clear geographic split between companies located in Java and smaller companies located in Sumatra and Sulawesi.*

Surveyors observed a well-defined split between fresh and processed food regarding both company size and location, with fresh food predominantly being the domain of small and micro companies located in Sumatra and Sulawesi, while processed food is largely produced by medium and large companies in the Greater Jakarta and East Java areas. Unsurprisingly, it was the smaller companies that were most vulnerable to NTMs, with 72.6% of small fresh food exporters and 64% of small processed food exporters reporting difficulties. In comparison, just 36.5% and 19% of medium and larger companies respectively, reported burdensome regulations. Similarly, companies outside of Java were more than twice as likely to be affected as those located in the Greater Jakarta and East Java areas.

Over half of the NTMs reported for the food and agro-based products sector consisted of technical requirement measures while conformity assessment and rules of origin were the two other main problem areas.

*Fumigation and SPS certification are by far the greatest impediment to export activities.*

The most commonly reported technical requirement involved fumigation procedures, which accounted for 40% of the reported cases. As the fumigation requirement relates not only to export products but to wooden packaging materials as well, a wide range of products were affected. The other main technical requirements related to SPS certification, mainly involving frozen fish, processed fish and seaweed products. In both instances the complaint was not so much the requirement itself but the delays and additional costs incurred, particularly where re-testing or re-fumigation were required upon arrival in the partner country.

*Delays and additional costs pose more of a problem to exporters than the measures themselves.*

Compliance with health regulations was the major problem encountered under conformity assessment, accounting for more than half the reported cases. All the POs associated with these NTMs occurred in the partner country, generally the United States or the EU. Once again, the major problem encountered was delays and the additional costs for testing.

Rules of origin and the related certificate affected the export of a variety of products ranging from spices to seaweed, natural rubber, rattan and nuts.

Other complaints related to the large number of documents required and the arbitrary behaviour of government officials, not to mention the many levies that had to be paid to obtain the required certification.

### **Manufactured products**

*The manufacturing sector continues to diversify as Indonesia strives to move away from being only a supplier of raw materials.*

In the wake of the Asian financial crisis, greater competition induced by free trade agreements has seen a slowdown in the growth of Indonesia's manufacturing sector, while exports of commodities boomed. Nevertheless, manufacturing remains an important sector in the Indonesian economy, contributing almost 25% to non-oil-and-gas GDP and employing some 15 million people. The manufacturing sector continues to diversify as Indonesia strives to move away from largely being a supplier of raw materials and efforts are made to develop downstream industries. The goal is to build a reputation for quality and reliability, key attributes sought in foreign markets and by an increasingly consumer-conscious home market.

*A much smaller proportion of exporters of manufactured goods were affected by NTMs than for agro-food products.*

The initial phone screening revealed that only 21% of exporters of manufactured goods were affected by burdensome regulations, a much smaller proportion than for food and agro-based products. Again, technical requirement measures were to the fore, accounting for more than half of the NTMs applied by partner countries, followed by price control measures, rules of origin and conformity assessment. Export inspection and export registration accounted for the lion's share of the NTMs applied by Indonesian authorities.

*Fumigation was by far the main problem faced by exporters of manufactured products.*

Fumigation once again was the main problem under technical requirements, accounting for 80% of the reported cases. Problems relating to conformity assessment largely involved delays in obtaining the necessary certification, although companies also reported not being fully informed on the specific requirements of the partner country.

Pre-shipment inspections and other entry formalities accounted for almost two-thirds of the measures imposed by Indonesian authorities, conformity assessment, technical requirements and quality control measures making up most of the remaining balance.

### **Company perspectives on the business environment**

*In most cases the main cause of burden is the associated POs and inefficiencies in the TBE rather than the measure itself.*

Most NTMs were closely associated with POs both for the export of agro-food and manufactured products. Delays was by far the most commonly reported obstacle, accounting for 52% of cases affecting exports and 28% affecting imports, often combined with high fees and charges for reported certificate/regulation and/or arbitrary behaviour of officials regarding classification/valuation.

Inefficiency in public and private agencies is a particular concern for both exporters and importers who reported being affected by corruption and the general lack of transparency in the trade-business environment. The results also highlighted inefficiencies in public services, such as recurring problems with the supply of electricity and deficiencies in the transportation system.

In partner countries over one-third of the PO cases involved exports to the United States, while another third involved exports to the EU. Nearly all the NTMs affecting food and agro-based exports were associated with POs of which 62% occurred in Indonesia and 38% in the partner country. Overall, far fewer POs were encountered by importers in Indonesia. Numerous administrative windows or organizations were reported for a significant number of import cases, but were not a major factor affecting exports.

### Public-private dialogue results in proposals and policy options

One of the major objectives of the ITC project on NTMs is to consult with national stakeholders to formulate realistic proposals and develop concrete policy options. In light of these discussions, the report recommends that the Government of Indonesia carry out a systematic stocktaking of the NTM and PO issues identified in the survey and their incidence on trading activities.

*Improve inter-agency coordination.*

The companies in the survey contended that some of the problems within the trade regulatory environment are the result of weak inter-agency coordination where multiple agencies are involved in administering NTMs. The report recommends that these agencies work together to formulate an action plan aimed at collectively addressing the issues and introducing systems to track the effectiveness of policies over time, while also identifying problem areas needing further examination.

*Streamline administrative procedures.*

The report recommends that a review of all documents be undertaken with the aim of streamlining and reducing the number of forms used by exporting and importing companies. Related to this is the need to expedite moving to electronic submission and processing of the required documentation and information, and the need to streamline the number of institutions involved in regulating international trade. This entails enhancing the capacity and facilities of government agencies on the one hand and imbedding a greater sense of professionalism into inter-agency relations and relations with the business community on the other.

*Introduce a country-wide electronic single window system.*

As part of the wider ASEAN effort towards regional economic integration, the Government conducted an exploratory launch of the Indonesian National Single Window (INSW) in 2010. Although in progress, the INSW has yet to provide for a single sign-on, submission and synchronous processing of all trade documents. Achieving this requires coordinated changes in the operating procedures of most agencies, involving the updating of their IT and back office systems. The successful resolution of these issues and the roll-out of a fully functional INSW will go a long way towards addressing the logjam Indonesian traders currently face.

*Introduce hotlines to follow up on the status of applications and for reporting NTBs.*

While the successful introduction of the INSW will do much to reduce the need for agency hotlines to check the status of applications for export permits and certification, such hotlines could certainly serve as additional vehicles to collect information on non-tariff barriers (NTBs). A computer-based system connecting all stakeholders, including trade-related ministries and government agencies, the business community and academic institutions would ensure that NTB reports are communicated to the system coordinator and acted upon in sync with the responsible agencies. As Indonesian businesses were often reluctant to discuss NTMs with the ITC surveyors, it was also felt that the appointment of an independent ombudsman for trade matters may be necessary.

*Create a facility to increase awareness of changing regulation in destination markets.*

The survey revealed that there were a number of occasions where exporters were not fully aware of the requirements applied by partner countries. Obtaining such information can be challenging, especially when changes in regulation have recently occurred in the destination market. Among the suggestions put forward was the creation and maintenance of a publicly accessible database listing requirements by country and by product.

*Create an internal mechanism to facilitate problem solving in sync with the business community.*

An internal mechanism to facilitate problem solving within and between government agencies could go a long way towards alleviating POs and fostering closer relations with the business community through forums and training sessions designed to relay the latest administrative changes, clarify

problem areas and better inform exporters and importers of the facilities available within agencies to expedite administrative procedures.

*Technical requirements and conformity assessment issues require special attention.*

The survey results indicate that technical requirements and conformity assessment procedures were among the most prominent NTMs affecting exports. One of the most problematic areas involved fumigation procedures, which accounted for almost 30% of the technical requirement cases reported by Indonesian exporters. Although Indonesia adopted ISPM-15, the standard applied to wood packaging materials in international trade in September 2009, exporters are still reporting serious difficulties with its implementation.

*Tackle issues with fumigation.*

From the Indonesian side, fumigation problems are open to a two-pronged approach. Many Indonesian exporters appear to be ill-informed about what the process actually entails, highlighting the need for better information and improved dissemination on ISPM-15. There is also a need for better oversight of companies providing fumigation services to ensure that they are not needlessly delaying Indonesian exports and that their pricing falls within an acceptable range.

*Create an SPS/TBT Committee.*

Another area of major concern, particularly for exporters in the food sector, was testing and re-testing to obtaining the necessary SPS certification, which is increasingly applied by importing countries as they stiffen entry requirements to safeguard the health and safety of their citizens. There may be a need to set up a Technical SPS/TBT Committee to look into such issues and determine, for instance, if bilateral recognition agreements could be reached in respect to products that have already been tested in Indonesia by internationally accredited laboratories.

*Further engage trade partners to resolve NTBs.*

The report acknowledges the participation of Indonesia in regional and bilateral initiatives aimed at eliminating NTBs and recommends intensification of such discussions with trade partners within ASEAN and beyond to track progress in eliminating existing NTBs and monitor and eliminate new ones as they surface.

With the imminent creation of the ASEAN Economic Community in 2015, there will be further scope for member countries to cooperate on the most effective and least costly means of inspection and certification of goods traded within and through the regional grouping. Among these is the ASEAN Single Window (ASW) that will connect and integrate national single windows to expedite cargo clearance.

Careful examination of cases involving technical requirements and conformity assessment in Indonesia may reveal that these are not isolated cases in the region and may be used to buttress government proposals and positions in the context of the WTO TBT/SPS Committees, or in the broader context of global trade facilitation negotiations.





## Introduction to non-tariff measures

### The growing role of non-tariff measures in trade

There has been a significant reduction in tariff barriers over the past half century, largely as a result of successive rounds of global trade negotiations, together with regional and bilateral arrangements. In boosting international trade to previously unseen levels, these liberalization efforts have raised the standard of living for millions around the world, particularly in developing and least developed countries. However, the benefits of free trade have yet to be fully realized, as the trend to impose non-tariff measures (NTMs) for protectionist purposes has undermined gains made over recent decades.

NTMs include technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, certification and testing requirements, quotas, import and export licensing requirements, additional taxes and surcharges, and rules of origin, among others. They often reflect the best policy intentions of consumer, animal and environment protection but can also be a deliberate government strategy to protect import-competing domestic production and compensate for diluted or lost protection following tariff liberalization. 'NTMs are best defined by what they are not'<sup>1</sup> as they comprise a large number of hidden trade-impacting measures. Regardless of policy objectives, they impose real yet avoidable costs on imports and exports that have negative impacts on trade competitiveness particularly in emerging and developing countries.<sup>2</sup>

Efforts have been made to address NTMs in global trade agreements and they are increasingly being included in regional and bilateral agreements. For example, the aim of the WTO Agreement on Technical Barriers to Trade is to ensure that technical regulations, standards and conformity procedures do not cause unnecessary impediments to trade. Unlike tariffs, NTMs are not just numbers, but multifaceted policy instruments, specific to both the product and country of application, thus making them difficult to quantify or compare. They can take a myriad of forms and involve a wide range of regulatory and enforcement authorities with varying institutional, technical and resource capacities to formulate, implement and monitor their use.

Complying with NTMs can be particularly challenging for importing and exporting SMEs in developing and least developed countries and in emerging economies. Weak or deficient export-support services and insufficient access to information on NTMs, coupled with inherent structural weaknesses in the macroeconomic and microeconomic fundamentals add up to costly impediments that erode trade competitiveness for businesses. As a result, NTMs that would otherwise not be considered as restrictive pose a non-negligible burden on trade in the developing world.

To address the challenges of identifying, classifying and quantifying NTMs several international organizations came together to form the Multi-Agency Support Team (MAST) and assist the Group of Eminent Persons on Non-Tariff Barriers (GNTB) established by the Secretary General of the United Nations Conference on Trade and Development (UNCTAD) in 2006. The MAST and GNTB defined NTMs as: 'policy measures, other than customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both'.<sup>3</sup> It was also emphasized that NTMs differ from NTBs as they remain a neutral concept that does not necessarily imply an adverse impact on trade, while NTBs are a distinct subset of NTMs with a protectionist motive.

### Classification of NTMs and other obstacles to trade

ITC surveys are based on the international classification of NTMs developed by MAST, to which minor adaptations have been incorporated for the ITC business survey approach.<sup>4</sup> Taking into account MAST's

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<sup>1</sup> Deardorff and Stern (1998).

<sup>2</sup> For example, the World Bank (2013) estimates that the application of NTMs, including health and safety requirements, to the import and export of food and agricultural products raises the consumer price of commodities by up to 30%.

<sup>3</sup> Multi-Agency Support Team (2009).

<sup>4</sup> For further details on MAST NTM classification, see appendix III.

initial design, ITC surveys only target NTMs that cause difficulties for exporting and importing companies, terming these 'burdensome NTMs'.

While the actual classification and data collection go into further detail, the following distinctions and terminology are used in this report:

- Technical measures refer to product-specific requirements such as tolerance limits of certain substances and labelling standards. They are subdivided into two major categories:
  - Technical requirements (TBT or SPS),
  - Conformity assessment such as certification or testing procedures needed to demonstrate compliance with underlying requirements.
- Non-technical measures comprise the following categories:
  - Charges, taxes and other para-tariff measures,
  - Quantity control measures such as non-automatic licences or quotas,
  - Pre-shipment inspections and other entry formalities such as automatic licences,
  - Rules of origin,
  - Finance measures, such as terms of payment or exchange rate regulations, and
  - Price control measures.

Apart from the above measures imposed by the importing country, those applied by the exporting country constitute an additional, separate category. NTMs do vary widely, however, even within these broad categories.

In order to provide a broader picture of the problems companies can encounter, ITC surveys also look at procedural obstacles (POs) and inefficiencies in the trade-related business environment (TBE).<sup>5</sup> POs refer to practical challenges directly related to the implementation of NTMs. These can include, for example, problems resulting from a lack of adequate testing facilities required to comply with technical measures, or excessive paperwork involved in the administration of licences. Inefficiencies in the TBE are not related to specific NTMs even though they may have similar effects. Typical examples include difficulties caused by inadequate infrastructure.

## **An overview of previous research and evaluation**

In the literature, different methods have been used to evaluate the adverse effects of NTMs. An early approach employed the concept of incidence with NTM coverage ratios. Laird and Yeats (1990), for example, found a dramatic surge in NTM frequency in developed countries between 1966 and 1986 – a 36% increase for food products and an 82% increase for textiles.<sup>6</sup> Such studies relied on extensive databases that mapped NTMs per product and country of application.

In a multi-agency effort ITC, UNCTAD and the World Bank are currently collecting data for a new, global NTM database. Though more complete, the information in this database does not address the impact of NTMs on the business sector, nor does it provide information about related POs. The data are available in the ITC online analysis tool Market Access Map, at [www.macmap.org](http://www.macmap.org), free of cost for users in developing countries.

Evaluation of the impact of NTMs can be approached by either quantification techniques or direct assessment. Empirical studies have followed the quantification route, estimating the impact of NTMs on either trade quantities or prices. While some studies have focused on very specific measures and individual countries<sup>7</sup>, others have statistically estimated the average impact from large samples of

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<sup>5</sup> For further details on the systematic classification of POs/inefficiencies in the TBE, see appendix IV.

<sup>6</sup> Laird and Yeats (1990)

<sup>7</sup> Calvin and Krissoff (1998); Yue, Beghin and Jensen (2006).

countries and NTMs.<sup>8</sup> Excellent overviews from Deardorff and Stern (1998), as well as Ferrantino (2006)<sup>9</sup> have provided important insights into the quantitative impacts of NTMs. However, these analyses are either too specific or too general to provide a useful picture of NTM protection to the business sector and national policymakers. Moreover, quantitative estimates of the effects of NTMs rarely allow for isolating the impact of NTM regulation from those of related POs or inefficiencies in the TBE.

The second approach to evaluating the impact of NTMs involves direct assessment through surveys. The Organisation for Economic Co-operation and Development (OECD) compiled the results of 23 previously conducted business surveys on NTMs.<sup>10</sup> Overall, the identification of the most burdensome trade barriers focused mainly on technical measures, additional charges and general customs procedures. Interestingly, while quotas and quantitative restrictions were regarded as an important instrument just a few decades ago, they ranked only fifth in the OECD compilation, revealing a shift of focus in the formulation of trade policy. While this survey-of-surveys provides a general indication of the business sector's concerns with NTMs, most of the surveys covered a restricted set of partner countries and products. In addition, the share of surveys from developing countries was generally low.

### **A business perspective is indispensable**

The ITC programme on NTMs aims to fill the gaps left by earlier studies by providing detailed, qualitative impact analysis and directly addressing key stakeholders. Launched in 2010, the programme incorporates large-scale company surveys on NTMs, POs and inefficiencies in the TBE. Furthermore, the ITC NTM surveys evaluate all major export sectors and all importing partners. ITC conducted some 30 surveys in developing countries by the end of 2015 and aspires to continue its survey work in the years ahead.

Under the ITC survey format, companies directly report the NTMs they consider burdensome and describe the ways in which they impact their business. Dealing with NTMs and other obstacles to trade on a daily basis, exporters and importers are best-placed to outline and report the challenges they face. A business perspective is critical to understanding and evaluating the impact of NTMs. At the government level, an understanding of company concerns regarding NTMs, POs and TBEs helps decision-makers devise and implement appropriate strategies to address policy-induced impediments to trade and enable the nation to fulfil its potential.

### **Indonesia: Company Perspectives – An ITC Series on Non-Tariff Measures**

This report presents the results of the survey conducted in Indonesia in 2013. It is divided into four chapters:

- Chapter 1 provides an overview of the domestic economy, with a focus on trade and trade policy.
- Chapter 2 presents the methodology and implementation of the ITC survey in Indonesia.
- Chapter 3 presents key findings of the survey in three main sections: aggregate and cross-cutting results, challenges faced by companies in agriculture and challenges faced in manufacturing.
- Chapter 4 provides conclusions and policy options.

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<sup>8</sup> Disdier, Fontagné and Mimouni (2008); Dean et al. (2009); Kee, Nicita and Olarreaga (2008).

<sup>9</sup> Deardorff and Stern, op. cit.; Ferrantino (2006).

<sup>10</sup> Organisation for Economic Co-operation and Development (2005).



## Chapter 1 Trade and trade policy overview

### 1. Country snapshot: General economic situation and sector composition

The world's largest archipelagic nation comprising over 17,500 islands, the Republic of Indonesia stretches some 5,000 km between the Pacific and Indian oceans. With a population of 246.9 million (2012) and a current GDP of \$878 billion, the World Bank classifies Indonesia as a lower middle income country.<sup>11</sup>

Indonesia has had a somewhat chequered economic history since gaining independence, making the most of the twin oil booms of the 1980s with substantial investment in regional infrastructure and social programmes that lifted millions above the poverty line. A fall in oil revenues, combined with a weakly regulated banking sector, however, was soon to reveal Indonesia's vulnerability which was fully exposed with the spread of the Asian Financial Crisis in the second half of 1997.

Although recovery was initially slower than in many neighbouring countries, Indonesia has posted significant economic advances since the start of the new millennium, its per capita gross income rising significantly from \$2,200 in 2000 to \$3,560 in 2012. In macroeconomic terms Indonesia has also reached many of its targets, reducing its Debt-to-GDP ratio from 61% in 2003 to 24% in 2012.<sup>12</sup> While GDP has continued to grow in the 6% range in recent years, challenges remain as Indonesia still struggles with poverty, unemployment, inadequate infrastructure, corruption, a complex regulatory environment, and unequal resource distribution between regions.<sup>13</sup>

Despite a slow start after the crisis, Indonesian exports have continued to grow, more than tripling since 2000. They peaked at \$203.5 billion in 2011 due to high prices for major export commodities such as coal and palm oil, but declined to \$190 billion as a result of a cyclical downturn in commodity prices in 2012. Imports have risen as well, mirroring exports in the main and maintaining a positive trade balance throughout the entire period.

Indonesia's three largest overall trading partners are located in Asia, Japan, China and Singapore, followed by the European Union. The Republic of Korea, the United States and Malaysia are also important trading partners followed by Australia, India and countries in the Arabian Gulf.

Indonesia's strong ties to the land are clearly seen from the distribution of employment figures. As of August 2013, there were nearly 111 million Indonesians over the age of 15 employed according to *Badan Pusat Statistik* (BPS), the Government statistics body.<sup>14</sup> Of these, over 38 million were employed in agriculture, while 15 million were employed in the manufacturing sector. The fastest growing sector in Indonesia is the services sector, the contribution of which to GDP has been growing at more than 7% since the turn of the century. By early 2012, the services sector accounted for 49% of those employed, or 55 million workers.

#### 1.1. Exports

The WTO review of Indonesian exports for 2012 revealed that despite efforts to gain added value, raw materials still predominate with fuels and mining products making up nearly 40% of total exports, followed by manufactures at 36% and agricultural products at 24%.<sup>15</sup>

Taking a more detailed look at export sectors as classified in the Harmonized System (HS), minerals and fuels (HS27) are by far the largest single sector, accounting for 34% of total exports. As fuels and mining products are not pertinent to the current survey, vegetable fats and oils (HS15) are to the fore with 12%, Indonesia being the world's largest producer and exporter of palm oil. Indonesia is also the third largest producer of natural rubber and rubber and rubber products (HS40) account for 5% of total exports.

<sup>11</sup> World Bank (2014).

<sup>12</sup> *Ibid.*

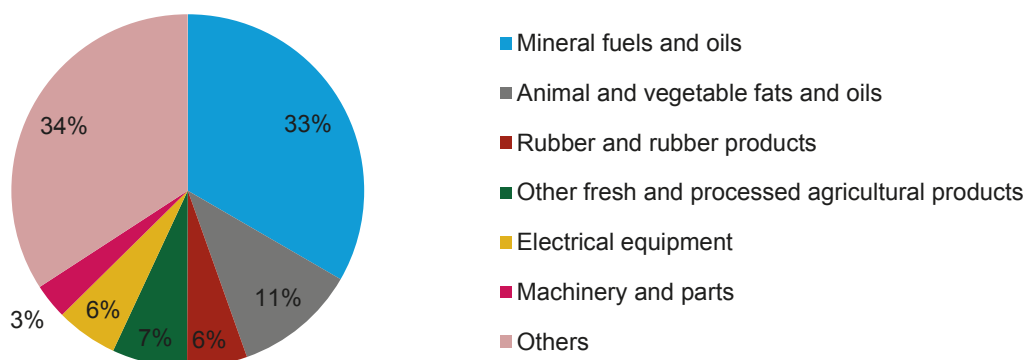
<sup>13</sup> CIA Handbook (2014).

