

# **INDONESIA**

## **BRIEF ON AGRICULTURE INDUSTRY**

### **AND**

## **AGRICULTURE MACHINERY & EQUIPMENT**

### **OVERVIEW**

In 2010, Indonesia's exports are forecast to increase and imports are predicted to grow faster than exports as the domestic market would grow faster than the world market. Strong domestic demand and world economic recovery would be the main drivers of the Indonesian growth in 2010.

The World Bank's prediction is not far different from the Government's target for economic growth of 5.5% in 2010. Bank Indonesia, the country's central bank, predicted the country's economic growth would be around 5% - 5.5% in 2010, up from around 4.3% in 2009.

Most observers agreed that the country's economy would expand in 2010, but the economic growth would be moderate and the weak manufacturing sector would cause drag in the economic growth. The country's manufacturing sector would face greater challenges in market competition under the liberalization of trade. The purchasing power of the people is expected to remain strong. With interest rate relatively low and IDR (Indonesia Rupiah) stronger, the domestic market would grow faster.

According to the Chairman of Bank Indonesia International forecasted the prospect of the Indonesian economy is brighter compare to last year 2009 as probably better in 2010 including the public consumption increase about 5 percent, government spending around 15 percent, investment about 5 percent, exports 8 percent, and imports 9 percent.

For the agriculture sector approximately will increase to 3.5 percent, mining 2.5 percent, industry 4 percent, water, electricity and gas 10 percent, construction 7 percent, trade 6 percent, transportation and communications 10 percent, finance 6 percent, services 6 percent, and the GDP is about 6 percent

Regarding the Indonesia global trade balance in 2009 between “export –import” to or from foreign countries, the export value is US\$ 116.5 billion in much favour against the import value is US\$96.8 billion. The detail can be seen at the following table:

Indonesia export-import including oil & gas.

In billion US\$:

|             | 2007  | 2008  | 2009  | Var %<br>09/08 |
|-------------|-------|-------|-------|----------------|
| Export      | 114,0 | 137,0 | 116,5 | -15,0          |
| Import      | 74,4  | 129,2 | 96,8  | -25,1          |
| Total trade | 188,7 | 266,2 | 213,3 | -19,9          |
| Balance     | 39,6  | 7,8   | 19,7  | +152,6         |

Fonte: BPS, Istituto di Statistica Indonesiano

## TRADE BETWEEN ITALY- INDONESIA

For the prospective of view, the trade balance between Italy – Indonesia from time to time always favour to Indonesia and the detail since 2007 can be found as follows:

In million US\$:

|              | 2007    | 2008    | 2009    | Var %.<br>09/08 |
|--------------|---------|---------|---------|-----------------|
| Italy Export | 667,3   | 1.000,0 | 726,1   | <b>-27,4</b>    |
| Italy Import | 1.380,0 | 1.900,7 | 1.651,1 | <b>-13,1</b>    |
| Total Trade  | 2.047,3 | 2.900,7 | 2.377,2 | <b>-18,0</b>    |
| Balance      | -712,7  | -900,7  | -925,0  | <b>+2,7</b>     |

Fonte: BPS, Istituto di Statistica Indonesiano

### ITALY EXPORT:

According to our survey many Italian industrial products have been exported to Indonesia including machinery for industry, electrical apparatus, papers, chemicals, valve & taps, telecommunication, hollow pipe, plastics etc. On the next page can be viewed the top ten (10) of products that have been exported to Indonesia:

## Italian export to Indonesia (In million US\$)

|    | Products   | 2007  | 2008  | 2009  | Var. %<br>09/08 |
|----|--|-------|-------|-------|-----------------|
| 1  | Electrical Machine for particular industry                   | 151,9 | 175,1 | 101,0 | -42,3           |
| 2  | Non electrical machinery & mechanical apparatus              | 46,4  | 71,5  | 69,4  | -2,9            |
| 3  | Paper and paper board  | 19,5  | 45,5  | 49,5  | 8,8             |
| 4  | Chemical products  | 46,4  | 60,9  | 49,4  | -18,9           |
| 5  | Taps, valves for pipes                                       | 28,2  | 19,8  | 43,6  | 120,2           |
| 6  | Telecommunication equipment & parts                          | 66,6  | 57,1  | 38,8  | -32,0           |
| 7  | Tubes, pipes hollow profile of steel or iron                 | 32,6  | 55,4  | 37,5  | -32,3           |
| 8  | Electrical apparatus for making electrical circuits          | 22,9  | 42,9  | 28,2  | -34,3           |
| 9  | Heating and cooling equipment and parts                      | 14,2  | 36,1  | 24,9  | -31,0           |
| 10 | Industrial products in plastic including rubber & synthetics | 13,6  | 23,5  | 24,7  | 5,1             |

Source: BPS (Central Bureau of Statistics)

## ITALY IMPORT:

Our survey indicated that Italy's import value in 2009 from Indonesia is reduced to -13.1% compare to 2008, and most of products have been imported from Indonesia including fix vegetable oil, coal, footwear, textile, furniture, chemicals, papers, food products (Tea, coffee, spices), etc. The detail can be found below:

## Italian imports from Indonesia (In million US\$)

|    | Products                                   | 2007  | 2008  | 2009  | Var. %<br>09/08 |
|----|--|-------|-------|-------|-----------------|
| 1  | Vegetable fats & oil                       | 147,3 | 411,6 | 438,3 | 6,5             |
| 2  | Coal, pulverized                           | 281,4 | 477,9 | 360,0 | -24,7           |
| 3  | Footwear                                   | 119,7 | 139,5 | 133,8 | -4,1            |
| 4  | Articles of apparel & clothing accessories | 101,6 | 108,4 | 98,2  | -9,4            |
| 5  | Textile yarn, article cotton               | 151,6 | 127,9 | 89,4  | -30,1           |
| 6  | Food products                              | 58,8  | 99,2  | 86,4  | -12,9           |
| 7  | Chemical products                          | 32,7  | 55,8  | 62,0  | 11,1            |
| 8  | Paper & paper boards                       | 28,2  | 29,5  | 44,2  | 49,8            |
| 9  | Furniture & parts                          | 60,9  | 55,7  | 41,1  | -26,2           |
| 10 | Sound recorders or reproducers             | 10,1  | 8,4   | 36,5  | 334,5           |

Source: BPS (Central Bureau of Statistics)

## AGRICULTURE INDUSTRY

According to the Ministry of Agriculture the total agriculture land in Indonesia is approximately 21 million hectare with three main types of farming as follows:

- 1) Smallholder farming (mostly rice): Approx.23% of total farming land
- 2) Smallholder cropping (Vegetable, fruits, spices, etc): Approx. 21% of total farming land
- 3) Large privately or foreign owned agriculture estates: Approx.56% of total farming land

Small-scale farming is usually carried out on modest plots—those in Java & Sumatera average about 1 ha often without benefit of modern tools and methods, good seed, or fertilizer. Although rice, vegetables, and fruit constitute the bulk of the small farmer's crops, about 20% of output is in cash crops for export. Large privately owned agriculture estates are mostly dealing in large scale plantation such palm oil, coffee, tea, tobacco, sugar, rubber, cocoa, etc.

Because the population is rapidly increasing, the government seeks to achieve food self-sufficiency through expansion to improve farm techniques (especially the use of fertilizers and improved seeds), extension of irrigation facilities, and expanded training for farmers. Production of rice, the staple food, has been gradually increasing, and production comes close to meeting domestic requirements.

This increase has resulted mainly from expanded use of irrigation, fertilizers, and pesticides and cultivation of high-yielding hybrid rice, especially insect-resistant hybrids. It also reflects the success of the government's "mass guidance" program, which provides technical assistance, easy credit terms, and marketing support through a system of village cooperatives.

The country's agribusiness sector still faced the adverse effects of the global financial crisis with weak demand in international markets for commodities such as rubber. The weak demand resulted in shrinking production. However, the condition is expected to improve in 2010. Furthermore, the Indonesian Cacao Association (Askindo) predicted an increase in the country's production of cacao to 500,000 tons in 2010 from an estimated 480,000 tons in 2009. The increase in output came with improve productivity as a result of intensification program, rehabilitation and replanting.

The improvement in the market of the commodities is expected to attract investors to doing business in the plantation sector. The increase in the price of palm oil followed a shrinking production of that commodity and soybean oil as the main basic materials for vegetable oils in the world.

The Association of Indonesian Palm Oil Companies (GAPKI) sets production target for CPO at 20.9 million tons in 2010, up from 19.4 million tons in 2009. In the past three years Indonesia has become the world's largest producer of CPO replacing Malaysia. Indonesia and Malaysia dominate 85% the world's palm oil markets. Indonesia is also a major exporter of a number of other plantation commodities including coffee and rubber, the prices of which have also tended to increase in 2010.

## **AGRICULTURE MACHINERY AND EQUIPMENT**

According our market overview many rice and crops farmers in Indonesia are still using the traditional plough pulled by buffalo and simple irrigation canal. But the private or foreign owned agriculture estates are starting to apply a modern technique of plantation, especially for palm oils, sugar, tobacco, tea, coffee, etc. And therefore, the target market to use modern agriculture equipment can be focused to these plantation estates.

On the other side, the government is always promoting to foreign or domestic investors such "less technology but using as many as manpower instead". This symbolic word is mainly to reduce unemployment and it is part of the government program. In the agriculture sector, the use of high technology equipment is fairly limited but using the manpower is absolutely a must.

Production of agricultural machine and equipment in Indonesia consists of units mainly engaged in assembling machinery for preparing and processing agricultural land for example, tractors and plough machines and machines for the first processing of agricultural crops.

The assembling plants are always in collaboration with foreign companies coming from Japan, China, Taiwan, Germany and USA. The purpose to assemble such equipment in Indonesia is to reduce the production cost.