<sup>14</sup> BPS (2014).

<sup>15</sup> WTO (2014).

Meanwhile, electrical equipment (HS85) and machinery and parts (HS84) lead the industrial sector with 6%, although the various categories of apparel and footwear collectively account for over 6% of total exports. Paper and paperboard (HS48) together with wood and wood products (HS44), each around the 2% mark, form a timely reminder of the expanse of Indonesia’s natural and managed forests (Figure 1).

**Figure 1: Indonesian export products, 2012**



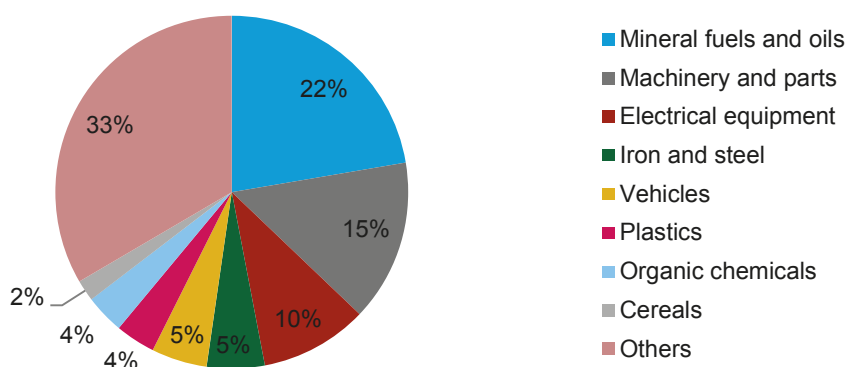
Source: ITC Trade Map, 2015.

Note: The Indonesia’s total export value in 2012 is \$190.03 billion (excluding arms and services).

## 1.2. Imports

Manufactured goods dominate Indonesian imports at nearly 63%, while agricultural products make up only 11% of total imports.<sup>16</sup> Again, with fuels and mining products not being included in the survey, the detailed breakdown of imports concentrates on machinery and parts (15%) and electrical equipment (10%), much of it to fuel Indonesia’s own industry (Figure 2). Imports of iron and steel plastics and of organic chemicals reveal that Indonesia is not yet self-sufficient in the production of such items. The same holds true for rice, as Indonesia, the world’s third largest producer still has to import rice at times to meet the needs of its large population. Together with maize and wheat, the import of cereals accounts for almost 2% of total yearly imports.

**Figure 2: Indonesian import products, 2012**



Source: ITC Trade Map, 2015.

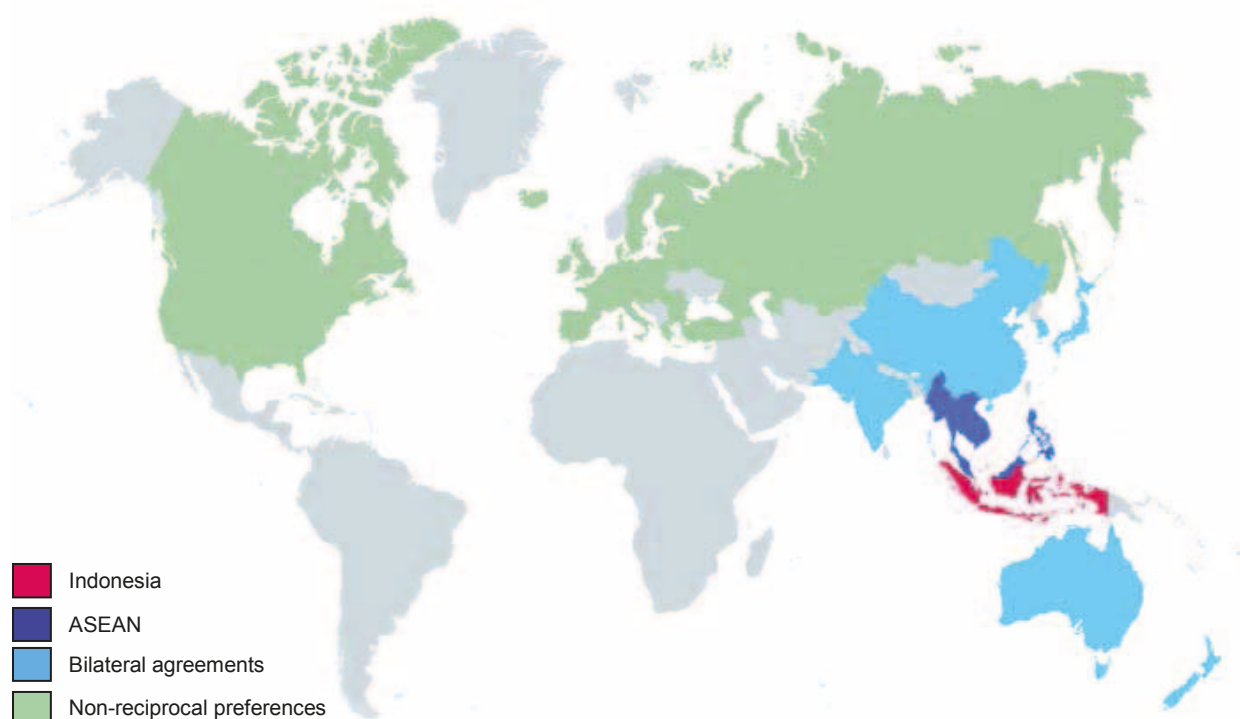
Note: The Indonesia’s total import value in 2012 is \$191.7 billion (excluding arms and services).

<sup>16</sup> WTO (2014).

## 2. Trade agreements and policy

A founding member of the WTO, Indonesia welcomed the trade facilitation negotiations which lead to the adoption of the Trade Facilitation Agreement in Bali in December 2013. Regionally, Indonesia is also a founding partner and active member of ASEAN and through the regional grouping has signed a number of important free trade agreements (FTAs) with China, India, the Republic of Korea, Australia and New Zealand (Figure 3).

**Figure 3: Indonesia's trade agreements**



**Source:** ITC illustration based on Market Access Map data, 2015.

**Note:** This graph reflects, to the best of ITC knowledge, the situation as of March 2015. Non-reciprocal preferences are granted to Indonesia among others in the framework of the Generalized System of Preferences (GSP) scheme.

Within the region, ASEAN members have agreed to abolish tariffs on the trade of almost all goods to establish the ASEAN Free Trade Area (AFTA).<sup>17</sup> Further regional integration in the form of the ASEAN Economic Community is to be achieved in 2015.

On the bilateral front, meanwhile, Indonesia has already implemented an agreement for economic partnership with Japan, and is in the process of negotiating further agreements with a number of countries including Switzerland, Norway, Iceland and Liechtenstein under the Indonesia-EFTA Comprehensive Economic Partnership Agreement, as well as India, Pakistan and the Islamic Republic of Iran.

According to the latest WTO review published in 2013, Indonesia affords MFN treatment at least, to all WTO members. As a result of the tariff harmonization programme completed in 2010, Indonesia's simple average MFN tariff has fallen from 9.5% in 2006 to 7.8% in 2012. The average applied MFN rate is currently 7.5% for industrial products, and 9.5% for agricultural products. Meanwhile, trade preferences offered by Indonesia through bilateral and ASEAN FTAs have resulted in significant tariff reductions, ranging from 0.8% to 5.9%, clearly widening the gap with its MFN rate.

<sup>17</sup> The agreed calendar for the establishment of AFTA was the following: by 2002 for the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Thailand and Singapore); by 2006 for Viet Nam; by 2008 for Lao People's Democratic Republic and Myanmar; and by 2010 for Cambodia.

With a view to establishing the ASEAN Economic Community by 2015, partner countries signed the ASEAN Trade in Goods Agreement (ATIGA) in February 2009, which expanded and updated the provisions of AFTA. Among these new provisions was a schedule under which member states agreed to abolish NTBs within the regional grouping. How achievable that will be remains to be seen, as the list of exceptions is likely to grow.



## Chapter 2 Non-tariff measures survey methodology and implementation in Indonesia

Within the framework of the ITC programme on NTMs and in collaboration with Indonesian authorities, ITC conducted a large-scale company survey on NTMs and other obstacles to trade in Indonesia with a view to promote transparency and better understand the impediments that Indonesian companies face in conducting their trading operations.

This chapter provides country-specific information on the implementation of the survey, the sampling methodology, basic characteristics of the survey samples and an introduction to the analytical approach. The appendices provide greater detail:

- Appendix I contains the matrix of recommendations.
- Appendix II contains the global methodology, which forms an identical core for all countries surveyed.
- Appendix III on the NTM classification and appendix IV on POs provide the taxonomy for arranging reported measures into an organized hierarchical system.
- Appendix V and VI provide the agenda of the stakeholder meeting and list of attendants.

### 1. Survey implementation and sampling methodology

#### 1.1. Timeline and principal counterparts

The NTM survey was conducted in Indonesia over a period of nearly one year between September 2012 and August 2013. Consistent with the mandate of the project, ITC contracted PT Mazars<sup>18</sup>, a local consulting firm selected through the UN tendering procedure to conduct the interviews and collect the survey data. To ensure consistency across the whole project, ITC provided technical guidance and training on NTMs and the survey methodology to the interviewers. Local data collection firms are engaged in all survey countries with a view to build survey management capacity for current and follow-up surveys.

The Ministry of Trade of Indonesia provided official guidance and support throughout the project and co-organized a national stakeholders' workshop with ITC in Jakarta to present and discuss the results of the survey. The main objectives of the workshop, which was held on 27 November 2013, were twofold: first to validate the results of the survey with national stakeholders, and second to hold a public-private dialogue on burdensome NTMs and related POs to discuss and formulate recommendations for policy action. The workshop was attended by some 60 participants from the public and private sectors and development partners.

#### 1.2. Sample frame and selection approach

Before conducting the survey, ITC and Mazars compiled a business registry of exporting and importing companies in Indonesia. The official *Directory of Indonesian Exporters-Importers 2011–2012* provided by the Ministry of Trade was seriously outdated and additional information was collected from the Ministry's website and several business associations, such as the Association of Indonesia Coffee Exporters, the Indonesian Textile Association, the Indonesian Cocoa Association and the Indonesian Furniture Industry and Handicraft Association. The updated registry was used to calculate the sample size per sector and to contact selected individual companies for an interview. To the extent possible, efforts were made to achieve representative company size breakdowns for each sector.

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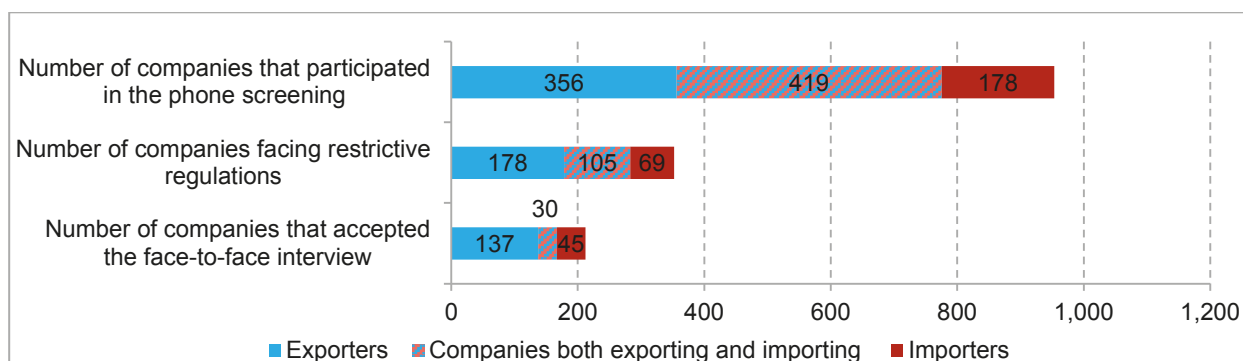
<sup>18</sup> PT Mazars was rebranded as PT Moores Rowland Indonesia in June 2014.

### 1.3. Survey process outline and modalities

The survey itself was carried out in two distinct phases: a telephone screening and more in-depth face-to-face interviews.

In the first phase, short telephone interviews were conducted with representatives of exporting and importing companies using a standard ITC questionnaire to collect essential information on company characteristics and identify those that had been affected by burdensome NTM regulations during the last 12 months. Based on the feedback from the phone screening, more in-depth face-to-face interviews were scheduled with those companies willing to participate, in order to document the details of the problems encountered. These interviews covered a much broader range of questions to identify and categorize the NTMs and POs encountered, identify the sectors and products affected, together with the partner countries and institutions involved.

**Figure 4: Participation in the survey**

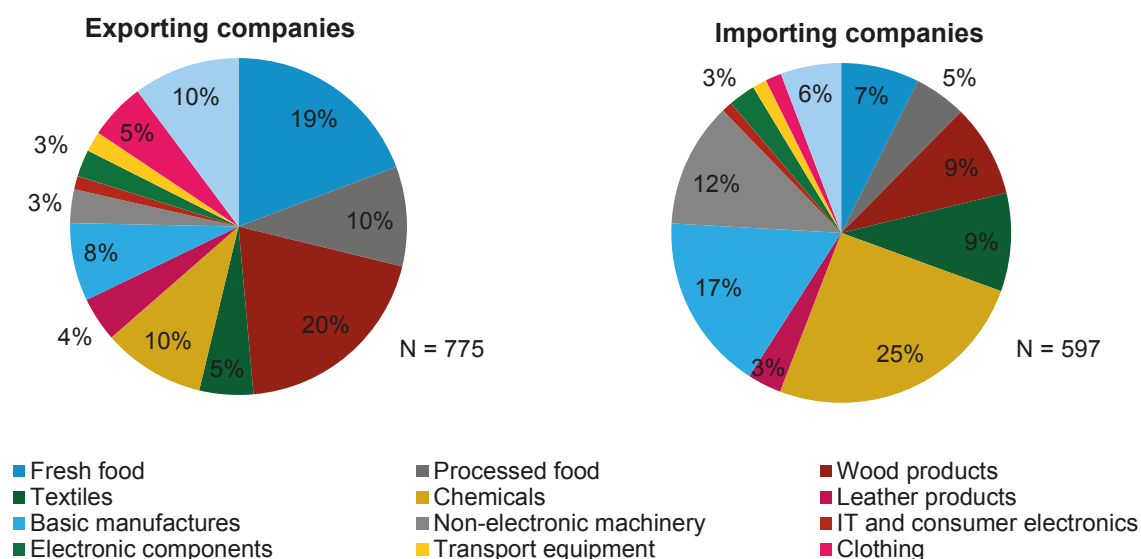


Source: ITC - NTM survey in Indonesia data 2013.

#### 1.3.1. Telephone interviews

Out of the 1,407 firms initially contacted during the phone screening, 953 companies agreed to be interviewed. Of those, 356 were exporters, 178 importers, while 419 carried out both export and import activities. Indeed, one challenge that the surveyors faced was that over 30% of the companies initially contacted declined to participate in the phone screening. The telephone interviews identified a total of 352 (37%) affected exporting and importing companies.

**Figure 5: Distribution of telephone interviews by sector**



Source: ITC - NTM survey in Indonesia data 2013.

As reflected in Figure 5, which provides a full sector breakdown for both export and import activities, interviews with exporters were as follows: 19% were involved with fresh food, 10% in processed food, while on the manufacturing side 20% were involved in wood products, 10% in chemicals, 8% in basic manufactures, while the remainder were classified in miscellaneous manufacturing.

On the import side, 25% of the responding companies were involved in chemicals, 17% in basic manufactures and 12% in non-electronic machinery. Textiles (9%), wood products (9%) and fresh food (7%) were other sectors that were represented.

### 1.3.1. Face-to-face interviews

The face-to-face interviews typically took up to an hour and were carried out according to the standard ITC questionnaire that had been translated into Indonesian. This was a far more detailed examination which gathered in-depth information about the company, its operations and the burdensome NTMs and POs encountered in the course of its export and import activities.

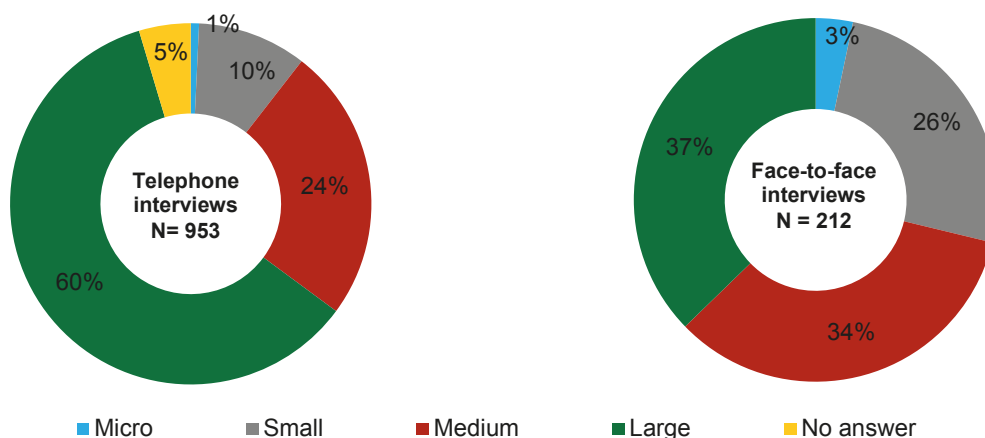
The selection of companies for the face-to-face interviews was based on the results of the phone screening. Only companies reporting burdensome NTMs were invited to participate. Moreover, of those that reported being affected by NTMs, almost 40% were unwilling to communicate more detailed information in the face-to-face interviews despite being assured of the confidentiality of the process. Out of the 212 companies that were willing to contribute, 137 were exporting companies, 30 were engaged in both export and import activities, while 45 were involved in importing only (figure 4). Among the major sectors most affected by NTMs in their export activities the best represented were fresh food (78 participants) processed food (17) and wood products (22).

## 1.4. Size and location of companies participating in the survey

The size of the respondent companies with regard to the number of employees was recorded in very narrow bands; for practical purposes these were tabulated under familiar headings (the category definition are estimates based on local experience in Indonesia):

- micro-business (up to 10 employees)
- small business (11 to 100 employees)
- medium-sized business (101 to 250 employees)
- large business (over 250 employees)

**Figure 6: Distribution of interviewed companies by size**

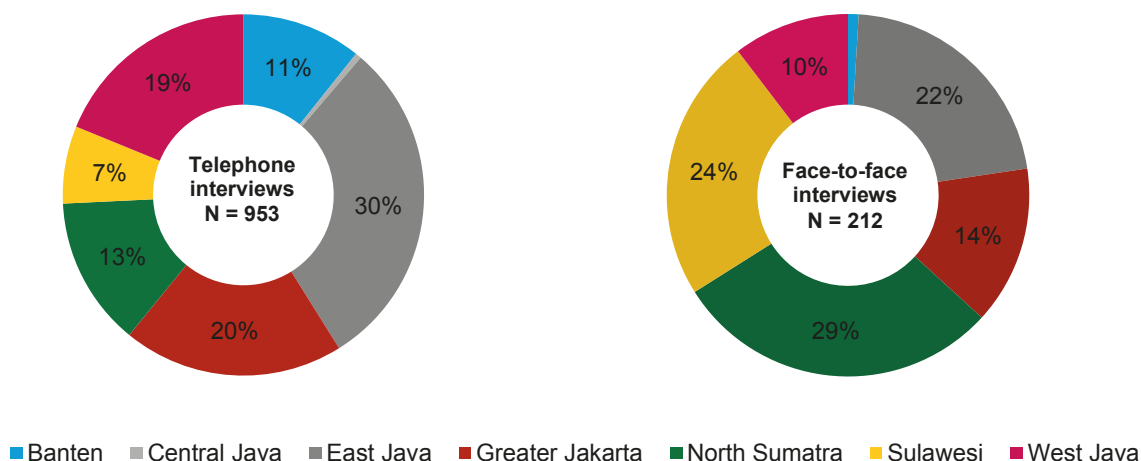


Source: ITC - NTM survey in Indonesia data 2013.

Large companies represent a major part of enterprises participating in the survey, at 60% and 37% of the sample respectively (Figure 6), followed by the medium-sized companies (24% and 34%), small (10% and 26%) and micro-businesses (1% and 3%). Overall 79 large companies, 72 medium-sized companies, 54 small companies and 7 micro-businesses participated in the face-to-face interviews.

Companies interviewed were selected from different regions for proper geographical representation as described in Figure 7. The survey spanned over the main industrial areas of East Java, Greater Jakarta, West Java, Sulawesi, North Sumatra and Banten. However companies located in North Sumatra and Sulawesi are the most represented in the face-to-face sample with a share of 29% and 24% respectively.

**Figure 7: Distribution of interviewed companies by region**



Source: ITC - NTM survey in Indonesia data 2013.

## 2. Captured data and evaluation approach

The purpose of the NTM surveys is to gather and analyse information and data on the experience of businesses facing burdensome NTMs at the product level. Companies participating in the face-to-face interviews were initially asked to list all the products they exported and/or imported using the Harmonized System (HS) at the six-digit level, and to provide information on the destination country for exports and the country of origin for imports. Each pair of product and partner country is referred to as a 'product-partner trade flow'.

The company representatives were required to detail the NTMs and POs encountered for each product-partner trade flow. Each NTM or PO was then categorized according to the classification shown in appendix III. Other detailed information included the values of the products exported and/or imported, the country applying the measure, the authorities responsible for the associated POs, and whether the difficulties could be associated with the NTM or resulted from general inefficiencies in the TBE.

Data analysis included calculating frequency and coverage statistics, together with dimensions including product and sector, main NTM category (e.g. technical or quality control measures), and company characteristics such as size, domestic or foreign ownership, number of years in operation, inter alia.

Most frequency and coverage statistics are based on 'cases'. Each company participating in the face-to-face interviews reported at least one case of a burdensome NTM or PO, together with challenges associated with the TBE, when relevant. A case is defined by the type of NTM, the country by which it is applied, the product affected, and the company reporting the measure. For example, if three products are affected by the same NTM applied by the same partner-country and reported by one company, this would be recorded as three distinct cases. Similarly, if two companies report the same problem, this would be counted as two distinct cases. In this way individual cases are the most disaggregated unit of analysis in NTM surveys.

The counting of cases varies depending on whether the NTM is applied by the exporting or importing country. Should several importing countries apply the same type of regulation to Indonesian exports then these would be considered to be separate cases, as the actual specifics of implementation are likely to vary from country to country. However should Indonesia impose the NTM, it would be considered as a single policy and recorded as one case per company, regardless of the country of destination or the country of origin.

Cases of POs and problems with the TBE are dealt with in a similar manner to NTMs. However PO and TBE statistics are provided separately, even though in certain instances they can be closely related to NTM statistics. For example, pre-shipment requirements may cause extended delays. While POs are directly related to a given NTM, inefficiencies in the TBE occur irrespective of the NTM.



## Chapter 3 Survey results – Indonesian companies' experiences with non-tariff measures

This chapter presents an analysis of the findings of the NTM survey carried out in Indonesia.

- Section 1 presents company experiences with NTMs and POs at a fairly aggregated level, focusing on the most affected sectors, the major problems faced, country-level findings and the source of the identified problems.
- Sections 2 and 3 provide a more specific analysis of the problems faced by exporting and importing companies under the two general headings of food and agriculture-related products and manufacturing.
- Section 4 focuses on obstacles related to Trade and Business Environment (TBE) which have an impact on business operations.

### 1. Aggregate results and cross-cutting issues

This section examines survey results and discusses cross-cutting issues that Indonesian traders face in their operations. Results of the initial phone screen indicate that overall 37% of companies were affected by NTMs in their trading operations. The affectedness rates differ however between exporters and importers as well as across sectors. Sections 1.1 and 1.2 present NTMs affecting exports and the countries applying them, while subsection 1.3 focuses on the NTMs experienced by importing companies. Section 1.4 brings into focus the prevalence of POs.

#### 1.1. Affected export sectors

Only 30% of the exporting companies taking part in the phone screen interviews reported being affected by NTMs in their activities, but this percentage varied greatly depending on the sector. By far the most affected sector was fresh food with nearly 60% of the participating companies reporting problems, followed by processed food at 34%. On the manufacturing side wood products (28%), miscellaneous manufacturing (24%), basic manufacturing (21%) and chemicals (17%) were the sectors most affected (Table 1). Together, these six sectors make up over 90% of the companies that took part in the face-to-face interviews. A detailed presentation of their responses per sector is provided in sections 2 and 3.

#### 1.2. Burdensome non-tariff measures and other obstacles faced by exporters

The following subsections focus on the main burdensome NTMs and POs affecting exports as applied by partner countries and Indonesian authorities. Partner countries were responsible for the application of burdensome regulations in 66% of the reported cases, while the remaining 34% were national regulations applied by the local authorities.

##### 1.2.1. Non-tariff measures applied by partner countries

The vast majority of problematic NTMs applied by partner countries to Indonesian exports are technical measures (Figure 8). These include technical requirements (56%) mostly product specifications and SPS measures to which exporters must comply, as well as conformity assessment procedures (24%) providing proof of compliance with the underlying technical requirements. This differs from observations in most other country surveys where exporters generally report more difficulties with conformity assessment than with technical requirements per se. Rules of origin and related certificate of origin accounted for a further 11% of the reported cases, while price control measures (4%), along with quantity control measures (2%) were the only other categories to exceed 1%.

While the European Union accounts for only 14% of Indonesian exports, EU countries account for over a quarter of all the burdensome NTMs reported by Indonesian exporters. Half of the 81 companies (40) exporting to the EU reported being affected by NTMs, exporters of fresh food, processed food and wood products being to the fore. The same holds true for North American countries which also contribute

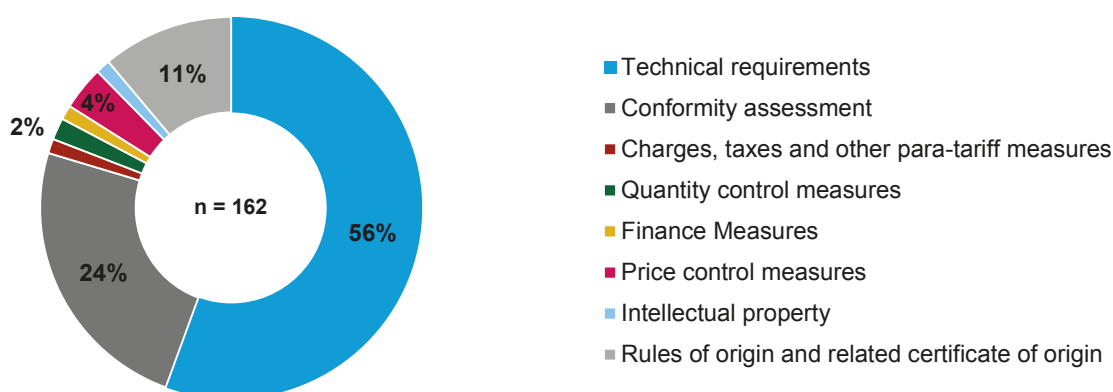
around 14% to Indonesian export revenues. Of 44 companies that export to the region, 25 expressed facing similar problems with technical requirements and conformity assessment.

**Table 1: Aggregate results of exporting companies interviewed by phone, by sector**

Business sector	Export value 2012 (\$millions)	Percentage of exports	Exporting Companies that took part in phone screening	Companies reporting restrictive NTMs when exporting		Exporting companies that took part in face-to-face interviews
				Number	%	
Fresh food	13,687	12%	149	89	60%	78
Processed food	28,475	24%	74	25	34%	17
Wood products	9,906	8%	153	43	28%	22
Textiles	4,541	4%	40	3	8%	1
Chemicals	13,261	11%	76	13	17%	7
Leather products	3,869	3%	33	5	15%	3
Basic manufacturing	9,063	8%	58	12	21%	7
Non-electronic machinery	3,757	3%	25	5	20%	1
IT and consumer electronics	6,914	6%	10	0	0%	0
Electronic components	6,259	5%	20	5	25%	1
Transport equipment	5,848	5%	15	4	27%	2
Clothing	7,581	7%	42	8	19%	5
Miscellaneous manufacturing	4,166	4%	80	19	24%	8
<b>Total</b>	<b>117,327</b>	<b>100%</b>	<b>775</b>	<b>Average</b>		<b>152</b>
				<b>231</b>	<b>30%</b>	

Source: ITC - NTM survey in Indonesia data 2013.

**Figure 8: Types of burdensome partner country regulations reported by exporters**



Source: ITC - NTM survey in Indonesia data 2013

This should come as no surprise as most developed nations have adopted strict environmental and food safety standards and are increasingly introducing stringent SPS measures. With TBTs increasing globally, particularly those involving consumer information labels, product standards and production processes, exporters in countries with weak conformity assessment infrastructure are particularly vulnerable.<sup>19</sup> The

<sup>19</sup>The EU, for instance, has a raft of regulations depending on product category that require exporters from partner countries to meet the same standards as EU members for foodstuffs. The United States passed the Food Safety Modernization Act (FSMA) in January



high incidence of complaints recorded in Indonesia for technical requirements reflects the growing complexity of such compliance procedures in destination markets. Fumigation issues in particular were most frequently mentioned as technical measures giving rise to difficulty, including re-fumigation of previously fumigated goods in the country of destination.

ASEAN countries may have agreed to reduce non-tariff measures to stimulate trade between member states, but as yet this has not been fully achieved in practice. The ASEAN market accounts for 23% of Indonesia's export revenues but also accounts for 18.5% of the total reported NTM cases. Singapore (8.6%) and Malaysia (6.1%) are Indonesia's two main export destinations within ASEAN, each accounting for 7.4% of the total NTM cases. Non-automatic licensing is one the main problems encountered, as well as restrictions imposed on certain products, crude palm oil in particular, as Malaysia looks to protect its own palm oil industry.

**Table 2: Partner countries applying non-tariff measures on exports**

Partner country/region	Export value in 2012 (\$millions)	Share of total export value	Companies exporting to destination	Companies reporting NTM cases	Share of affected companies exporting to destination
<i>Singapore</i>	10,035.2	8.6%	45	12	26.7%
<i>Malaysia</i>	7,120.5	6.1%	35	12	34.3%
<i>Thailand</i>	4,366.9	3.7%	10	2	20.0%
<i>Philippines</i>	2,525.5	2.2%	9	2	22.2%
<i>Viet Nam</i>	2,133.2	1.8%	6	0	0.0%
<i>Other ASEAN</i>	771.6	0.7%	7	2	29.0%
<b>Subtotal ASEAN</b>	<b>26,952.9</b>	<b>23.0%</b>	<b>112</b>	<b>30</b>	<b>27.1%</b>
<i>China</i>	11,032.8	9.4%	24	9	37.5%
<i>Japan</i>	10,910.4	9.3%	48	10	20.8%
<i>India</i>	7,043.7	6.0%	16	2	12.5%
<i>Republic of Korea</i>	3,546.2	3.0%	10	3	30.0%
<i>Australia</i>	2,519.7	2.2%	18	8	44.4%
<i>New Zealand</i>	355.5	0.3%	4	0	0.0%
<b>Subtotal FTAs through ASEAN</b>	<b>35,408.3</b>	<b>30.2%</b>	<b>120</b>	<b>32</b>	<b>26.7%</b>
<i>Africa</i>	4,888.2	4.2%	10	3	30.0%
<i>Asia (other)</i>	13,461.4	11.5%	51	15	29.4%
<i>North America</i>	16,351.3	13.9%	44	25	56.8%
<i>EU-28</i>	16,729.4	14.3%	81	40	49.4%
<i>Europe (excl. EU)</i>	696.4	0.6%	1	0	0.0%
<i>Other</i>	2,838.5	2.4%	21	4	19.1%
<b>Total</b>	<b>117,326.5</b>	<b>100%</b>	<b>440</b>	<b>149</b>	<i>Average 33.9%</i>

Source: ITC - NTM survey in Indonesia data 2013.

Indonesia has also concluded FTAs through ASEAN with leading trade partners including China (9.4% of total exports) and Japan (9.3%), among others. Technical requirements were again predominant for these two trade partners with 9 of 24 companies exporting to China reporting burdensome NTMs and 10 of 48 for Japan. An additional measure reported for Japan was the need for certificates of origin for wood products. Of other FTA countries, India accounted only for 1% of the reported NTM cases despite

2011, which places extensive requirements on foreign importers through its Foreign Supplier Verification Program and Voluntary Qualified Importer Program.

making up 6% of Indonesia’s export revenues, whereas Australia tended to follow the EU and North America with 6% of reported cases for only 2% of market share.

Details of Indonesian trading partners, including the number of companies exporting to the destination market and of those experiencing NTMs in the country of destination are provided in table 2.

### 1.2.2. NTMs applied by Indonesian authorities on exports

While exporting companies reported a total of 162 cases of NTMs applied by partner countries, a further 84 cases were reported for Indonesian authorities. The procedures for companies intending to export their products are set out in Ministry of Trade Regulation No 13, 2012 and include the need to procure a taxpayer identification number and other requisite documents. The most commonly reported burdensome measures relate to export inspection (52%), and export registration (32%), with just a handful of cases under the other categories (Figure 9).

To encourage investment in downstream industries, Indonesia has introduced export taxes on several raw materials. Export restrictions have also been introduced for a number of commodities, including palm oil and cocoa beans, resulting in a decrease of volumes exported. For example, the introduction of the export tax on cocoa beans in April 2010 has led to substantial falls in export quantities: a 51% decrease was recorded for 2011 and an additional 26% decrease is estimated or 2014 reflecting further demand from local grinders.

All NTMs applied by the Indonesian authorities were without exception linked to POs. By far the most common were delays (38%), followed by high fees and charges (18%), arbitrary behaviour by officials (11%) and large number of different documents required (10%). These POs are examined in more detail for specific sectors in later sections.

**Figure 9: Burdensome non-tariff measures applied by Indonesia**



Source: ITC NTM Survey in Indonesia, 2013.

### 1.2.3. Procedural obstacles related to NTMs applied on exports

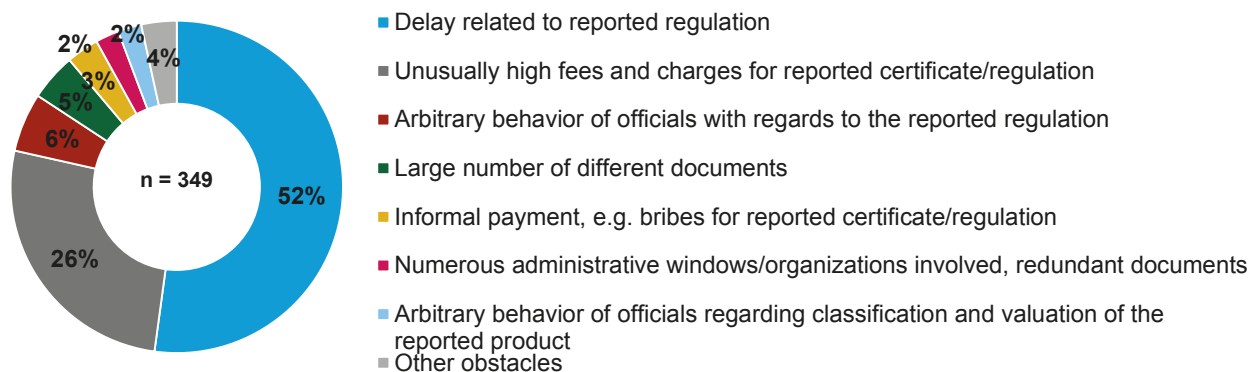
A very high percentage of 88% of the NTMs affecting Indonesian exports were considered as burdensome due to associated POs as respondents contended that administrative red tape and delays in the application process were the main source of the burden rather than the measures themselves. Only a few NTMs (13%) were perceived as being too strict or difficult to comply with as such. Measures applied by partner countries including product quality and performance requirements, price control measures and technical inspections were predominant in this category.

Intertwined with the burdensome measures experienced in both partner countries and at home, exporting companies reported a total of 349 cases of POs. Of these, more than 70% occurred in Indonesia while close to 30% occurred in partner countries.

Delays was by far the most common complaint with 182 cases reported overall (52%), of which 121 took place in Indonesia (Figure 10). The only other area of major concern were high fees and charges with 92 cases reported (26%) most of which (53 cases or 58%) occurred in Indonesia. Other cases reported in

Indonesia included: arbitrary behaviour by officials (20 cases); large number of different documents (16); informal payments (11); numerous administrative windows or organizations involved, redundant documents (8); and arbitrary behaviour by officials regarding classification and valuation of the reported product (8).

**Figure 10: Procedural obstacles affecting exports**



Source: ITC - NTM survey in Indonesia data 2013.

### 1.3. Importers' experiences with NTMs and other obstacles

27% of Indonesian importers reported being affected by NTMs. A total of 90 cases were reported overall, 83 of which occurred at home. This is not surprising as countries often impose regulations on imports because of their potential impact on the health and safety of their citizens and on the environment. Moreover, importing companies are generally less concerned about the measures imposed by their exporting partners and tend to be more preoccupied with those imposed by their own authorities.

As for other country surveys, pre-shipment inspections and other entry formalities were predominant, accounting for 49 of the 83 reported cases or 59% and followed by quality control measures (12 cases), conformity assessment (9) and technical requirements (8), the remaining measures making up only 6% of the total (figure 11, left pane). All seven cases reported for partner country regulations related to the import of manufactured products, four of which involved export registration.

Almost all the NTMs relating to imports (96%) were associated with POs usually involving some combination of delays (28%), arbitrary behaviour by officials regarding classification and valuation of the reported product (25%) and high fees or charges (19%), (Figure 11, right pane).

The NTMs reported for imports in specific sectors are examined in more detail in later sections.

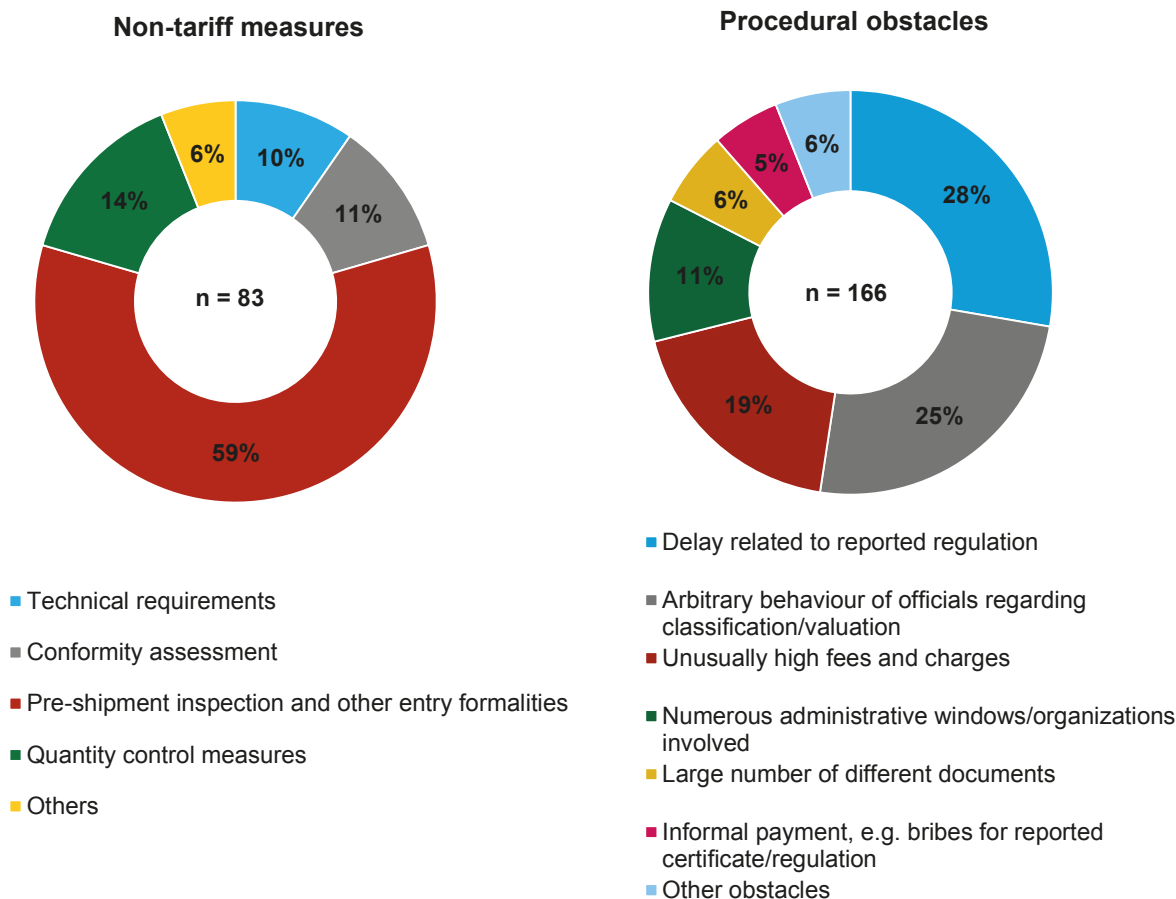
### 1.4. Domestic authorities and partner countries involved in procedural obstacles

A high percentage of NTMs were associated with POs on both the export and import side. Looking at the distribution of these POs at home and in partner countries allows for a wider analysis of the challenges faced by Indonesian companies when trading. The figure below summarizes the total number of POs encountered when exporting and importing, while also highlighting their geographical distribution. Of the PO cases reported by Indonesian exporters and importers, 405 occurred in Indonesia while 110 took place in partner countries (Figure 12).

The survey results revealed that the Directorate General of Customs and Excise was the Indonesian agency most associated with POs, accounting for one-third of the 248 cases affecting exports (33%) and over two-thirds of the 157 cases involving imports (68%), (Table 3). This is in no way surprising, as

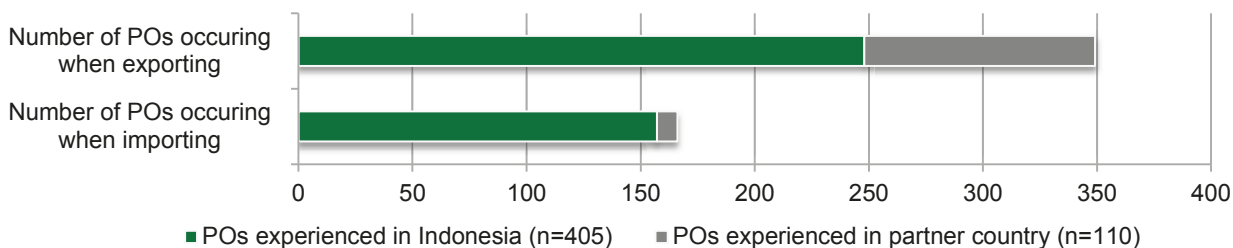
Customs is the agency with which all trading companies interact, for registration on the export side and clearance for the import of goods.

**Figure 11: Non-tariff measures and associated procedural obstacles affecting imports**



Source: ITC - NTM survey in Indonesia data 2013.

**Figure 12: Procedural obstacles affecting Indonesia’s trade, occurring at home and in partner country**



Source: ITC - NTM survey in Indonesia data 2013.

The Agriculture Quarantine Agency (11%), the Ministry of Trade (8%) and the Ministry of Transportation (7%) were other agencies commonly mentioned for exports while government agencies again dominated for imports, with the Ministry of Trade featuring in 12% of the cases and the Ministries of Agriculture and of Transportation both featuring at 6%. By regulation, pre-shipment inspection is required for a wide range of goods, from foodstuffs to manufactured items. These inspections may only be carried out by customs

officials that have been approved by Indonesian authorities. In addition, most imported goods are subject to import licensing requirements, while some are also subject to restrictions in ports of entry.

The mention of the Ministry of Trade for imports is to some degree related to its sub-directorate, the Directorate General of Foreign Trade (DGFT) which is responsible for granting import licenses to companies for specific products. Besides health, safety, security and environmental purposes, there are several reasons why Indonesian authorities require import licenses: to implement commitments taken under international agreements, to prevent smuggling, and, as already mentioned, to implement policies that aim to protect and stimulate domestic production.

**Table 3: Procedural obstacles encountered in Indonesia**

Procedural obstacles affecting exports			Procedural obstacles affecting imports		
Institution associated with the PO	Number of reported POs	Share of total POs	Institution associated with the PO	Number of reported POs	Share of total POs
Directorate General of Customs and Excise	82	33%	Directorate General of Customs and Excise	107	68%
Agricultural Quarantine Agency	26	11%	Ministry of Trade	18	12%
Ministry of Trade	20	8%			
Ministry of Transportation	18	7%	Ministry of Agriculture	9	6%
Inspection services Soekarno Hatta airport	17	7%			
Ministry of Marine Affairs and Fisheries	14	6%	Ministry of Transportation	9	6%
Indonesian Chamber of Commerce	10	4%			
Rimasindo Buana Perkasa (fumigation company)	10	4%	Police Department	3	2%
Ministry of Forestry	9	4%	Ministry of Forestry	2	1%
Sucofindo (inspection co.)	8	3%			
Ministry of Agriculture	6	2%	Ministry of Marine Affairs and Fisheries	2	1%
Pestcindo Centra Utama	6	2%			
Other governmental	13	5%	Other governmental	5	3%
Other private sector	9	4%	Other private sector	2	1%
<b>Total</b>	<b>248</b>	<b>100%</b>		<b>157</b>	<b>100%</b>

Source: ITC - NTM survey in Indonesia data 2013.

While 29% of the PO cases affecting exports can be attributed to partner countries, the figure is far smaller for imports (5.4%), as reflected in Table 4. Most of the POs encountered in the export's side involve United States (35%) and EU member countries (36%). Delays and high fees were reported regarding test and control procedures required by the United States Department of Agriculture and the United States Food and Drug Administration for agricultural products. The same POs were observed by exporters of agricultural products in EU member states public agencies (Ministry of Health, Ministry of Agriculture, and Food Standards Agency) which impose SPS measures and conformity assessment procedures mostly on the crustaceans and cocoa butter exported by Indonesia.

**Table 4: Procedural obstacles encountered in partner countries**

Procedural obstacles affecting exports			Procedural obstacles affecting imports		
Partner Country	Number of reported POs	Share in total number of POs	Partner Country	Number of reported POs	Share in total number of POs
United States	35	35%	United States	2	22%
Netherlands	12	12%	Malaysia	2	22%
United Kingdom	9	9%			
Germany	7	7%	Philippines	2	22%
China	5	5%			
Japan	5	5%	India	1	11
France	4	4%			
Brazil	3	3%	Singapore	1	11
Malaysia	3	3%			
Republic of Korea	3	3%	Republic of Korea	1	11
Other	15	14%			
<b>Total</b>	<b>101</b>	<b>100%</b>		<b>9</b>	<b>100%</b>

Source: ITC - NTM survey in Indonesia data 2013.

## 2. Food and agro-based products

### 2.1. Importance of the sector

Although the agricultural sector's share of GDP has fallen from over 50% in the mid-1960s to around 15% today, agriculture remains the primary source of income for many Indonesian households, employing over a third of the working population. Indonesian agriculture holdings range from small, largely family-owned plots that grow rice, vegetables and fruit, to large plantations producing export crops such as palm oil and rubber. Smallholder farmers also grow corn and sugarcane, along with soy beans and cassava, mainly for domestic consumption, while cocoa, coffee and tea are also largely produced on smaller holdings, although mainly for export.

Accounting for roughly half of the global production, Indonesia is by far the largest single producer of crude palm oil (CPO). In 2012, production rose to 26.5 million tons, of which 70% were exported either in raw or refined form.<sup>20</sup> Used in a diverse range of products, including as feedstock for bio fuels, CPO is an increasingly important export commodity, the bulk of which is destined to the Indian, Chinese and EU markets. However, this surge in demand has brought with it increasing questions about sustainable agriculture in Indonesia as deforestation has been carried out on a massive scale.<sup>21</sup>

Indonesia has the world's largest area under cultivation and is the world's second largest exporter of natural rubber after Thailand. Smallholdings account for over 85% of production. Around 90% of the annual production of 3 million tons currently goes for export, mainly to China, followed by the United States, India, Japan and the Republic of Korea. However, as the domestic demand for cars and motorcycles grows, up to 20% of the production may soon be earmarked for the local market.

Indonesia is the world's third largest cocoa producer after Côte d'Ivoire and Ghana, but exports of cocoa beans have fallen from a peak of 620,000 tons in 2006 to an estimated 400,000 tons in 2014. Adverse weather conditions, crop diseases and pests have seen yields more than halve. The progressive tax on cocoa bean exports introduced in 2010 to ensure sufficient supply for local grinders and meet the growing domestic demand for chocolate currently stands at 10% and places increased pressure on smallholder farmers that account for close to 90% of Indonesia's cocoa production.

<sup>20</sup> Data provided by the Indonesian Palm Oil Association.

<sup>21</sup> Referring to an article published in the journal *Nature Climate Change*, the BBC suggests an area almost the size of Ireland has been felled since the start of the new millennium, much of it to make way for palm oil plantations, BBC News Network (2014).

Third behind Brazil and Viet Nam, Indonesia's coffee production and exports have shown a healthy increase since the start of the millennium. While production rose by 45% between 2000 and 2013, export figures nearly doubled over the same period. Leading markets include the United States, Japan and EU countries, notably Germany.

Despite declining production in recent years, Indonesia remains among the world's top ten tea growers and exporters. Most of the larger tea plantations are managed by state-owned enterprises that account for the bulk of exports, although some private tea blenders have developed internationally respected brands through selective sourcing from smaller private plantations.

Indonesia is one of the world's largest seafood producers with fisheries production exceeding 15 million tons in 2012, of which only a third was wild capture, aquaculture accounting for the remaining two-thirds.<sup>22</sup> While domestic demand for seafood continues to increase, so have exports, topping \$3.9 billion in 2012, and mostly destined for the United States, Japan and the EU markets.

Shrimp is currently Indonesia's main fishery export commodity and, with a potential of 1.2 million hectares for shrimp breeding, Indonesia could emerge as the world's largest shrimp exporter in coming years. East Java is currently the predominant production area, accounting for close to one-third of all exports, but shrimp has the potential to expand into other regions, particularly the eastern islands where seaweed farming is predominant.

## 2.2. Affected companies

While fresh and processed food made up 34% of Indonesia's exports, the sector accounted for over 50% of the reported NTMs. Out of the 223 food-exporting companies that took part in the telephone survey, half (114 or 51%) reported being affected. Of these, 95 agreed to take part in the face-to-face interviews, representing 64% of the participating companies.

**Table 5: Affectedness of agricultural exporters by size**

Company size	Fresh food		Processed food	
	Number of companies exporting	Affected companies	Number of companies exporting	Affected companies
Micro	30	90%	4	75%
Small	65	65%	21	62%
Medium	23	43%	19	11%
Large	29	31%	28	25%
Unknown	2	100%	1	100%
<b>Total</b>	<b>149</b>		<b>73</b>	

Source: ITC - NTM survey in Indonesia data 2013.

**Table 6: Affectedness of agricultural exporters by location**

Company location	Fresh food		Processed food	
	Number of companies exporting	Affected companies	Number of companies exporting	Affected companies
Great Jakarta	22	45%	33	24%
East Java	30	33%	21	33%
Sumatra	51	61%	12	50%
Sulawesi	46	80%	7	71%
<b>Total</b>	<b>149</b>		<b>73</b>	

Source: ITC - NTM survey in Indonesia data 2013.

<sup>22</sup> Data provided by the Ministry of Marine Affairs and Fisheries.

Overall, fresh food is predominantly the domain of small and micro companies while the greater share of processed food is produced by medium and large companies. Micro and small companies appear to suffer more from regulatory and procedural trade obstacles (table 5). In terms of regions, table 6 shows that affected companies are concentrated in Sulawesi and Sumatra.

### 2.3. Burdensome NTMs and other obstacles faced by exporters of agricultural products

Most of the NTMs reported by the exporting companies in the food and agro-products sector involved technical requirements (55%), while conformity assessment (29%) and rules of origin and related certificate of origin (10%) were the other two major problem areas. Coffee and cocoa related products were most affected by technical measures accounting for 26 of the 65 reported cases (40%), largely related to fumigation issues. Fish and seafood were also affected with a further 21 reported cases (32%), relating mainly to tolerance limits for residues or contaminants and microbiological criteria, among other health issues.

**Table 7: Export of food and agro-based products: Burdensome NTMs applied by partner countries and linkages with POs**

Type of NTM	Number of NTM cases		Procedural obstacle	Number of POs	
	With PO	Without PO		PO occurs at home	PO occurs in partner country
Technical requirements	59	6	Delay related to reported regulation	39	25
			High fees and charges	14	19
			Informal payment, e.g. bribes	2	
			Limited/inappropriate facilities for testing	1	
Conformity assessment	25	9	Delay related to reported regulation		23
			High fees and charges		14
			Limited/inappropriate facilities for testing		1
Rules of origin and related certificate of origin	12		Large number of different documents	3	
			Arbitrary behaviour of officials in regard to the reported regulation	6	
			Delay related to reported regulation	9	
			High fees and charges	3	
Quantity control measures (non-automatic licenses, quotas, prohibitions)		3			
Charges, taxes and other para-tariff measures	2		High fees and charges		2
Intellectual property	2		High fees and charges	4	
Finance Measures		1			
<b>Total</b>	<b>100</b>	<b>19</b>		<b>82</b>	<b>84</b>

Source: ITC - NTM survey in Indonesia data 2013.

Of the 65 cases involving technical requirement measures, nearly half were reported for the EU and the United States (15 cases each), while Japan (6 cases) and Chinese Taipei, Malaysia and Singapore (5 cases each) accounted for most of the remainder. Conformity assessment also saw the EU (16 cases) and United States (10 cases) to the fore; together they accounted for 76.5% of the 34 reported cases for this type of NTM.



As per the 2002 Bioterrorism Act, all domestic and foreign facilities that manufacture, process, pack and hold food for consumption in the United States are required to be registered with the Food and Drugs Administration (FDA). The FDA not only requires notice prior to the entry of the food into the United States but asks that persons involved in the manufacture, distribution and sales of the food products maintain records of the immediate previous source and immediate subsequent recipient of the product. Indonesian exporters view these procedures as being particularly complicated.

As a consequence of the *Bovine Spongiform Encephalopathy* outbreak in the 1990s, the United States and the EU have also imposed traceability requirements upon importers. The ability to track any food, feed, food-producing animal or substance used for consumption through all stages of production, processing and distribution enables the rapid recall of any product that is suspected of being unsafe.<sup>23</sup> Overall, Indonesian exporters felt that understanding the list of processes involved in ensuring traceability was most challenging. In Japan the regulation requires that all imported products undergo checks upon arrival to ensure compliance with SPS standards. These inspections are carried out even if the Japanese importer has already missioned quality control personnel to conduct a pre-shipment inspection at the factory in Indonesia.

The vast majority (84.0%) of NTMs applied by partner countries to Indonesian exports of agricultural products have associated POs. Overall these are fairly evenly split between those occurring in Indonesia (49.4%) and those occurring in the partner country (50.6%) as reflected in table 7.

The specific NTMs and associated POs affecting food and agro-based exports are discussed in more detail in the following sections.

### 2.3.1. Difficulties with technical requirements

The most commonly reported technical requirement involved fumigation procedures, which accounted for 40% of the 65 reported cases. Of the 26 fumigation cases, 20 occurred in Indonesia while six cases of re-fumigation were reported in the United States. Over half the cases (15) related to non-roasted coffee beans, followed by fresh fruits (4) and cocoa beans (4). Difficulty in complying with the national standard was also reported on nine occasions for exports of coconut oil and crude palm oil to Malaysia and Singapore (13.8%).

Exporters contended that in the vast majority of cases it was the associated POs rather than the measure itself that was the main cause of burden. A total of 116 POs were reported for the 65 cases involving technical requirements; of these 56 occurred in Indonesia while 44 took place in the partner country, a fairly even split.

*'There needs to be a renegotiation with the United States in regard to the re-fumigation process. Preferably, if it has already been fumigated in Indonesia and a certificate has been issued, this certificate should be a benchmark for the beans being of export quality. That would save us both time and unusually high fees in obtaining the necessary certificate in the United States.'*

Exporter of cocoa beans (ITC NTM Survey in Indonesia, 2013)

By far the largest obstacle encountered involved delays relating to the reported regulation, which was reported on 39 occasions in Indonesia and 25 occasions in partner countries. These delays ranged from two days to a week for fumigation procedures in Indonesia, but delays of two to four weeks were reported for certain exports to the United States, the EU and Japan. Unsurprisingly, high fees and charges were often associated with the waiting time. Exporters reported a total of 25 cases, 19 of which occurred in partner countries while 14 took place in Indonesia. These additional costs ranged from IDR 800,000 (circa \$78) for fumigation of a container in Indonesia to just \$20 for re-fumigation in the United States, although the delays, of course, were far more costly in real terms.

Exporters also reported a few cases of informal payments for the issuance of certification for the required heat treatment of coffee beans destined for the Republic of Korea and Chinese Taipei. Another exporter complained that in the absence of local facilities he had to travel to another city to process the irradiation certificate required prior to exporting coffee to the United States.

<sup>23</sup> As per the terminology used by the European Food Information Council.

### 2.3.2. Difficulties with conformity assessment

*'With the testing being so highly complex and requiring such a long time, up to two weeks on occasions, the Indonesian Government should engage partner countries such as the EU and the United States in negotiations on the harmonization of the legal certification required. That would save us both time and money.'*

Exporter of coral (ITC NTM survey in Indonesia, 2013)

Demonstrating compliance with health regulations was the major problem encountered under conformity assessment, accounting for 18 of the 34 reported cases (52.9%). Difficulties involving SPS certification were reported in 16 cases (24.6%), mainly involving frozen fish and seaweed products, while analysis for contaminants and antibiotic residues in processed fish products accounted for a further 15 cases (23%). These were evenly divided between Indonesia and partner countries. The export of coral and similar products to the United States and the EU, which is subject to international cyanide detection testing was reported on eight occasions (23.5%) while other testing (5) and quarantine issues (3) made up the balance. Exporters of

natural honey reported difficulties in complying with national testing requirements of Brunei Darussalam, Malaysia and Singapore, while an attempt to export chrysanthemums to Japan resulted in the flowers being destroyed by the Japanese quarantine agency because of disease and pest risks.

Excluding the nine cases reported for HACCP<sup>24</sup> certification of foodstuffs exported to the EU and the certification required under the Food Safety Management Act for exports to the United States, all the conformity assessment cases were associated with POs in the partner country. Again the major problem encountered was delays related to testing and certification, which accounted for 63% of the reported cases while high fees and charges accounted for the remaining 37%. These delays ran from five to seven days for standard product testing in partner countries, to a fortnight for the more complex international cyanide detection required for coral products in the United States and the EU. Two cases were also reported for shipments of frozen fish to the United States that spent four weeks in quarantine at the port of destination awaiting certification. Cargos being held up for testing in foreign ports, together with testing fees (around \$20 per container in the United States) generated additional costs. As a result, high fees and charges were reported on 14 occasions (36.8%).

### 2.3.3. Difficulties with rules of origin

All the problems related to rules of origin and the related certificate of origin occurred in Indonesia. A total of 22 cases were reported for exports affecting a wide range of products from spices seaweed and nuts to natural rubber and rattan. Nine of the 22 cases (41%) were associated with delays which normally took two to three days, although one exporter of coconut fibre reported that it took him a full week to obtain certification for a shipment to Japan.

*'There are so many different documents required to obtain the certificate of origin: Fishing Permits (IUP) from two ministries (Ministry of Industry, and Ministry of Marine Affairs and Fisheries), Health Certificate (HC) and a Letter of Eligibility Processing (SKP). All this has serious implications in regard to the cost of obtaining the certificate of origin.'*

Exporter of seaweed (ITC NTM survey in Indonesia, 2013)

Arbitrary behaviour of government officials was reported for the certification of specific products. Exporters of cinnamon unanimously complained about the arbitrary behaviour of customs when trying to obtain certificates of origin for shipments to Brazil, the Netherlands and Poland (6 cases altogether), while exporters of rubber to China and Russia were more concerned with the lack of flexibility in the certification process. A further six cases involving the export of seaweed drew attention to the large number of different documents required, but half the exporters stated that it was the different levies they had to pay to obtain the certificate of origin that was the real problem. There was one instance of an informal payment being made to obtain a certificate of origin for

the export of coffee beans to Chinese Taipei, but this appears to be an exception rather than the rule as a single case was reported.

<sup>24</sup> Hazard Analysis Critical Control Point system, which is synonymous with food safety management, is a system which identifies, evaluates, and controls hazards which are significant for food safety.

### 2.3.4. Other NTMs applied by partner countries on exports

The other burdensome NTMs applied by partner countries to exports of fresh food and agro-based products accounted for less than 7% of the reported NTMs. They included quantity control measures (3 cases), charges, taxes and other para-tariff measures (2), intellectual property (2), and finance measures (1).

Quantity control measures included quotas applied by the United States to imports of Indonesian whole cloves and quotas applied by India to imports of dried nutmeg to protect local production. Companies also reported that they must have a local Singaporean partner to export fresh mackerel to the neighbouring city-state. High fees and duties were also reported for imports of crude palm oil in Malaysia – according to Indonesian companies these measures are in place to protect Malaysia's own palm oil industry. Exports of cocoa powder to the United States were subject to substantial customs fees as cocoa is no longer a commodity covered by the Generalized System of Preferences (GSP) agreement between the United States and Indonesia since 2011.

The measures on intellectual property concerned mostly exports of liniment to Malaysia and Hong Kong. According to the companies interviewed, this measure is onerous as it creates additional costs.

### 2.4. NTMs applied by Indonesian authorities on exports

Companies reported 41 cases of NTMs applied by the Indonesian authorities and affecting a wide range of food and agro-based products. Close to 60% were reported for export inspections (24 cases). The other main area of concern was export registration with a further 10 cases (24.4%), followed by licensing or permit required to export (3 cases), certification required by exporting country, and export taxes and charges (2 cases each).

**Table 8: Export of food and agro-based products: Burdensome NTMs applied by Indonesian authorities and linkages with POs**

Type of NTM	Number of NTM cases with PO	Procedural obstacle	Number of POs occurring at home
Export inspection	24	Delay related to reported regulation	20
		High fees and charges	11
		Arbitrary behaviour of officials regarding classification and valuation of the reported product	2
		Deadlines set for completion of requirements are too short	1
Export registration	10	Arbitrary behaviour of officials in regard to the reported regulation	7
		Large number of different documents	3
		High fees and charges	3
		Delay related to reported regulation	2
Licensing or permit to export	3	Information on selected regulation is not adequately published and disseminated	1
		Requirements and processes differ from information published	1
		Arbitrary behaviour of officials	1
Certification required by the exporting country	2	Delay related to reported regulation	2
		High fees and charges	1
Export taxes and charges	2	High fees and charges	2
<b>Total</b>	<b>41</b>		<b>57</b>

Source: ITC - NTM survey in Indonesia data 2013.

Companies exporting seafood products mainly destined for Japan accounted for 6 of the 24 cases reported for export inspection, followed by exports of crude palm oil and crude vegetable products (4 cases each), while the remaining cases spread over a variety of products. The 10 NTM cases reported for export registration were applied to products as diverse as coffee, betel nuts, ornamental plants and soft drinks.

Without exception, all 41 NTM cases applied by Indonesian authorities were associated with POs. Delays accounted for 21 of the 57 reported cases (37%), followed by high fees and charges (17 occurrences), and arbitrary behaviour of officials regarding the reported regulation (8) as reflected in Table 8.

Further details on the NTMs and associated POs listed in the table above are provided in the following sections.

#### 2.4.1. Issues with export inspection and certification

The 34 cases reported for export inspection and certification were associated with POs involving delays (59%) and high fees or charges (32%). Arbitrary behaviour by officials regarding classification and valuation of the product and too short deadlines for the completion of the requirements were also mentioned (Table 8).

Seafood products were most affected, accounting for 15 of the 34 reported cases (44%), followed by a variety of sectors ranging from edible agricultural products such as cocoa, coffee and nuts, to palm oil and rubber. While exporters of crude palm oil deplored that it took customs up to four days to complete the inspection and certification process, exporters of coffee and nuts were unhappy with the new regulation requiring that the container remain unlocked until the inspection was completed paired with the requirement to pay a fee of IDR 70,000 (circa \$7) to ensure the contents remained 'safe' during the period.

*'Indonesia should permit the port of Makassar in Sulawesi to have direct access to the destination country. Currently we have to first ship our products to Surabaya in Java and from there onwards to our customers in Japan. This means not only double charges for inspections in each port, but we also lose a day in transfer from one ship to the next.'*

Exporter of frozen shrimp (ITC NTM survey in Indonesia, 2013)

Another coffee exporter complained that it took customs seven days to complete inspection of his shipment to Singapore and that after the third day he was required to pay a fee of IDR 300,000 (circa \$29) per container and per day. The longest delays were reported by exporters of fish roe to China and Japan, who not only had to wait a fortnight to obtain the required export certification but reported that they were charged a fee of IDR 150,000 (circa \$14) per hour for the actual inspection.

#### 2.4.2. Issues with export registration

Only 10 NTM cases were reported for export registrations. All cases were linked to POs, notably occurring at the Indonesian customs authority. Arbitrary behaviour of officials was the most commonly reported obstacle, followed by large number of different documents and high fees required for registration (table 7). For example, an exporter of agro-food products to Australia and the European Union reported to pay IDR 200,000 (~ \$19) per container and per day.

#### 2.4.3. Other measures affecting exports

The other NTMs reported by companies related to obtaining licensing or a permit to export (3 cases), certification required by the export country (2 cases), and export taxes and charges (2 cases) as reflected in table 7.

The following POs were reported for export permits: poor communication on the change of the permit number for the export of live crabs to Malaysia, difficulties when revising the documents required for a permit to export palm sticks to Pakistan and a fee of IDR 500,000 (circa \$48) requested for the issuance of a permit to export betel nuts to New Zealand.

Obtaining the requisite SPS certificate for vegetables exports to Bangladesh and the Netherlands was also required by Indonesia, a process that usually took two to four days. Exports of cocoa beans are subject to

an Indonesian export tax introduced in 2010 to encourage the retention of beans for grinding in Indonesia. This tax adds to the costs of exporters.

The preceding sections have highlighted the linkages between the NTMs and POs reported by exporters of food and agro-based products. This section provides more aggregated information on the total number of POs encountered, the agencies applying them and whether they occurred in Indonesia or partner countries.

Of the 223 cases of POs reported by exporters of food and agro-based products, 139 occurred in Indonesia while 84 took place in partner countries. Over half the cases, (52% in Indonesia and 57% in partner countries) were caused by delays.

Of the 72 cases of delays that occurred in Indonesia, 31 (43%) related to fumigation procedures, usually to meet international requirements under ISPM 15 regulation of wood packaging material (Box 1). Exporters of fresh fruit and coffee beans were most affected by these procedures and held the Agricultural Quarantine Agency and Inspection Services at Soekarno-Hatta airport in Jakarta responsible for the delays.

### **Box 1: Wood packaging in international trade**

Adopted by 134 countries, the International Standards for Phytosanitary Measures No. 15 (ISPM 15), which was updated in 2009, regulates the treatment of wood packaging material to control pests.

Among the approved measures is heat treatment in accordance with a specific time-temperature schedule (HT), or fumigation with methyl bromide in accordance with a schedule that achieves a minimum concentration-time produce over a 24-hour period. As methyl bromide depletes the stratospheric ozone layer, its use will be phased out as alternative treatments become more readily available.

**Source:** International Standards for Phytosanitary Measures (2009).

A further 18 cases involved delays in conducting export inspection. Exporters reported that it could take four to five days, if not longer for the Directorate General of Customs and Excise to proceed with the required inspection. A wide range of products were affected from crude palm oil to seaweed and frozen shrimp. Exporters of canned fish also reported seven cases of excessive delays. In this instance, the testing labs of the Ministry of Marine Affairs and Fisheries that certify that the canned goods are within the tolerance limits for residues or contamination were deemed responsible.

High fees or charges were reported on 38 occasions in Indonesia. Fumigation was once again to the fore, accounting for more than one-third of the reported cases (13). In one instance the extra costs exceeded IDR 800,000 (circa \$78) per container. Additional fees charged by customs for the inspection of containers were reported in 12 cases, ranging from IDR 75,000 (\$7) per seal to IDR 300,000 (\$29) per inspection. Charges payable to the Ministry of Law and Human Rights to obtain certification of authenticity as required by intellectual property rights were also reported on four occasions for the export of vegetable liniments to Hong Kong and Malaysia. There was also a single case of high costs incurred to transfer a shipment of coffee destined to the United States for irradiation at the National Agency for Atomic Energy (BATAN) in Bandung.

Exporting companies reported 14 cases of arbitrary behaviour by officials regarding the reported regulation. Of these, the largest single group involved seven cases of difficulties with export registration, with responsibility apportioned to both customs and port authorities (Ministry of Transportation). In six other cases exporters of cinnamon found it difficult to obtain the certificate of origin from the Ministry of Agriculture and the Chamber of Commerce as required by importing countries Brazil, the Netherlands and Poland. The large number of different documents required accounted for another six cases, three of which involved customs registration for the export of betel nuts and Lampung coffee, while the other three related to difficulties encountered in obtaining the certificate of origin from the Ministry of Marine Affairs and Fisheries.

Three cases of informal payments were also reported, all relating to the export of coffee. One case involved obtaining a certificate of origin from the Association of Indonesian Coffee Exporters, while in the other two cases a fee of IDR 300 (\$0.03) per kilo was charged for heat treatment, an environmentally friendly alternative to fumigation under ISPM 15. Isolated PO cases of inadequate publication and dissemination of information on the selected regulation, requirements and processes differing from the information published, too short deadlines to complete requirements, and limited/inappropriate resources were also reported in Indonesia.

Delays accounted for more than half of the 84 PO cases reported in partner countries. Of these, 20 occurred in the United States, seven of which involved re-fumigation of products that had previously been fumigated in Indonesia, while 11 related to testing and quarantine of seafood products to ensure compliance with import regulations. Of the 16 cases that took place in EU countries, six involved cyanide detection testing on coral (France, Germany and the Netherlands) and three retesting of powdered seaweed to meet SPS requirements (Belgium, Germany and the United Kingdom). The remainder involved testing of frozen seafood to meet certification standards for individual countries (Italy, Netherlands and the United Kingdom), which took from one to four weeks. Such testing was somewhat faster in Asian countries, taking no more than a week in all 10 reported cases.

The other major problems were high costs and charges for reported regulation/certification. Again, it was the EU and the United States that accounted for the lion's share (88%) of the 35 reported cases, with 16 and 15 cases respectively. The cyanide detection testing on coral is both complex in nature and costly, and accounted for six of the 16 cases recorded for the EU (France, Germany and the Netherlands) and two of the 15 cases reported in the United States. Costs associated with retesting of products to meet SPS requirements accounted for nine of the EU cases (Belgium, Germany, Netherlands, Spain and the United Kingdom), while in the United States, there were five cases of re-fumigation, which cost \$10 to \$20 per hour per container and six other cases involving product testing to obtain the requisite certificate. While the average cost for testing was \$20 per container in the United States, a frozen tuna shipment held in quarantine cost the exporter several thousand dollars before it was finally released.

## **2.5. Importers' experience with NTMs and other obstacles**

Importers reported only 19 cases of NTMs applied by Indonesian authorities to imports of food and agro-based product. All but one case were linked to POs (Table 9).

The most frequently reported measure was pre-shipment inspection and other entry formalities which accounted for seven cases, most of which were linked to delays (45%) and high fees or charges (36%). Under the Ministry of Trade regulation, over 500 products are required to undergo pre-shipment inspection by government-approved officials at the loading port. Agricultural products covered by the measure include rice, soya beans, horticultural products and sugar, and an extensive list of other food and beverage items. Many of these items are also subject to import licensing requirements, while some are even subject to restrictions regarding the port of entry.

Although reference to the 'loading port' has been removed from the latest revision of the regulation in September 2013, no new location has been specified. The measure has been extended until the end of 2015 at least and any hopes that pre-shipment inspection would better expedite the import of products appear to have been dashed. Another illustration of this is the Ministry of Agriculture decree regarding the limitation of entry ports for the import of horticultural products.<sup>25</sup> The measure was enforced because most Indonesian ports lacked the necessary quarantine facilities to implement food safety and health regulations resulting in an increase of logistical costs that have been passed down to the consumer who ends up paying more for the product.

All importers but one reported delays and additional charges, mostly associated with the inspection of import documents and obtaining the approval letter for the delivery of goods. On at least one occasion this was exacerbated by port congestion which prevented the cargo from entering the port, resulting in demurrage charges. Customs charge quoting fees of \$15 to \$20 per container and per day for delays of three to four days on average, although a cigarette importer reported waiting two weeks to clear customs in

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<sup>25</sup> Ministry of Agriculture Decree No. 3/Permentan/OT.140/1/2012

the specified port. The common call is to simplify the process for checking import documents and thus speed up the delivery of goods.

**Table 9: Import of food and agro-based products: Burdensome NTMs applied by Indonesian authorities and linkages with POs**

Type of NTM	Number of NTM cases		Procedural obstacle	Number of POs occurring at home
	With PO	Without PO		
Pre-shipment inspection and other entry formalities	7		Delay related to reported regulation	5
			High fees and charges for reported certificate/regulation	4
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	1
			Informal payment, e.g. bribes for reported certificate/regulation	1
Quantity control measures (non-automatic licenses, quotas, prohibitions)	4	1	Numerous administrative windows/organizations involved, redundant documents	5
			No due notice for changes in selected regulation and related procedures	2
			Informal payment, e.g. bribes for reported certificate/regulation	2
Technical requirements	3		Large number of different documents	1
			Delay related to reported regulation	1
			High fees and charges for reported certificate/regulation	1
Conformity assessment	2		High fees and charges for reported certificate/regulation	4
			Delay related to reported regulation	1
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	1
Charges, taxes and other para-tariff measures	2		Arbitrary behaviour of officials regarding classification and valuation of the reported product	1
			Informal payment, e.g. bribes for reported certificate/regulation	2
<b>Total</b>	<b>18</b>	<b>1</b>		<b>22</b>

Source: ITC - NTM survey in Indonesia data 2013.

Quantity control measures are the other main NTMs applied by Indonesian authorities to imports, comprising quotas, prohibitions and non-automatic licences. Altogether, there were four reported cases, which included quotas for the import of fruit from China and live cattle and fresh meat from Australia.

These quotas can vary from year to year depending on domestic production. Importers complained about the number of windows and organizations and redundant documents, which open the door to informal payments and the manipulation of company quotas. A company seeking to import chrysanthemum seeds from the Netherlands was unaware of a change in the clearance procedure which required a special authorization prior to importing. This new requirement had not been adequately communicated by the competent Indonesian authority.

Importing companies also reported three cases involving technical requirements. In one instance an importer of a cattle food additive from Australia needed special authorization from the Minister of Agriculture prior to obtaining the permit to import. The other two cases related to the import of soya bean flour from Argentina. In one case the shipment required re-fumigation while in the other it took a fortnight to complete the import registration requirements with the Ministry of Agriculture.

**Box 2: Import of horticultural products**

Under Ministry of Trade regulation 16/2013 covering Food Safety Supervision of Imports and Exports of Fresh Food Originating from Plants (PSAT), imports of certain fruits, vegetables, and cereals shall: (a) be equipped with a safety certificate/document of PSAT and a description of PSAT (prior notice) from the country of origin; (b) pass through designated entry points; and (c) be reported and submitted to a Plant Quarantine Officer at an entry point for testing for chemical contaminants, biological contaminants and prohibited chemicals.

The regulations specify a limited number of seaports (Medan, Surabaya, and Makassar) and one airport (Jakarta) as the designated entry points of PSAT imports, unless a Country Recognition Agreement has been established

**Source:** Indonesian Ministry of Trade.

Under conformity assessment, imports of oregano from Germany and of wheat from Australia were both subject to quarantine measures. Products were held up for more than a month and importers had to pay fees of IDR 1 million (circa \$97) per container and per day, and were subject to arbitrary behaviour of officials regarding the classification and valuation of the imported product. There were likewise two cases classified under charges, taxes and other para-tariff measures. These involved the import of buttermilk from France and chemical colouring and flavouring for foodstuffs from China. The importer of buttermilk reported arbitrary behaviour of officials in carrying out the valuation of the cargo and inconsistencies in the charges requested, which varied from 1% to 2%. The food preparation importer resorted to making informal payments to bring down excessive fees for handling and storage.

**2.6. Summary and policy options**

During the phone screening, nearly half (48%) of the companies trading in food or agro-based products reported facing restrictive regulations, particularly when exporting. Although the sector accounted for only 22% of the companies initially interviewed over the phone, companies trading in fresh food and agro-based products accounted for half of the companies that actually took part in the face-to-face interviews.

Overall, exports of fresh and processed food accounted for more than half the NTMs reported in the survey. While traditional products such as palm oil, cocoa, rubber and coffee form the bulk of exports, Indonesia is largely dependent on foreign supplies of such commodities as sugar, soya beans and wheat, self-sufficiency in rice production is still not assured. With 95,000 kilometres of shoreline, Indonesia's aquaculture industry has great potential for growth, particularly for shrimp and seaweed. Although current operations remain small in scale, raw products are increasingly being transformed as Indonesia strives to add value to its exports by encouraging the development of downstream processed food industries.

Surveyors observed a well-defined split between fresh and processed food regarding both company size and location, fresh food predominantly being the domain of small and micro companies located in Sumatra and Sulawesi, while processed food is largely produced by medium and large companies in the Greater Jakarta and East Java areas. Unsurprisingly, it was the smaller companies that were most vulnerable to NTMs, 72.6% of small fresh food exporters and 64% of small processed food exporters reporting difficulties.

Over half of the NTMs reported for the food and agro-based products sector consisted of technical requirement measures, while conformity assessment and rules of origin were the two other main problem areas. The most commonly reported technical requirement involved fumigation procedures, which accounted for 40% of the reported cases. As fumigation relates not only to export products but also to wooden packaging materials, a wide range of products were affected. Moreover, despite fumigation in Indonesia, cases of re-fumigation were reported in the United States. The other main technical requirements related to SPS certification, mainly involving frozen fish, processed fish and seaweed products for which both delays and associated costs were reported. In both instances the complaint was not so much the requirement itself but the delays and additional costs incurred, particularly where re-testing or re-fumigation were required upon arrival in the partner country.

Compliance with health regulations was the major problem encountered under conformity assessment, accounting for more than half the reported cases. All the POs associated with these NTMs occurred in the



partner country, generally the United States or the EU. Once again, the major problem encountered was delays and the additional costs for testing.

Issues with rules of origin affected the export of a variety of products ranging from spices to seaweed, natural rubber, rattan and nuts. Complaints related to the large number of documents required and the arbitrary behaviour of government officials, not to mention the many levies that traders had to pay to obtain the required certification.

Many of the issues raised by companies are not specific to food and agro-based products but reflect wider trade-related matters. Thus policy options will be discussed in greater detail in the concluding Chapter 4.

Decentralization began in 2000 and is still in its infancy in Indonesia. While devolution is popular, the growing demand for qualified administrative staff at regional level has yet to be met. Capacity-building is not only needed to effectively manage government agencies in the regions, but to keep business abreast of the latest legislative developments, both in Indonesia and in partner countries. While larger companies can designate staff for this purpose, the smaller operations that make up much of the fresh food sector cannot afford the luxury; thus the need for greater interaction between government agencies and local business communities.

Companies raise a valid point when they observe that once a product has been tested in Indonesia, or a container fumigated, there should be no need for these procedures to be repeated at the discharge port. Exporters of fresh food and agro-based products expect their Government to lobby partner governments on their behalf to recognize the validity of Indonesian testing and fumigation procedures.

### **3. Manufactured products**

#### **3.1. Importance of the sector**

Manufacturing was a key driver of the Indonesian economy from the 1980s to the late 1990s, but the decade following the Asian financial crisis has seen a slowdown in manufacturing growth while non-manufacturing exports, particularly commodities, have boomed. This was due to a number of factors, not least the greater competition induced by the FTAs Indonesia entered into within the broader region, particularly the ASEAN-China Free Trade Agreement (CAFTA) signed in January 2010. The benefits of the import of tariff-free Chinese raw materials were soon swamped by the rapid influx of Chinese textiles, electronic goods, footwear and cosmetics, among others, and by April 2011, Indonesia's non-oil and gas trade deficit had swollen by over 40% to around \$2.25 billion as Indonesia was not in a position to compete with China's growing export capacity of manufactured products. This sharp decline of exports illustrates the challenges Indonesia faces in trying to compete with its neighbours in labour intensive industries. The country has fallen behind many of its regional peers, and Indonesia's manufacturing export levels are now only half those of Malaysia and Thailand, while Viet Nam has grown from only half to parity.

Nonetheless, manufacturing remains an important sector in the Indonesian economy, contributing almost 25% to non-oil and gas GDP and employing some 15 million people. The manufacturing sector is still the most attractive destination for foreign direct investment and is likely to remain so as the Government continues to introduce incentives such as tax holidays for investors in key sectors. While these measures are likely to attract investors who are looking for an alternative to China, giant strides are needed in infrastructure development and bureaucratic reform to fully revitalize the manufacturing sector.

Opportunities exist to overturn the adverse effects of CAFTA if Indonesia invests in areas that have the greatest potential. For example, while local fabric and yarn producers suffered an initial downturn this was soon reversed as demand for quality overcame price considerations. Indonesian footwear manufacturers experienced a similar scenario. While Indonesia cannot compete with China on price alone, given China's greater production capacity, superior infrastructure and lower transportation costs, Indonesian producers have demonstrated that they can position themselves in terms of quality for specific products. The following analysis of burdensome NTMs (including quality requirements) is hence of particular relevance.

Compared to the late 1990s, there has been a shift in emphasis on primary manufactured products in Indonesia. While apparel and clothing accessories remain in the top four manufactures, cork and wood

products, footwear, and textile yarn and fabrics are of lesser importance today. These have been overtaken by electrical machinery, telecommunications and sound-recording equipment, and non-ferrous metals. Automotive and heavy machinery on the other hand are the fastest growing sector, indicative of an expanding domestic market with more consumer-driven tastes.

Changes in the garment, apparel and footwear industry are a good illustration of how export sectors have fared with a challenging situation. Concentrated on the islands of Java and the free trade zone of Batam, the garment and apparel sector employs approximately 1.3 million people. Over 60% of the production is exported for a total value in excess of \$13 billion per annum, the United States remaining the primary market at around 36%, followed by the EU (16%) and Japan (5%). Indonesia is also a major exporter of footwear, accounting for almost 2% of the world's export market, or close to \$4 billion in 2013. Over a third of this production is of sports-shoes made under licence for iconic global brands.

Hard hit by the financial crisis when it experienced a drop in demand from traditional export markets in Europe, the garment and apparel sector has responded well to the challenge, successfully repositioning itself as a supplier of premium and greater value-added products. Many of the smaller producers have not recovered from the crisis, but the larger players have raised funds through capital markets and invested in new production facilities, while also acquiring complementary upstream and downstream operations to maximize their vertical integration. In addition, they have been quick to embrace international industry standards and have made wise investments in obtaining ISO certification and recognition of sustainable and environmentally friendly operations.

The ability to offer assurances regarding quality, best practices and quick response has enabled the garment and apparel sector to continue to grow, although at lower than pre-crisis rates. However there are potential clouds on the horizon, as these labour-intensive industries are susceptible to worker unrest. Due to the higher costs associated with living in the greater Jakarta area a number of firms have started to relocate production facilities in Central and East Java. This relocation of production sites places greater strain on Indonesia's transportation infrastructure to reach Tanjung Priok and other export ports.

The industry also suffers from constrictions in the supply of raw materials, particularly leather. Domestic production can only supply two million of the five million sheets that are needed annually, while strict regulation on the import of animal products slows the supply of imported leather to a crawl. It is not just hides that have to be imported as Indonesia; the world's second largest exporter of rubber has to re-import processed rubber to put soles on its shoes.

### **3.2. Affected companies**

Of the 953 companies initially interviewed by telephone, 58% were exporters of manufactured products, of which 21% reported being affected by NTMs. From these 117 affected companies, 49% agreed to take part in face-to-face interviews. The wood products sector accounted for 39% of respondents. Other sectors included basic manufacturing, chemicals, apparel and miscellaneous manufacturing. None of the 10 companies exporting IT and consumer electronics reported difficulties with NTMs, while the 40 participating textile exporters reported only three cases.

In total, 157 NTM cases were reported by affected importers and exporters, of which 35% concerned measures applied by partner countries while 65% were applied by Indonesian authorities. Exporting companies reported 86 cases of NTMs, half of which were applied by trade partners while the other half were applied by Indonesian authorities. As such, export-related measures affect the manufacturing sector more strongly than the agricultural sector where exporters report more problems with regulations imposed by partner countries.

### **3.3. Burdensome NTMs and other obstacles faced by exporters**

Of the 43 cases of NTMs applied by partner countries to Indonesian exports of manufactured goods 58% involved technical requirements. Other measures included rules of origin and the associated certificate of origin (14%), price control measures (14%) primarily associated with the export of leather products, and conformity assessment (12%) for a range of wood, mineral and chemical products. The application of NTMs was fairly widespread among trading partners, with Australia and China recording the highest

number of cases (5 each). From a regional perspective the EU ranked first with 10 cases, followed by ASEAN (9) and the Middle East (7).

As recorded for food and agricultural products, most of the NTMs applied by partner countries were associated with POs (74.4%), although 36 of the 57 reported PO cases (63%) occurred in Indonesia (Table 10).

**Table 10: Export of manufactured products: Burdensome NTMs applied by partner countries and linkages with POs**

Type of NTM	Number of NTM cases		Procedural obstacle	Number of POs	
	With PO	Without PO		PO occurs at home	PO occurs in partner country
Technical requirements	20	5	Delay related to reported regulation	19	7
			High fees and charges	8	4
Rules of origin and related certificate of origin		6	Delay related to reported regulation	5	1
			Numerous administrative windows/organizations involved, redundant documents	2	
			Informal payment, e.g. bribes for reported certificate/regulation	1	
Conformity assessment	4	1	Delay related to reported regulation		3
			Information on selected regulation is not adequately published and disseminated	1	
Finance Measures	1		Delay related to reported regulation		1
Price control measures	1	5	Delay related to reported regulation		1
<b>Total</b>	<b>32</b>	<b>11</b>		<b>36</b>	<b>17</b>

Source: ITC - NTM survey in Indonesia data 2013.

The specific NTMs and associated POs affecting exports are presented in more detail in the following subsections.

### 3.3.1. Difficulties with technical requirements

The major problem under technical requirements involved fumigation procedures, which were reported in 80% of the 25 reported cases. The five remaining cases related to quality standards in the importing country: footwear that did not meet national standards in Australia, France, Italy and the Netherlands, and a shipment of wigs that failed to meet Italian requirements.

*'Although the problem arose because of the NTM, it was not so much the measure itself but our inability to meet the specification standards in the partner countries that created difficulties. This demands greater awareness of outside standards, plus capacity-building of internal human resources to attain higher quality standards both in regard to standardization and packaging.'*

Exporter of footwear (ITC NTM survey in Indonesia, 2013)

All the fumigation cases were associated with POs, 73% of which occurred in Indonesia. This had to be expected, given the strict application of international phytosanitary standards for wood products and packing materials. A total of 10 cases were reported for fumigation of a variety of wood products. In two instances shipments of plywood/blockboard had to be re-fumigated following seizure by the Entry-Exit Inspection and Quarantine Bureau (GDCIQ) in China. Re-fumigation was also required for shipments of merbau lumber upon arrival in Australia, China, the Netherlands and Singapore. Products made of wood also required fumigation, including wooden inlaid jewel boxes destined for the Arabian Gulf, Belgium and the United States, and stringed musical instruments exported to Australia, the Netherlands and the United States. Due to the use of wooden packing material,

shipments of surgical gloves to Brunei Darussalam, Malaysia and Singapore were also required to undergo the fumigation process.

The PO most commonly associated with fumigation was delays in carrying out the ISPM-15 Standard procedure, which accounted for 26 of 38 occurrences (68.4%), of which 19 occurred in Indonesia while the remaining 7 took place in partner countries. In most cases delays were of one or two days, although longer delays were reported for stringed musical instruments and softwood veneer and for the re-fumigation of wigs which took two full weeks.

High fees and charges were also associated with fumigation. Of the 12 reported cases eight occurred in Indonesia, five involving the wooden inlaid jewel boxes, for which a charge of IDR 350,000 (around \$34) per box was levied, and ASEAN bound surgical gloves that were subject to a charge of IDR 800,000 (around \$78) per container. The four remaining cases were associated with the re-fumigation of merbau lumber upon arrival in the partner country.

### 3.3.2. Difficulties with rules of origin

*'We should simplify the process for obtaining the certificate of origin by cutting down on the number of windows. This would speed up the process without having to resort to bribery. Introducing a single window/one-stop shop between Customs, the Ministry and the Chamber of Commerce would be a useful place to start.'*

Exporter of decorative wooden boxes (ITC NTM survey in Indonesia, 2013)

Although issues with rules of origin and the related certificate of origin were reported on nine occasions only, this NTM was the second most frequently mentioned by exporters of manufactured goods. All cases were linked to POs and again, the most common complaint was delays in processing the documents to obtain the certificate of origin, which was reported for all six cases. In Indonesia, it took three days on average to obtain certificates of origin for flat rolled stainless steel destined to Thailand, lead-acid car batteries destined to Ghana and ceramic kitchenware products going to Singapore. The one case which occurred in a partner country involved the export of wood oils/tars to Japan, which were held up in customs until the requisite certificate could be obtained.

Two cases document numerous administrative windows or organizations and one case of informal payment was reported although, from comments made by business associations and other stakeholders, the problem may be more widespread. All these POs were very much tied to delays in obtaining the necessary documentation. An exporter of woven rattan baskets to Australia spent a week going back and forth between the Ministry of Forestry and the Indonesian Chamber of Commerce before finally obtaining the requested certificate of origin. A company exporting inlaid jewel boxes to Saudi Arabia became so frustrated in dealing with two separate authorities, that it was reduced to making an informal payment of IDR 100,000 (~ \$10) to speed up the process.

### 3.3.3. Price control measures

Of the six cases reported for price control measures, five involved leather products, such as wallets, for which the minimum import price is not set by the exporting company but by authorities in the importing country. The only recourse exporters have against such measures is to lobby the Indonesian Government to ensure that current price levels are maintained. Among the destination countries applying their own price levels were Australia, China, Saudi Arabia, Singapore and the United Kingdom. The only other case under this heading involved a Sri Lankan anti-dumping measure affecting the import of ceramic kitchenware. This case involved a two-week delay while an anti-dumping investigation was carried out in Sri Lanka.

### 3.3.4. Difficulties with conformity assessment

Of the five cases reported for conformity assessment, four were associated with POs. A four-day delay was necessary to obtain product certification of ceramic kitchenware in Malaysia; a shipment of semi-finished solid soap to India was held in customs for three days to complete product registration; and delays were associated with the import of wooden spoons and sticks for ice cream products into the Netherlands as the EU requires Eco Label Certification for wood products. An exporter of wood handicrafts ran into similar difficulties in Saudi Arabia as changes in the country's national standards had not been adequately

disseminated by Indonesian authorities. In voicing his displeasure, this exporter suggested that the Ministry of Trade should create a database listing the regulations and certification required to export, per partner country and per product.

### 3.3.5. Other NTMs applied by partner countries on manufacturing exports

The only other reported measure involved a finance matter concerning the long time it took to clear letters of credit in payment for office furniture exported to Rwanda.

## 3.4. NTMs applied by Indonesian authorities on exports

Exporters of manufactured goods reported 43 cases of burdensome NTMs applied by Indonesian authorities. All these NTMs were linked to POs in Indonesia which predominantly involved delays (34%), followed by large number of different documents required (14%), high fees or charges, and informal payments (i.e. bribes) for the reported certificate/regulation (Table 11).

**Table 11: Export of manufactured products: Burdensome NTMs applied by Indonesian authorities and linkages to procedural obstacles**

Type of NTM	Number of NTM cases with PO	Procedural obstacle	Number of POs occurring at home
Export inspection	20	Delay related to reported regulation	14
		High fees and charges	4
		Informal payment, e.g. bribes for reported certificate/regulation	4
		Numerous administrative windows/organizations involved, redundant documents	3
		Arbitrary behaviour of officials regarding product classification and valuation	3
		Arbitrary behaviour of officials in regard to the reported regulation	2
		Large number of different documents	1
Export registration	17	Large number of different documents	7
		Delay related to reported regulation	6
		Arbitrary behaviour of officials in regard to the reported regulation	4
		Informal payment, e.g. bribes for reported certificate/regulation	3
		Information on selected regulation is not adequately published and disseminated	2
		Arbitrary behaviour of officials regarding product classification and valuation	1
Certification required by the exporting country	4	Delay related to reported regulation	5
		Numerous administrative windows/ organizations involved, redundant documents	3
		High fees and charges	3
		Large number of different documents	2
Licensing or permit to export	2	Selected regulation changes frequently	3
		Arbitrary behaviour of officials regarding classification and valuation of the reported product	2
<b>Total</b>	<b>43</b>		<b>73</b>

Source: ITC - NTM survey in Indonesia data 2013.

### 3.4.1. Issues with export inspection and certification

*'It's no wonder there are so many delays with all the numerous administrative windows or organizations involved. Our export products have to undergo a double inspection and then there are all the extra costs involved. What is required is clarity and simplification of the export inspection procedures, no illegal fees, and improvement in the port's human resources so that they can treat us in a professional manner.'*

Exporter of epoxy paint (ITC NTM survey in Indonesia, 2013)

Export inspection and certification was the largest single category, accounting for almost half of the reported cases (20) and affecting a wide range of products from wood products and industrial machinery to paints and plastic buttons. Again, 14 of 31 occurrences (45%) involved delays which ranged from two to four days for liquid fertilizer shipped to the Philippines or exports of furniture and wooden doors, to full a week for a shipment of rubber impregnated gloves to Australia. In a few instances longer delays were reported: for example it took a full month before a cargo of wooden decking destined for Australia finally received clearance.

Unsurprisingly, exporters often complained about high fees and charges associated with these delays. Several reported being charged IDR 200,000 (around \$19) per container and per day. Among these was an exporter of rattan furniture to Australia, who was required to pay an additional IDR 75,000 (around \$7) per

seal to ensure the safety of his goods while the container awaited inspection. Two cases of informal payments were also reported. Though further details were not forthcoming, one suspects from comments made by several exporters that this is not an uncommon occurrence.

Other reported cases included arbitrary behaviour of officials regarding classification and valuation of the reported product (3 cases), numerous administrative windows or agencies involved (3 cases), arbitrary behaviour of officials in regard to the reported regulation (2 cases), and large number of different documents required (1 case).

### 3.4.2. Issues with export registration

With 17 cases (40%), export registration was the second most burdensome NTM reported by exporters of manufactured products, again associated with a number of POs. Chief among these, was the large number of different documents required (29%), which affected a wide range of products, from plastic household and toiletry items to parts and accessories for motor vehicles. Again, the call was for simplification of the procedure, suppression of illegal fees related to the shipping process, and improvement in the quality of human resources involved with port management.

There were similar calls from exporters concerning delays, which accounted for a further 25% of the PO cases. This applied to a whole range of products as well from wooden furniture and picture frames to aluminium kitchenware and women's footwear. The arbitrary behaviour of officials regarding the reported regulation (17%) also added to delays encountered by exporters of wooden products and Muslim attire.

Complex procedures and excessive delays often open the door for informal payments. These were reported on three occasions (13%) by frustrated exporters of body cream destined for Australia and of parts and accessories for motor vehicles destined for Malaysia. Other POs included failure to publish the requisite regulation (8%) as reported by exporters of rattan furniture to Belgium and wood tar to Japan, the arbitrary behaviour of officials regarding classification and valuation and other POs making up the remaining balance.

### 3.4.3. Other non-tariff measures applied to exports

Problems with the certification required by partner countries for the export of wood products were reported on four occasions. These four cases were associated with 13 POs, which were all related to verifying that these wood products were not made from illegally logged timber. Delays in obtaining the necessary verification and timber legality certificate (VTLC) accounted for 38% of the complaints. Such a procedure should normally take no more than three to four days, but exporters reported instances where it took more than a week to complete. The procedure involved the Ministry of Forestry, the Ministry of Trade and the Inspectorate General of Customs and Excise. The large number of administrative windows/ organizations involved was reported on three occasions for wood decking tiles destined to Poland. Exporters of wood

products also reported three cases of high fees to obtain the required certification, and two cases involving a large number of documents for plywood exported to Japan.

### **Box 3: Indonesian Timber Legal Verification System**

The Indonesian Timber Legality Verification System (SVLK) is the cornerstone of the Voluntary Partnership Agreement between Indonesia and the European Union. While SVLK promises Indonesian exporters greater access to a highly eco-sensitive market, it is more applicable to large scale forestry operations than to small family or community-owned timber producers. This continues down the chain as the smaller operations see their margins shrink drastically.

Wide-scale dissemination of information on SVLK is required, together with decentralized educational policies and training programmes that enable smaller entities to operate profitably. This is possible as demonstrated by the small-scale Jepara-based furniture producers association (APKJ), which has now become a cooperative and is in the process of obtaining SVLK certification.

Source: <http://silk.dephut.go.id/index.php/info/svlk>

Exporters of charcoal reported difficulties in obtaining the license or permit to export on several occasions. Exports of mangrove charcoal to Japan are restricted by frequently changing regulations that affect the availability of raw materials – for example, the felling of mangroves is currently prohibited. And exports of wood charcoal to Pakistan are subject to the arbitrary behaviour of officials regarding the classification and valuation of the product.

### **3.5. Exporters' experience with procedural obstacles**

The preceding subsections have highlighted the linkages between NTMs and POs affecting exports. This section provides more aggregated information on the total number of POs encountered, the agencies applying them and whether they occurred in Indonesia or in partner countries.

Of the 126 POs reported by exporters of manufactured products, 86% occurred in Indonesia while only 17 were spread among 10 partner countries. The most frequent PO was delays, which accounted for 45% of the cases occurring in Indonesia and 76% of the cases reported in partner countries. Many of these occurrences were related to fumigation or re-fumigation issues, which are a constant problem for Indonesian exporters. While the Directorate General of Customs and Excise was deemed responsible for 41% of the delays, exporters cited private fumigation companies alongside government agencies on several occasions.

Associated with these delays were high fees and charges, which accounted for 14% of the cases occurring in Indonesia and 24% of the cases in partner countries. These fees were coupled with additional charges for fumigation services in over half the cases occurring in Indonesia, and private firms were more frequently held responsible than government agencies.

The remaining PO cases all took place in Indonesia. The large number of different documents required accounted for 9%, followed by numerous administrative windows/agencies involved (7%) and arbitrary behaviour by officials regarding the reported regulation and the classification and valuation of the product at 5% each. Other complaints included frequent changes to the regulation and failure to adequately publish and disseminate such information. Again it appears that the delays fuelled by numerous documents and the involvement of multiple agencies encourage a culture of bribery, as 7% of the exporting companies admitted resorting to informal payments.

### **3.6. Importers' experience with non-tariff measures and other obstacles**

Participating companies reported 71 cases of NTMs affecting imports of manufactured goods, of which 64 occurred in Indonesia, while only seven were applied by partner countries. All but three cases were linked to POs. Delays accounted for 67% of the occurrences in partner countries, but only 26% in Indonesia where arbitrary behaviour of officials regarding product classification and valuation topped the list at 30% (Table 12).

**Table 12: Import of manufactured products: Regulatory and procedural obstacles**

	Type of NTM	Number of NTM cases		Procedural obstacle	Number of POs	
		With PO	Without PO		in Indonesia	in partner country
NTMs applied by partner countries	Export registration	4		Delay related to reported regulation		4
	Export inspection	1		Large number of different documents		1
				Delay related to reported regulation		1
	Certification required by exporting country	1		Delay related to reported regulation	1	
				High fees and charges		1
Export quotas	1		Selected regulation changes frequently		1	
<b>Subtotal</b>		<b>7</b>	<b>0</b>		<b>1</b>	<b>8</b>
NTMs applied by Indonesia	Pre-shipment inspection and other entry formalities	42		Arbitrary behaviour of officials regarding classification and valuation of the reported product	35	
				Delay related to reported regulation	22	
				High fees and charges	18	
				Large number of different documents	4	
				Informal payment, e.g. bribes for reported certificate/ regulation	3	
				Arbitrary behaviour of officials in regard to the reported regulation	2	
	Conformity assessment	6	1	Numerous administrative windows/organizations involved, redundant documents	6	
				Large number of different documents	3	
				Delay related to reported regulation	2	
				Arbitrary behaviour of officials in regard to the reported regulation	1	
	Quantity control measures (non-automatic licences, quotas, prohibitions)	5	2	Delay related to reported regulation	5	
				Numerous administrative windows/organizations involved, redundant documents	5	
				Selected regulation changes frequently	4	
				Arbitrary behaviour of officials regarding product classification and valuation	2	
				Informal payment, e.g. bribes for reported certificate/regulation	1	
	Technical requirements	5		Delay related to reported regulation	3	
				Numerous administrative windows/organizations involved, redundant documents	3	
				Large number of different documents	1	
				Arbitrary behaviour of officials regarding product classification and valuation	1	
	Price control measures	1		High fees and charges	1	
Rules of origin	1		Delay related to reported regulation		1	
Charges, taxes, other para-tariff measures	1		High fees and charges	2		
<b>Subtotal</b>		<b>61</b>	<b>3</b>		<b>124</b>	<b>1</b>
<b>Total</b>		<b>68</b>	<b>3</b>		<b>125</b>	<b>9</b>

Source: ITC - NTM survey in Indonesia data 2013.



Under the Ministry of Trade regulation, over 500 products are required to undergo pre-shipment inspection by government-approved surveyors at the loading port before being authorized to enter Indonesia. Consequently pre-shipment inspection and other entry formalities accounted for almost two-thirds of the NTMs applied by Indonesian authorities (42 cases), while conformity assessment (6 cases), technical requirements and quality control measures (5 cases each) accounted for most of the remainder.

There were no less than 84 POs associated with pre-shipment inspection. Arbitrary behaviour of officials regarding the classification and valuation of the product accounted for 42% of the occurrences, followed by delays (26%) and high fees and charges (21%).

Importers also complained about the lack of clarity of officials in determining red line or green line goods for import. Red line checking made for delays in customs clearance which were often dependent on the judgement of port officials. These delays of two to four days on average were associated with additional fees of IDR 200,000 (around \$19) per day, but importers reported 12 cases of a 14-day wait and seven instances where they had to wait more than two months. There appears to have been no connection between cases regarding the product or the country of origin as water filtration equipment from Germany took the same two months to clear as a shipment of television cameras from Singapore.

#### **Box 4: Import of electronic goods**

Indonesia is one of the largest importers of IT products and consumer electronics. Up to 50% of these imports face regulatory issues which are associated with lengthy inspection procedures. Moreover, imports can only be directed through the ports and airports of Jakarta, Semarang, Surabaya and Makassar. Inefficiencies in the Indonesian port system lead to further delays even after unloading and it can take up to a week or more before the container finally leaves the port.

**Source:** Chatterjee, N and Latul J. (2012). Indonesia's clogged ports strain growth prospects.

Of the 35 cases of arbitrary behaviour of officials regarding classification and valuation of the product, two-thirds made reference to the obligation to go through customs at a specified port of entry as per government policy. Delays in obtaining the letter of approval for the release of the goods (SPPB) were reported in a similar number of cases. There were only three cases of informal payments for thread and plastic buttons from China, for which import licences are granted based on local production levels.

All seven cases involving conformity assessment were associated with POs, except for one importer of melamine-faced chipboard who encountered difficulties in obtaining the SVLK certification for wood products. Numerous administrative windows or organizations accounted for half the POs, followed by large number of different documents (25%) and delays (13%). Most of these delays were associated with product registration, which one importer of optical filters from China claimed took a month to six weeks to complete.

Seven cases were reported for quantity control measures. All but two were associated with the large number of administrative windows/organizations involved, delays or frequent changes in the reported regulation. The two cases for which no POs were reported involved the import of pork-based products subject to quotas, gelatine for medicinal use imported from India and full grained leather from China.

Importers also reported five cases of technical requirements, again associated with numerous administrative windows or organizations and delays. Three of these cases involved polyethylene and other ethylene polymers, sensitive products the import of which is regulated by the Ministry of Trade.

Export registration accounted for four of the seven NTMs applied by partner countries, while single cases were reported for export inspection, certification required by the exporting country and export quotas. All seven cases were associated with POs. Export registration was associated with delays as shipments were held up by foreign customs for periods ranging from one to three days.

### 3.7. Summary and policy options

In the wake of the Asian financial crisis, greater competition induced by free trade agreements has seen a slowdown in the growth of Indonesia's manufacturing sector, while exports of non-manufacturing products boomed. Nevertheless, manufacturing remains an important sector in the Indonesian economy, contributing almost 25% to non-oil-and-gas GDP and employing some 15 million people. The manufacturing sector continues to diversify as Indonesia strives to move away from largely being a supplier of raw materials and efforts are made to develop downstream industries. The goal is to build a reputation for quality and reliability, key attributes sought in foreign markets and by an increasingly consumer conscious home market.

The initial phone screening revealed that only 21% of exporters of manufactured goods were affected by burdensome regulations, a much smaller proportion than for food and agro-based products. As with food and agro-based products, technical requirement measures were to the fore, accounting for more than half of the NTMs applied by partner countries, followed by price control measures, rules of origin and related certificate of origin and conformity assessment. Export inspection and export registration accounted for the lion's share of the NTMs applied by Indonesian authorities.

Fumigation once again was the main problem under technical requirements, accounting for 80% of the reported cases. Problems related to conformity assessment largely involved delays in obtaining the necessary certification, although in one case this was due to the company not being fully informed on the specific requirements of the partner country. Pre-shipment inspection and other entry formalities accounted for almost two-thirds of the measures imposed by Indonesian authorities, conformity assessment, technical requirements and quality control measures making up most of the remaining balance.

#### Policy Options

Many of the complaints raised by manufacturers are similar to those voiced by their peers in the food and agro-based products sector. Thus some comments made in section 2.7 are equally applicable to the manufacturing sector.

One thing that is clear is the need to overhaul inspection processes and procedures to enable the more efficient flow of goods through Indonesian ports. While there are procedural delays involving customs, there are also logistical problems that highlight the urgent need to update and improve much of the transportation infrastructure in Indonesia.

There was a shared perception among surveyed companies of the need to enhance the capacity of staff in the government agencies that implement the NTMs. A reduction in the reams of paperwork required, often by more than one agency, could be achieved through electronic filing and even payment of fees.

A shift of emphasis is required across the board for these agencies to work together with business to overcome the problems that arise in a professional manner and best serve the national interest.

While exporters must try to keep themselves abreast with the latest rules and regulations affecting their particular sector, it was suggested that the Ministry of Trade creates and maintains a database listing the different regulatory requirements per trade partner and product to better inform Indonesian companies of changes and business opportunities. The database of regulations that can be accessed through ITC's Market Access Map ([www.macmap.org](http://www.macmap.org)) could serve as starting point for serving the information needs of Indonesian exporters and importers.

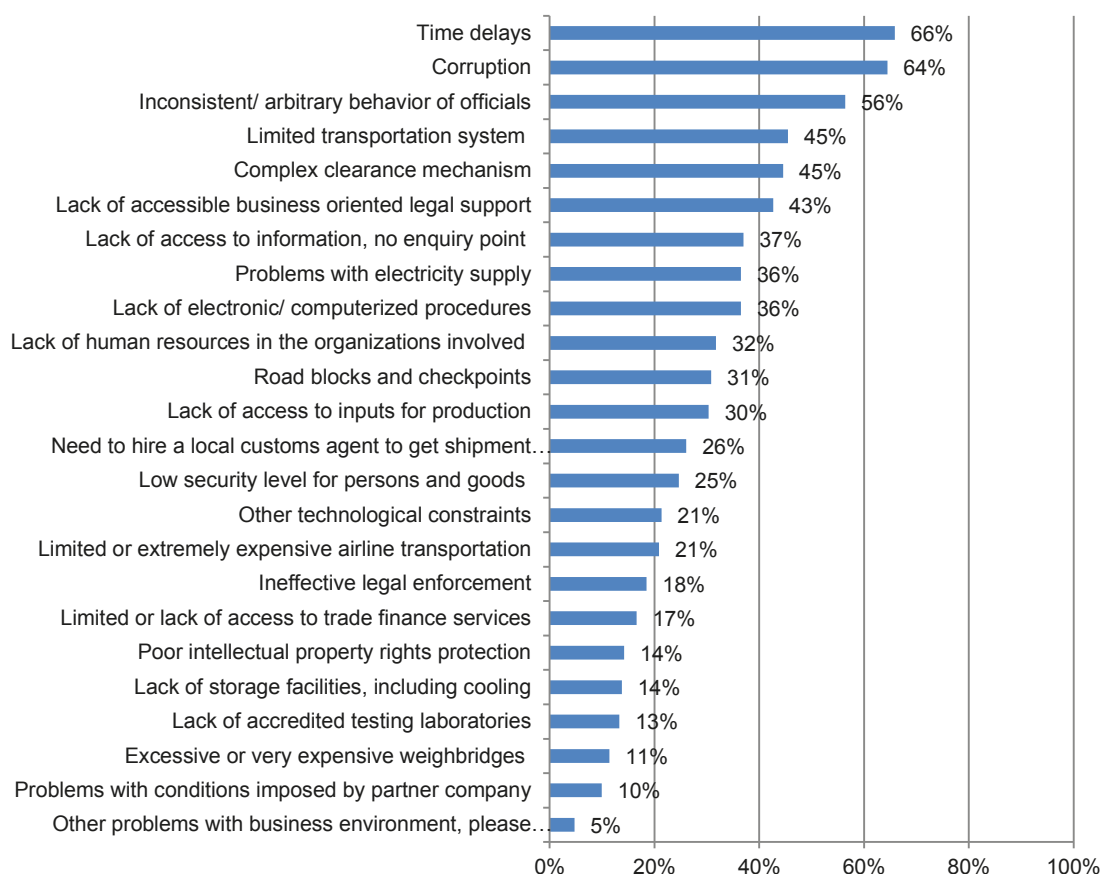
## 4. Company perspectives on the trade-related business environment

In addition to the information on NTMs collected during the face-to-face interviews, companies were requested to indicate the main problems they encounter in the trade-related business environment (TBE) in their home country. The questionnaire on TBE aims to identify factors which are not related to specific regulations but impact the ability of businesses to trade.

Results show that problems with delays and corruption in the agencies or organizations involved in trade procedures are prevalent. Both exporters and importers reported being affected by the general lack of transparency in the trade-business environment. More than 56% of the enterprises pointed to inconsistent or arbitrary behaviour of officials, while 43% complained about the lack of legal support for businesses and 37% about the limited access to information (not all agencies place all information on the web). The companies in the survey contended that some of the problems within the trade regulatory environment are the result of weak inter-agency coordination where multiple agencies are involved in administering NTMs. Companies physically carry documents or seek information from one regulatory agency to the next costing them valuable time and resources. The results also highlighted inefficiencies in public services, such as recurring problems with the supply of electricity (36%) and deficiencies in the transportation system, including limited or expensive air transport (45%).

Logistics costs across Indonesia account for around 24% of GDP, which is an enormous tax on economic growth. Indonesia ranked 59 out of 155 countries in the World Bank 2012 Logistics Performance Index, behind other middle-income countries in the region and on a par with poorer nations. Many of the problems relate to the unequal distribution of investment and production sites across the archipelago, resulting in anomalies such as sailing westward from Sulawesi for trans-shipment of frozen shrimp in Java before sailing northeast to their final destination in Japan. One exporter of fresh fruit even reported that at times it is cheaper to import oranges from China than to market those grown in Indonesia.

**Figure 13: Companies' perspective on Indonesian business environment**



Source: ITC - NTM survey in Indonesia data 2013.



## Chapter 4 Conclusions and policy options

Non-tariff measures continue to be a growing concern in international trade. While many NTMs are applied for legitimate reasons, they often have a limiting impact on trade. Moreover, they are hard to evaluate since they are both difficult to identify and measure. To better understand the issues associated with NTMs in Indonesia, the ITC survey reviewed these hidden barriers to trade from a business perspective. The survey was not restricted to NTMs but also included POs and inefficiencies in the TBE. This expanded scope proved to be particularly revealing as the participating Indonesian companies identified POs as being relatively more of a hindrance to their trading operations than the NTMs themselves.

The NTM survey revealed that companies in Indonesia face a number of obstacles to their global trading activities, although the level was below that of most other countries surveyed to date. There was a marked difference between sectors, as exporters of food and agro-based products are more than twice as likely to be affected as those exporting manufactured goods. Technical requirements were the most frequently reported barriers to trade for both sectors, accounting for over half the NTMs applied to Indonesian exports by partner countries. Conformity assessment was another major barrier, though more so for food and agro-based products than for manufactured goods where problems with rules of origin were more commonly documented. Interestingly, around a third of the obstacles faced by Indonesian exporters were due to measures applied by Indonesian authorities, especially export inspections and export registrations. By far the greatest impediment to import activities are pre-shipment inspections and other entry formalities, although quantity control measures and technical requirements were also mentioned.

The survey presents a snapshot of company perceptions regarding the burdensome NTMs they encounter in their business activities. The study provides national and local authorities, domestic stakeholders and trading partners with valuable inputs into existing and new efforts to remedy trade-impeding effects of NTMs. Indonesia may wish to use this report as a basis to examine its NTM problems from a holistic perspective covering its chief exports across all sectors. Burdensome NTMs applied to imports must also be tackled, as they too present a challenge to the viability of the country's overall economic growth.

### Public-private dialogue results in proposals and policy options

One of the major objectives of the ITC project on NTMs is to consult with national stakeholders to formulate realistic proposals and develop concrete policy options. Based on an initial analysis of the survey results, ITC proposed a series of policy options for discussion, a detailed matrix of which is provided in appendix I. Together with the Ministry of Trade, ITC organised a stakeholders meeting in Jakarta in November 2013. The meeting was attended by some 60 participants comprising representatives of selected trading companies and business associations, as well as experts from government agencies and trade organizations. The purpose of the meeting was to validate the survey results and develop and discuss policy recommendations. The list of participants and agenda are provided in appendices V and VI.

In light of these discussions, the report recommends that the Government of Indonesia carry out a systematic stocktaking of the NTM and PO issues identified in the survey and their incidence on trading activities to develop specific action plans. The policy options suggested here are intended to stimulate and kick start further examination both among and between government agencies and stakeholders.

The report acknowledges the participation of Indonesia in regional and bilateral initiatives aimed at eliminating NTBs and recommends intensification of such discussions with trade partners within ASEAN and beyond to track progress in eliminating existing NTBs and monitor and eliminate new ones as they surface. Proposed domestic policy actions and actions required within a regional or international context are discussed in the following subsections.

### Policy options at the domestic level

#### Improve inter-agency coordination

The companies in the survey contended that some of the problems within the trade regulatory environment are the result of weak inter-agency coordination where multiple agencies are involved in administering NTMs. Companies physically carry documents or seek information from one regulatory agency to the next

costing them valuable time and resources (not all agencies place all information on the web). Companies generally are of the view that Indonesia should modernize inter-agency coordination in the issuance of registrations, certificates and permits and payments thereof to save them time and resources.

To date, neither the Ministry of Trade nor any of the other trade-related ministries have any planned programme or the facilities to collect accurate data on the NTM issues faced by exporting and importing companies. Their websites are currently only set up to provide information on the registration procedures companies are to comply with and lack the systems to collect data on the restrictive NTMs they face and receive feedback on the effectiveness of regulations and their impact on trade. A good illustration of this is the Ministry of Agriculture decree regarding the limitation of entry ports for the import of horticultural products. While the measure was enforced because most Indonesian ports lacked the necessary quarantine facilities to implement food safety and health regulations, The measure was enforced because most Indonesian ports lacked the necessary quarantine facilities to implement food safety and health regulations resulting in an increase of logistical costs that have been passed down to the consumer who ends up paying more for the product.

Where more than one agency is involved, the report recommends that government agencies work together to formulate an action plan aimed at collectively addressing these issues and setting up systems to track the effectiveness of policies over time, while also identifying problem areas needing further examination.

### **Streamline administrative procedures and introduce a country-wide electronic single window**

Companies complained that obtaining, filling and submitting the large number of official documents required for their trading operations costs them a considerable amount of time and resources, which could otherwise be put to business development and expansion. These delays in trading result from a lack of institutional capacity in terms of skilled staffing levels, inter-agency coordination and facilities and systems required to handle increasing volumes of rapidly evolving trade.

The report recommends that a review of all documents be undertaken with the aim of streamlining and reducing the number of forms used by exporting and importing companies. This would ensure that the country is in compliance with WTO regulations, specifically paragraph 1.(c) of Article VIII: *'The contracting parties also recognize the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements.'*

Related to this is the need to expedite moving to electronic submission and processing of the required documentation and information, as well as the need to streamline the number of institutions involved in regulating international trade. This entails enhancing the capacity and facilities of government agencies on the one hand and imbedding a greater sense of professionalism into inter-agency relations and relations with the business community on the other.

As part of the wider ASEAN effort towards regional economic integration to be achieved in 2015, the Government conducted an exploratory launch of the Indonesian National Single Window (INSW) in 2010. Although in progress, the INSW has yet to provide a single sign-on, submission and synchronous processing of all trade documents. Achieving this requires coordinated changes in the operating procedures of most government agencies, which involves the updating of their IT and back office systems, as well as the resolution of IT and legal issues in transferring data from the private sector. The successful resolution of all these issues and the roll-out of a fully functional INSW will go a long way towards addressing the logjam Indonesian traders currently face.

### **Introduce agency hotlines to follow up on the status of applications and for reporting NTBs**

While the successful introduction of the INSW will do much to reduce the need for hotlines to check the status of applications for export permits and certificates, hotlines could certainly serve as additional vehicles to collect information on NTBs. A computer-based system administered by the Ministry of Trade and connecting all stakeholders, including other trade-related ministries and government agencies, the business community and academic institutions would ensure that NTB reports are communicated to the system coordinator and acted upon in sync with the responsible agencies. As Indonesian businesses were often reluctant to discuss NTMs with the ITC surveyors, it was felt that the appointment of an independent ombudsman for trade matters may be necessary.

### **Introduce a facility to increase industry awareness about requirements and changes in regulation in destination markets**

The survey revealed that there were a number of occasions where exporters were not fully aware of the requirements applied by partner countries. While the onus rightly falls on the exporter to identify those requirements prior to shipment, obtaining this information can be challenging, especially when recent changes have occurred in the destination market. Among the suggestions put forward by participants was the creation and maintenance of a publicly accessible database listing the different regulatory requirements by country and by product. An internal mechanism to facilitate problem solving within and between government agencies could go a long way towards alleviating POs. Moreover, the same mechanism could foster closer relations with the business community through forums or training sessions designed to relay the latest administrative changes, clarify problem areas and better inform exporters and importers of the facilities available within agencies to expedite administrative procedures.

### **Target ways to cut freight logistics costs**

Logistics costs across Indonesia account for around 24% of GDP, which is an enormous tax on economic growth. Indonesia ranked 59 out of 155 countries in the World Bank 2012 Logistics Performance Index, behind other middle-income countries in the region and on a par with poorer nations. Many of the problems relate to the unequal distribution of investment and production sites across the archipelago, resulting in anomalies such as sailing westward from Sulawesi for trans-shipment of frozen shrimp in Java before sailing northeast to their final destination in Japan.

The publication of the first of a series of annual reports by the World Bank and Institut Teknologi Bandung under a project funded by the Netherlands is an encouraging first step.<sup>26</sup> While the long-term objective is to improve Indonesia's logistics performance, the report highlights the immediate need to strengthen the country's knowledge base in the field of transport and logistics through training and research. Again, this stresses the need for greater interaction between the Government and the private sector, and perhaps a switch in focus from governing to facilitating.

### **Technical requirements and conformity assessment issues require special attention**

The survey results indicated that technical requirements and conformity assessment procedures were among the most prominent NTMs affecting exports.

#### *Tackle issues with fumigation*

One of the most problematic areas involved fumigation procedures, which accounted for almost 30% of the technical requirement cases reported by Indonesian exporters. Although Indonesia adopted ISPM-15 which sets the procedures to be applied to wood packaging materials in international trade in September 2009, exporters are still reporting serious difficulties with its implementation.

The main complaints relate to delays in completing the fumigation procedure and the additional costs involved. While excessive delays may suggest inadequate facilities or overreach on behalf of the fumigation company, half the complaints were for delays of up to two days.

From the Indonesian side, fumigation problems are open to a two-pronged approach. Many Indonesian exporters appear to be ill-informed about what the process actually entails, highlighting the need for adequate information and improved dissemination on ISPM-15. There is also a need for better oversight of companies providing fumigation services to ensure that they are not needlessly delaying Indonesian exports and that their pricing falls within an acceptable range.

Introducing awareness building and technical assistance programmes to upgrade and strengthen Indonesia's fumigation and heat treatment capacity should prove useful in addressing these difficulties.

As a general rule the requirement for re-fumigation upon arrival in foreign ports appears to be unnecessary, providing the wooden packaging is correctly marked showing that it has already been treated to ISPM-15 standards by an internationally-accredited fumigation company in Indonesia.

<sup>26</sup> World Bank (2013). Bahagia, Ir. Senator Nur; Sandee, H.; Meeuws, R.

### *Tackle issues with sanitary and phytosanitary certification*

Another area of major concern, particularly for exporters in the food sector, was testing and obtaining the necessary SPS certification. Delays were again the major complaint, although some of the tests applied to foodstuffs by their very nature take time. The frequent need for re-testing upon arrival at the destination port was also raised. This is increasingly applied by importing countries as they stiffen entry requirements to safeguard the health and safety of their citizens.

Conducting a comprehensive assessment of existing public and private testing laboratories should enable Indonesia to identify weaknesses and draw up a roadmap to improve the country's capacity to meet international standards. Domestic authorities and partner countries should also cooperate more efficiently by means of mutual recognition agreements to address the issue of unnecessary duplication of procedures at destination.

### **Further engage trade partners to resolve non-tariff barriers**

There are a number of issues identified in the survey that the Indonesian Government can take up on a regional or bilateral basis, including through ASEAN. Among these are the frequently reported cases of re-fumigation as well as re-testing of food products exported to the EU and the United States.

#### *Set up a Technical SPS/TBT Committee*

With the imminent creation of the ASEAN Economic Community in 2015, there will be further scope for member countries to cooperate on the most effective and least costly means of inspection and certification of goods traded within and through ASEAN. Among these is the ASEAN Single Window (ASW) that will connect and integrate national single windows to expedite cargo clearance. In addition, the ASEAN Australia-New Zealand Free Trade Area (AANZFTA) Joint Committee will assist Indonesia in improving its quarantine facilities to minimize SPS issues, particularly in regard to the import of horticultural products.<sup>27</sup>

There may be a need to set up a Technical SPS/TBT Committee to look into such issues and determine, for instance if bilateral agreements could be reached in respect to products that have already been tested in Indonesia by internationally-accredited laboratories.

Careful examination of cases involving technical requirements and conformity assessment in Indonesia may reveal that these are not isolated cases in the region and may be used to buttress government proposals and positions in the context of the WTO TBT and SPS Committees, or in the broader context of global trade facilitation negotiations.

### **Outlook**

Burdensome non-tariff measures are one of the reasons why Indonesia is currently not taking full advantage of trade opportunities. The ITC NTM survey lays the basis for further action to reduce or eliminate some of the regulatory or procedural trade obstacles that Indonesian exporters and importers face. By combining the results of the survey with an export potential assessment analysis, ITC can assist in identifying product-market combinations with strong potential for export growth and provide guidance to policymakers in identifying and addressing bottlenecks.

A number of initiatives are being taken to address obstacles to trade domestically, regionally, and internationally. However, more work is needed to alleviate such constraints. The main recommendations emanating from the survey results as listed above and in appendix I are meant to contribute to this effort and support Indonesia's strive for a better trading environment and sustainable development.

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<sup>27</sup> Republic of Indonesia Government Secretariat.



## Appendix I Matrix of recommendations

Main burdensome NTMs and POs	Products/sectors concerned	Recommendations	Agencies involved
<b>Exports</b>			
<p><b>Technical requirements measures</b> account for 55% of the NTMs applied by partner countries on agricultural exports.</p> <p><b>Conformity assessment requirements</b> account for 28%.</p>	Agricultural products (fresh produce and processed food).	<p>Set up technical committees (TBT/SPS committees and/or others) to look at the technical issues identified in the survey and identify ways to address them.</p> <p>Conduct a comprehensive assessment of existing public and private testing laboratories in Indonesia and prepare a roadmap for their upgrading to meet international standards.</p> <p>Implement the roadmap with the support and commitment of all stakeholders. Appropriate budgets will have to be provided for the improvement of testing facilities' infrastructure and the purchase of appropriate testing equipment.</p> <p>Provide technical assistance to enterprises to achieve accredited certification. The Government may consider introducing incentives such as a matching grant where part of the costs of advisory services and certification would be funded by a private sector grant.</p> <p>Disseminate information and build awareness on specific product and market requirements as defined in prerequisite programmes such as pest and disease management at field level, fumigation and heat treatments, etc.</p> <p>Introduce awareness-building and technical assistance programmes to better understand and meet international phytosanitary and food safety requirements by product and by market and implement prerequisite codes of practice along food and feed chains (GAP, GHP, GMP).</p> <p>Introduce awareness building and technical assistance programmes to upgrade and strengthen Indonesia's fumigation and heat treatment capacity as per identified needs.</p>	<p>Standards Bureau</p> <p>Agency for Agricultural Quarantine</p> <p>Ministry of Agriculture</p> <p>Ministry of Health</p> <p>Ministry of Marine Affairs and Fisheries</p> <p>Partner countries</p>
<p><b>National certificates</b> are not recognized in some export markets.</p>	Cross-cutting	Domestic authorities and partner countries should cooperate more efficiently by means of mutual recognition agreements.	

Main burdensome NTMs and POs	Products/sectors concerned	Recommendations	Agencies involved
<p><b>Delays encountered in local agencies</b> are often associated with high fees and charges.</p>	<p>Agricultural goods, including processed food, vegetables and spices</p>	<p>Map administrative processes with a view to update and simplify procedures.</p> <p>Organize a workshop in collaboration with national TBT/SPS committees to review the root causes of delays, sensitize on their economic implications and propose recommendations for reviewing/simplifying procedures in line with the local context and international best practice.</p> <p>Introduce/strengthen electronic export certification.</p> <p>E-certification offers important benefits to businesses and governments through reduced transaction costs, lower administrative burden and a timely and secure exchange of information between competent authorities.</p> <p>Assess the capacity of the National Plant Protection Organization (NPPO) through the application of the revised version of the IPPC PCE (Phytosanitary Capacity Evaluation). This will help identify strengths and gaps in existing and planned phytosanitary systems.</p> <p>Introduce training and technical assistance programmes to strengthen the capacity of the NPPO in conducting pest risk analysis and controls based on associated risks.</p>	<p>Agency for Agricultural Quarantine and other institutions/agencies, including Customs.</p>
<p><b>Export inspection</b> (52% of exporter complaints) and <b>export registration</b> required by Indonesian authorities (32%) are intertwined with POs such as delays in administrative procedures and high fees and charges.</p>	<p>Cross-cutting</p>	<p>Improve and ensure a monitoring of processes and procedures within the relevant agencies.</p>	<p>Various institutions and agencies</p>
<p><b>Delays in export inspection</b> are commonly reported at Customs.</p>	<p>Cross-cutting</p>	<p>Improve procedures at the Department of Customs and Excise on a continuous basis.</p> <p>Modernize administrative and operational functions.</p> <p>Efforts should be made to improve relations between customs officials and the business community.</p>	<p>Department of Customs and Excise</p>
<p>Regarding <b>Certificate of origin</b>, the most pressing concern for exporters is delays and other POs such as additional costs and high fees associated with obtaining the certificates.</p>	<p>Cross-cutting</p>	<p>Update and simplify procedures for obtaining certificates of origin.</p> <p>Review fees and other charges for issuing certificates of origin and establish a benchmark in line with the local context and international best practice to determine a fair 'market price'.</p>	<p>The Ministry of Trade and Chamber of Commerce were particularly mentioned.</p>

Main burdensome NTMs and POs	Products/sectors concerned	Recommendations	Agencies involved
<b>Imports</b>			
<b>Pre-shipment inspections</b> and other entry formalities involve checking, consigning and controlling the shipment before entry into the country.	Cross-cutting	<p>Improve the pre-shipment inspection process.</p> <p>Introduce training and capacity-building programmes for customs and port officials, enquiry point staff, etc.</p>	Department of Customs and Excise
<b>Quantitative control measures</b> (e.g. non-automatic licenses, quotas, prohibitions) are mainly associated with delays in obtaining the required licenses/permits.	Cross-cutting	Review and update legal and regulatory regimes as required.	Department of Customs and Excise National Authorities

<b>General Recommendations</b>			
<b>POs</b> in domestic trade facilitating institutions must be addressed.	Cross-cutting issue	<p>Set up an administrative window for both exporters and importers to register complaints on the burdensome NTMs they face in government agencies, whereby the agencies can review their most common deficiencies and seek ways to improve on them.</p> <p>Set-up a single window housing a representative/inspection officer from each relevant agency to provide exporters and importers with all the required documentation.</p> <p>Establish and sustain a national public-private sector Trade Business Environment Taskforce.</p> <p>Introduce a capacity building programme for exporting and export-ready SMEs, logistics service providers, freight forwarders to assist in complying with export/import procedures and customs formalities.</p> <p>Train on how to be efficient without compromising effectiveness, which will help reduce the occurrence of POs, while simultaneously improving relations between exporters/ importers and facilitating agencies.</p>	To be carried out in collaboration with a number of domestic institutions.
General recommendations concerning NTMs and POs	Cross-cutting	<p>Set up an online reporting system through which businesses can directly report NTBs.</p> <p>Create a committee to monitor, reduce and eliminate burdensome NTMs and other obstacles to trade. Such a committee could be established under the chairmanship of the Ministry of Trade.</p>	The Ministry of Trade and several institutions should be involved, including private sector representatives.

## Appendix II Global methodology of the non-tariff measure surveys

### Non-tariff measure surveys

Since 2010, the International Trade Centre (ITC) has completed large-scale company-level surveys on burdensome non-tariff measures and other barriers to trade (NTM surveys hereafter) in more than 25 developing and least-developed countries in Africa, Asia and Latin America. The main objective of the NTM survey is to capture how businesses perceive burdensome NTMs and other obstacles to trade at a most detailed level – by product and partner country.

All surveys are based on a global methodology consisting of a core part and a country-specific part. The core part of the NTM survey methodology, described below is identical in all survey countries, enabling cross-country analyses and comparison. The country-specific is developed in cooperation with local stakeholders prior to the survey launch.

### Scope and coverage of the non-tariff measure surveys

The objective of the NTM survey requires a representative sample allowing for the extrapolation of the survey result to the country level. To achieve this objective, the NTM survey covers at least 90% of the total export value of each participating country (excluding services, minerals and arms). The economy is divided into 13 sectors, and all sectors with more than a 2% share in total exports are included in the survey.

The NTM Survey sectors are defined as follows:

1. Fresh food and raw agro-based products
2. Processed food and agro-based products
3. Wood, wood products and paper
4. Yarn, fabrics and textiles
5. Chemicals
6. Leather
7. Metal and other basic manufacturing
8. Non-electric machinery
9. Computers, telecommunications; consumer electronics
10. Electronic components
11. Transport equipment
12. Clothing
13. Miscellaneous manufacturing

Companies trading arms and minerals are excluded. The export of minerals is generally not subject to trade barriers due to a high demand, and the specificities of trade undertaken by large multinational companies. The export of arms is out of the scope of ITC activities.

The NTM surveys are undertaken among companies exporting and importing goods. Companies trading services are excluded, as a survey on NTMs in services would require a different approach and methodology. Yet, the NTM Survey includes companies specialized in the export-import process and services, such as agents, brokers, forwarding companies (referred to as ‘trading agents’ for brevity). These companies can be viewed as service companies, as they provide trade logistics services. The answers provided by trading agents are in most cases analysed separately from the answers of the companies that export their own products.

The NTM surveys cover legally registered companies of all sizes and types of ownership. Depending on country size and geography, one to four geographic regions with high concentrations of economic activities (high number of firms) are included in the sample.

## Two-step approach

The representatives of the surveyed companies, generally export/import specialists or senior-level managers, are asked to report trade-related problems experienced by their companies in the preceding year and representing a serious impediment for their operations. To identify companies that experience burdensome NTMs, the survey process consists of phone screens with all companies in the sample (step 1) and face-to-face interviews undertaken only with the companies that reported difficulties with NTMs during the phone screens (step 2).

### Step 1: Phone screens

The first step includes short phone screen interviews. Phone screens consist of questions identifying the main sector of activity of the companies and the direction of trade (export or import). The respondents are then asked whether their companies have experienced burdensome NTMs. If a company does not report any issues with NTMs, the phone screen is terminated. Companies that report difficulties with NTMs are invited to participate in an in-depth face-to-face interview, and the time and place for this interview is scheduled before terminating phone screen.

### Step 2: Face-to-face interviews

The second-step interviews are required to obtain all the details of burdensome NTMs and other obstacles at the product and partner country level. These interviews are conducted face-to-face due to the complexity of the issues related to NTMs. Face-to-face interactions with experienced interviewers helps to ensure that respondents correctly understand the purpose and the coverage of the survey, and accurately classify their responses in accordance with predefined categories.

The questionnaire used to structure face-to-face interviews consists of several parts. The first part covers the main characteristics of the companies including number of employees, share of exports in total sales, whether the company exports its own products or represents a trading agent providing export services to domestic producers.

A second part is dedicated to exporting and importing activities of the company, with all trade products and partner countries recorded. During this process, the interviewer also identifies all products affected by burdensome regulations and countries applying these regulations.

During next part of the interview, each problem is recorded in detail. A trained interviewer helps respondents identify the relevant government-imposed regulations, affected products (6-digit level of the Harmonized System), the partner country exporting or importing these products, and the country applying the regulation (it can be partner, transit or home country).

A last part of the questionnaire is dedicated to the business environment in the surveyed country.

Each burdensome measure (regulation) is classified according to the NTM classification, an international taxonomy of NTMs, consisting of over 200 specific measures grouped into 16 categories. The NTM classification is the core of the survey, making it possible to apply a uniform and systematic approach to recording and analysing burdensome NTMs in countries with very idiosyncratic trade policies and approaches to NTMs.

The face-to-face questionnaire captures not only the type of burdensome NTMs, but also the nature of the problem (so called *procedural obstacles* explaining why measures represent an impediment), the place where each obstacle takes place, and the agencies involved, if any. For example an importing country can require the fumigation of containers (NTM applied by the partner country), but fumigation facilities are expensive in the exporting country, resulting in a significant increase in export costs for the company (POs located in the home country).

### Local survey company

Both phone screens and face-to-face interviews are carried out by a local partner selected through a competitive bidding procedure. The partner is most often a company specializing in surveys. Generally, the NTM surveys are undertaken in local languages. The phone screens are recorded either by a Computer Assisted Telephone Interview system, computer spreadsheets, or on paper. The face-to-face interviews are initially captured using paper-based interviewer-led questionnaires that are then digitalized by the partner company using a spreadsheet-based system developed by ITC.

### Open-ended discussions

During the surveys of companies and preparation of the report, open-ended discussions are held with national experts and stakeholders, for example trade support institutions and sector/export associations. These discussions provide further insights, quality check and validation of the survey results. The participants review the main findings of the NTM survey and help to explain the reasons for the prevalence of the certain issues and their possible solutions.

The open-ended discussions are carried out by the report writer, the survey company, or a partner in another local organization or university.

### Confidentiality

The NTM survey is confidential. Confidentiality of the data is paramount to ensure the greatest degree of participation, integrity and confidence in the quality of the data. The paper-based and electronically captured data is transmitted to ITC at the end of the survey.

### Sampling technique

The selection of companies for the phone screen interviews of the NTM survey is based on the stratified random sampling. In a stratified random sample, all population units are first clustered into homogeneous groups ('strata'), according to some predefined characteristics, chosen to be related to the major variables being studied. In the case of the NTM surveys, companies are stratified by sector, as the type and incidence of NTMs are often product-specific. Then simple random samples are selected within each sector.

The NTM surveys aim to be representative at the country level. A sufficiently large number of enterprises should be interviewed within each export sector to ensure that the share of enterprises experiencing burdensome NTMs is estimated correctly and can be extrapolated to the entire sector. To achieve this objective, a sample size for the phone screens with exporting companies is determined *independently for each export sector*.<sup>28</sup>

<sup>28</sup> The sample size depends on the number of exporting companies per sector and on the assumptions regarding the share of exporting companies that are affected by NTMs in the actual population of this sector. The calculation of a sample size will be based on the equation below (developed by Cochran, 1963) to yield a representative sample for proportions in large populations (based on the assumption of normal distribution).

$$n_o = \frac{t^2 * p(1-p)}{d^2}$$

Where

$n_o$  : Sample size for large populations

$t$ : t-value for selected margin of error (d). In the case of the NTM survey 95% confidence interval is accepted, so t-value is 1.96.

$p$ : The estimated proportion of an attribute that is present in the population. In the case of the NTM survey, it is a proportion of companies that experience burdensome NTMs. As this proportion is not known prior to the survey, the most conservative estimate leading to a large sample size is employed, that is  $p=0.5$ .

$d$ : Acceptable margin of error for the proportion being estimated. In other words, a margin of error that the researcher is willing to accept. In the case of NTM survey  $d=0.1$ .

**Source:** Cochran, W. G. 1963. *Sampling Techniques*, 2<sup>nd</sup> Ed., New York: John Wiley and Sons, Inc.

For importing companies, the sample size is defined at the country level. The sample size for importing companies can be smaller than the sample size for exporters, mainly for two reasons. First, the interviewed exporting companies are often import intermediaries and provide reports on their experiences with NTMs as both exporters and importers. Second, problems experienced by importing companies are generally linked to domestic regulations required by their home country. Even with a small sample size for importing companies, the effort is made to obtain a representative sample by import sectors and the size of the companies.

Exporting companies have difficulties with both domestic regulations and regulations applied by partner countries that import their products. Although the sample size is not stratified by company export destinations, a large sample size permits a good selection of reports related to various export markets (regulations applied by partner countries). By design, large trading partner are mentioned more often during the survey, simply because it is more likely that the randomly selected company would be exporting to one of the major importing countries.

The sample size for face-to-face interviews depends on the results of the phone screen interviews.

### **Average sample size**

The number of successfully completed phone screens can range from 150 to 1,200, with subsequent 150 to 450 face-to-face interviews with exporting and importing companies. The number of phone screens is mainly driven by the size and the structure of the economy, availability and quality of the business register and the response rate. The sample size for the face-to-face interviews depends on the number of affected companies and their willingness to participate in the face-to-face interviews.

### **Survey data analysis**

The analysis of the survey data consists of constructing frequency and coverage statistics along several dimensions, including product and sector, NTMs and their main NTM categories (e.g. technical measures, quantity control measures), and various characteristics of the surveyed companies (e.g. size and degree of foreign ownership).

The frequency and coverage statistics are based on 'cases'. A case is the most disaggregated data unit of the survey. By construction, each company participating in a face-to-face interview reports at least one case of burdensome NTMs, and, if relevant, related procedural obstacles.

Each case of each company consists of one NTM (a government-mandated regulation, for example sanitary and phytosanitary [SPS] certificate), one product affected by this NTM, and partner country applying the reported NTM. For example, if there are three products affected by the very same NTM applied by the same partner country and reported by one company, the results would include 3 cases. If two different companies report the same problem, it would be counted as two cases.

The scenario where several partner countries apply the same type of measure is recorded as several cases. The details of each case (e.g. the name of the government regulations and its strictness) can vary as regulations mandated by different countries are likely to differ. However, if the home country of the interviewed companies applies an NTM to a product exported by a company to several countries, the scenario will be recorded as a single NTM case. Furthermore, when an interviewed company both exports and imports, and reports cases related to both activities, it is included in the analysis two times: once for the analysis of exports and once for the analysis of imports. The distinction is summarized in the table below.

**Table: Dimensions of an NTM case**

Country applying the measure Dimensions	Country origin of goods	Partner countries (where goods are exported to or imported from) and transit countries
Reporting company	X	X
Affected product (HS 6-digit code or national tariff line )	X	X
Applied NTM (measure-level code from the NTM classification)	X	X
Trade flow (export or import)	X	X
Partner country applying the measure		X

Cases of POs are counted in the same way as NTM cases.

**Enhancing local capacities**

The NTM surveys enhance national capacities by transmitting skills and knowledge to a local partner company. ITC does not implement the surveys, but guides and supports a local survey company and experts in doing this.

Before the start of the NTM survey, the local partner company, including project managers and interviewers are fully trained on the different aspects of the NTMs, the international NTM classification, and the ITC NTM survey methodology. ITC representatives stay in the country for the launch of the survey and initial interviews, and remain in contact with the local partner during the entire duration of the survey, usually around six months, to ensure a high quality of survey implementation. ITC experts closely follow the work of the partner company, providing a regular feedback on the quality of the captured data (including classification of NTMs) and the general development of the survey, helping the local partner to overcome any possible problems.

Furthermore, ITC helps to construct a business register (list of exporting and importing companies with contact details) which remains at disposal of the survey company and national stakeholders. The business register is a critical part of any company-level survey, but unfortunately it is often unavailable, even in the advanced developing countries. ITC puts much time, effort and resources into constructing a national business register of exporting and importing companies. The initial information is obtained with the help of national authorities and other stakeholders (e.g. sectoral associations). In cases where it is not available from government sources or a sectoral association, ITC purchases information from third companies and, in certain cases digitalizes it from paper sources. The information from various sources is then processed and merged into a comprehensive list of exporting and importing companies.

So, upon completion of the NTM survey, the local partner company is fully capable of independently implementing a follow-up survey or other company-level surveys, as it is equipped with the business register and trained on the survey, trade and NTM-related issues.

**Caveats**

The utmost effort is made to ensure the representativeness and the high quality of the survey results, yet several caveats must be kept in mind.

First, the NTM surveys generate *perception data*, as the respondents are asked to report burdensome regulations representing a *serious impediment* to their exports or imports. The respondents may have



different scales for judging what constitutes an impediment. The differences may further intensify when the results of the surveys are compared across countries, stemming from cultural, political, social, economic and linguistic differences. Furthermore, some inconsistency may be possible among interviewers (e.g. related to matching reported measures against the codes of the NTM classification) due to the complex and idiosyncratic nature of NTMs.

Second, in many countries a systematic business register covering all sectors is not available or not complete. As a result, it may be difficult to ensure random sampling within each sector, and a sufficient rate of participation in smaller sectors. Whenever this is the case, the survey limitations are explicitly provided in the corresponding report.

Finally, certain NTM issues are not likely to be known by the exporting and importing companies. For example, exporters may not know the demand-side constraints behind the borders, e.g. 'Buy domestic' campaigns. Furthermore, the scope of the survey is limited to legally operating companies, and does not include unrecorded trade, e.g. shuttle traders.

#### **After the non-tariff measure survey**

The findings of each NTM survey are presented and discussed at a dissemination workshop. The workshop brings together government officials, experts, companies, donors, non-governmental organizations (NGOs) and academics. It fosters a dialogue on NTM issues and helps identify possible solutions to the problems experienced by exporting and importing companies.

The NTM survey results serve as a diagnostic tool for identifying and solving predominant problems. This can be realized at the national or international level. The survey findings can also serve as a basis for designing projects to address the problems identified and for supporting fundraising activities.

## Appendix III Non-tariff measure classification

Importing countries are very idiosyncratic in the ways they apply non-tariff measures. This called for an international taxonomy of NTMs, which was prepared by a group of technical experts from eight international organizations, including the Food and Agriculture Organization, the International Monetary Fund, the International Trade Centre, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization, the World Bank and the World Trade Organization. Finalized in November 2009, it is used to collect, classify, analyse, and disseminate information on NTMs received from official sources, e.g. government regulations. For the purpose of the large-scale company surveys on NTMs, ITC uses a simplified version of this international classification.

The NTM classification for surveys differentiates measures according to 16 chapters (denoted by alphabetical letters), each comprising sub-chapters (denoted by two letters) and the individual measures (denoted by two letters and a number). The following sketches the content of each of the 16 chapters.

**Chapter A**, on technical regulations, refers to product-related requirements. Legally binding and set by the importing country, they define the product characteristics, technical specifications of a product or the production process and post-production treatment and comprise the applicable administrative provisions, with which compliance is mandatory. Technical requirements include sanitary and phytosanitary measures, which are generally implemented to protect human, animal and plant life and health.

**Chapter B**, on conformity assessment, refers to measures determining whether a product or a process complies with the technical requirements specified under chapter A. Conformity assessments include control, inspection and approval procedures – such as testing, inspection, certification and traceability – which confirm and control that a product fulfils the technical requirements and mandatory standards imposed by the importing country, for example to safeguard the health and safety of consumers.

**Chapter C**, on pre-shipment inspection and other formalities, refers to the practice of checking, consigning, monitoring and controlling the shipment of goods before or at entry into the destination country.

**Chapter D**, on charges, taxes and other para-tariff measures, refers to measures other than tariffs that increase the cost of imports in a similar manner, i.e. by a fixed percentage or by a fixed amount. They are also known as para-tariff measures. Customs surcharges and general sales taxes are examples.

**Chapter E**, on licenses, quotas, prohibitions and other quantity control measures, includes measures that restrain the quantity of goods that can be imported, regardless of whether they come from different sources or from one specific supplier. These measures can take the form of restrictive licensing, fixing of a predetermined quota, or through prohibitions.

**Chapter F**, on finance measures, refers to measures that are intended to regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase import costs in the same manner as tariff measures.

**Chapter G**, on price control measures, includes measures implemented to control the prices of imported articles in order to: support the domestic price of certain products when the import price of these goods is lower; establish the domestic price of certain products because of price fluctuation in domestic markets, or price instability in a foreign market; and counteract the damage resulting from the occurrence of 'unfair' foreign trade practices.

**Chapter H**, on anti-competitive measures, refers to measures that are intended to grant exclusive or special preferences or privileges to one or more limited groups of economic operators.

**Chapter I**, on trade-related investment measures, refers to measures that restrict investment by requesting local content, or requesting that investment be related to export to balance imports.

**Chapter J**, on distribution restrictions, refers to restrictive measures related to the internal distribution of imported products.

## The structure of the NTM classification

### A to O. Import related measures

Measures imposed by the country importing the goods. From the perspective of an exporter, these are the measures applied by the destination country of your product. From the perspective of an importer, these are the measures applied by your own country on the goods that you import.

Technical measures	A. Technical requirements	
	B. Conformity assessment	
Non-technical measures	C. Pre-shipment inspection and other entry formalities	
	D. Charges, taxes and other para-tariff measures	
	E. Quantity control measures (e.g. licences, quotas, prohibitions)	
	F. Finance measures	
	G. Price control measures	
	H. Anti-competitive measures	L. Subsidies
	I. Trade-related investment measures	M. Government procurement restrictions
	J. Distribution restrictions	N. Intellectual property
	K. Restriction on post-sales services	O. Rules of origin and related certificate of origin

### P. Export related measures

Measures imposed by the country exporting the goods. From the perspective of an exporter, these are the measures imposed by your own country on the goods you export from your country. From the perspective of an importer, these measures are imposed by the country of origin on the goods you import from this country.

Source: International Trade Centre, NTM classification adapted for ITC surveys, January 2012 (unpublished document).

**Chapter K**, on restrictions on post-sales services, refers to measures restricting the provision of post-sales services in the importing country by producers of exported goods.

**Chapter L**, on subsidies, includes measures related to financial contributions by a government or government body to a production structure, be it a particular industry or company, such as direct or potential transfer of funds (e.g. grants, loans, equity infusions), payments to a funding mechanism and income or price support.

**Chapter M**, on government procurement restrictions, refers to measures controlling the purchase of goods by government agencies, generally by preferring national providers.

**Chapter N**, on intellectual property, refers to measures related to intellectual property rights in trade. Intellectual property legislation covers patents, trademarks, industrial designs, lay-out designs of integrated circuits, copyright, geographical indications and trade secrets.

**Chapter O**, on rules of origin, covers laws, regulations and administrative determinations of general application applied by the governments of importing countries to determine the country of origin of goods.

**Chapter P**, on export-related measures, encompasses all measures that countries apply to their exports. It includes export taxes, export quotas or export prohibitions, among others.

## Appendix IV Procedural obstacles

### List of procedural obstacles related to compliance with non-tariff measures and to inefficient business environment and infrastructure.

A	Administrative burdens related to regulations	<p>A1. Large number of different documents</p> <p>A2. Documentation is difficult to fill out</p> <p>A3. Difficulties with translation of documents from or into other languages</p> <p>A4. Numerous administrative windows/organizations involved, redundant documents</p>
B	Information/transparency issues	<p>B1. Information on selected regulation is not adequately published and disseminated</p> <p>B2. No due notice for changes in selected regulation and related procedures</p> <p>B3. Selected regulation changes frequently</p> <p>B4. Requirements and processes differ from information published</p>
C	Discriminating behavior of officials	<p>C1. Arbitrary behavior of officials regarding classification and valuation of the reported product</p> <p>C2. Arbitrary behavior of officials with regards to the reported regulation</p>
D	Time constraints	<p>D1. Delay related to reported regulation</p> <p>D2. Deadlines set for completion of requirements are too short</p>
E	Informal or unusually high payment	<p>E1. Unusually high fees and charges for reported certificate/regulation</p> <p>E2. Informal payment, e.g. bribes for reported certificate/regulation</p>
F	Lack of sector-specific facilities	<p>F1. Limited/inappropriate facilities for testing</p> <p>F2. Limited/inappropriate facilities for sector-specific transport and storage, e.g. cold storage, refrigerated trucks</p> <p>F3. Other limited/inappropriate facilities, related to reported certificate/regulation</p>
G	Lack of recognition/accreditations	<p>G1. Facilities lacking international accreditation/recognition</p> <p>G2. Other problems with international recognition, e.g. lack of recognition of national certificates</p>
H	Other	H1. Other procedural obstacles, please specify

## **Appendix V Entities attending the stakeholder meeting on 27 November 2013 in Jakarta**

Association of Indonesia Automotive Industries (GAIKINDO)

Bogor Agricultural University

Directorate General of Agro Based Industry, Ministry of Industry

Directorate General of America and Europe, Ministry of Foreign Affairs

Directorate General of Customs and Excise, Ministry of Finance

Directorate General of Domestic Trade, Ministry of Trade

Directorate General of Fisheries Product Marketing and Processing,  
Ministry of Marine Affairs and Fisheries

Directorate General of Foreign Trade, Ministry of Trade

Directorate General of International Trade Cooperation, Ministry of Trade

Directorate General of Manufacture Based Industry, Ministry of Industry

Directorate General of National Export Development, Ministry of Trade

Indonesia Agency for Agricultural Research and Development, Ministry of Agriculture

Indonesia Agricultural Quarantine Agency, Ministry of Agriculture

Indonesia Coffee Exporters Association (GAEKI)

Indonesia Eximbank

Indonesia Export Training Centre (IETC), Ministry of Trade

Indonesia Exporters Association (GPEI)

Indonesia Textile Association (API)

Indonesian Chamber of Commerce and Industry (KADIN)

Indonesian Food and Beverage Producers Association (GAPMMI)

Industrial Policy, Climate, and Quality Assessment Agency, Ministry of Industry

National Institute of Health Research and Development, Ministry of Health

Trade Policy Analysis and Development Agency, Ministry of Trade

World Bank

## Appendix VI Agenda of the stakeholder meeting

WEDNESDAY 27 NOVEMBER 2013, 8.30 A.M. – 4.00 P.M.  
LE MERIDIEN HOTEL - JAKARTA, INDONESIA

### STAKEHOLDER MEETING ON NON-TARIFF MEASURES IN INDONESIA

- 08:30 Registration**
- 09:00 Opening Remarks**  
Nus Nuzulia Ishak, Director General of National Export Development, Ministry of Trade  
Mondher Mimouni, Chief, Market Analysis and Research, ITC
- 09:30 Coffee Break**
- 09:45 ITC Project on Non-Tariff Measures (NTMs) Overview**  
Poonam Mohun, Market Analysis and Research, ITC
- 10:00 Implementation of a large-scale company survey on NTMs in Indonesia**  
MAZARS Indonesia Limited
- 10:15 Floor Discussions**
- 10:30 Main trade barriers affecting Exports in Indonesia**  
**Speakers** Mondher Mimouni, Chief, Market Analysis and Research, ITC  
Poonam Mohun, Market Analysis and Research, ITC  
**Discussant** Ermovian G. Ismy, Deputy Secretary General of Indonesian Exporters Association  
**Moderator** Wayan R. Susila, Trade Economist
- 11:30 Floor Discussions**
- 12:15 Lunch**
- 13.30 Main trade barriers affecting Imports in Indonesia**  
**Speaker** Poonam Mohun, Market Analysis and Research, ITC  
**Discussant** Mintardjo Halim, Chairman of Indonesia Chamber of Commerce and Industries for Africa Countries  
**Moderator** Wayan R. Susila, Trade Economist
- 14.15 Floor Discussions**
- 14.45 Overcoming challenges related to NTMs in Indonesia and final recommendations**  
**Speaker** Mondher Mimouni, Chief, Market Analysis and Research, ITC  
**Discussant** Oke Nurwan, Director of Trade Defence, Directorate General of Foreign Trade, Ministry of Trade  
**Moderator** Wayan R. Susila, Trade Economist
- 15.15 Open Discussion**
- 15:45 Wrap up and Concluding Remarks**  
Mondher Mimouni, Chief, Market Analysis and Research, ITC

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