Referring to the survey, the total value of imports on the agriculture equipment is actually dominated by small and medium tractors with cylinder cap less than 1100cc. The total import value for this type of tractors in 2007 was US\$26.61 million (Italy's market share 4.45%), increasing to US\$32.11 (Italy market share 8.42%) in 2008 and down to US\$12.23 million in 2009 (Italy's market share 9.16%). *As a matter of fact, percentage of import tractors for agriculture from Italy has been increased since 2007 up to 2009.* Many brands of tractors are distributed in the local market including Yanmar, John Deere, Kioti, Daedong, Komatsu, etc. Many of them are imported from Brazil due to the price factor.

According to the Central Bureau of Statistics (BPS), the total import of agriculture equipment was US\$39.98 million in 2007, increased in 2008 by US\$56.07 million and decreased to US\$27.88 million in 2009. Meanwhile, the import quota from Italy in 2007 was US\$2.30 million, down to US\$1.71 million in 2008 and slightly decreased to US\$1.26 in 2009.

#### Agriculture equipment import: (In million US\$)

|                   | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|-------------------|-------------|-------------|-------------|
| Total Import      | 39.98       | 56.07       | 27.88       |
| Import from Italy | 2.30        | 1.71        | 1.26        |
| Quota Italy       | 5.75%       | 3.05%       | 4.53%       |

Source: BPS (Central Bureau of Statistics)

Calculation based on HS.8432.xx, 8433.xx, 8701.xxx

The major countries of exporting agriculture equipment such as machinery for soil preparation, cultivation, weeders, mowers, cutter bars, etc are dominated from Taiwan and China. Indonesia imports hand tractors and tractor for agriculture up to 1100cc mainly from China, Brazil, Taiwan and Japan.

#### Main competitors in agriculture equipment:

| <b>COUNTRY</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|----------------|-------------|-------------|-------------|
| China          | 17.18%      | 18.55%      | 26.41%      |
| Brazil         | 31.34%      | 27.00%      | 21.27%      |
| Taiwan         | 5.35%       | 4.37%       | 8.79%       |
| Japan          | 8.75%       | 11.24%      | 4.48%       |

Source: BPS (Central Bureau of Statistics)

## IMPORT DUTY

Import duty of most agriculture equipment including plough machines, spraying machines, hulling machines, rice milling machines, seed planting machines, fertilizer spreading machines, hand sprayer, etc are: Import duty 0%-5% + 10% Value Added Tax (VAT), except for the hand tractors and tractor for the agriculture the import duty is 15% + 10% Value Added Tax (VAT).

Import duty of agriculture equipment

| Type of equipment                                   | Import Duty % | VAT% |
|---|---------------|------|
| Agriculture equipment in general                    | 0-5           | 10   |
| Hand tractor & tractor for agriculture up to 1100cc | 15            | 10   |

Source:

Ministry of Finance 2010

## CONCLUSION

As one of the most resource-rich and populous emerging-market countries in the world. Indonesian economy has been grown an average of 5% for the last 5 years.

It has ensured its role recently in palm production, mining of coal and gold, offering vast untapped resources in energy and industry. The country's financial system remained resilient to external turmoil even though the capital markets and property came under heavy sell-off pressure. The financial crisis is likely to strengthen Indonesia's global economic and geopolitical standing as it is proving to be less dependent on exports posting growth in the face of weak economic conditions. According to the Bank of Indonesia Indonesia's reserve assets up to June 2010 is US\$74,587 million and its shown the strength of Indonesia's economy in general.

With strong economy condition and stable political situation the government believes that the foreign investment, especially in the agriculture sector will improve compared to last year. In the future to increase the crops harvest, in order to maximize export, the agriculture industry in Indonesia will have no choice but starting to use modern machinery to improve the productivity of the agriculture industry.

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## APPENDIX

### INVESTMENT ON AGRICULTURE SECTOR

The foreign investment on the primary sector including agriculture sector (crops, plantation), forestry, livestock, fishery and mining in Indonesia seems to be stable but slightly increased in 2009.

This primary sector of foreign investment in 2007 was US\$ 4.38 billion and drop significantly to US\$ 1.76 billion in 2008 but increased in 2009 to US\$ 4.42 billion and at present investment for three months in 2010 is US\$ 784 million.

According to the Investment Coordinating Board (BKPM) the most bigger pie to have projects for foreign investment is still dominated by Java, Sumatera, Kalimantan, followed by Sulawesi and Papua. Most of the investments in agriculture sector are involved in food crops, plantation, etc.

There are several incentives to attract the foreign investors to invest in Indonesia such as:

#### 1. Import Duties

All investment projects of PMA as well as PMDN projects which are approved by the Investment Coordinating Board or by the Office of Investment in the respective districts, including existing PMA and PMDN companies expanding their projects to produce similar product(s) in excess of 30% of installed capacities or diversifying their products, will be granted the following facilities:

A. Relief from import duty so that the final tariffs become 0 %. Import duty which are mentioned in the Indonesian Customs Tariff Book. (BTBMI). This is stipulated in the Ministry of Finance's Decree No. 176/PMK.011/2009 dated November 16, 2009 which is effective from December 2009.

- On the importation of capital goods namely machinery, equipments, spare parts and auxiliary equipments for an import period of 2 (two) years, started from the date of stipulation of decisions on import duty relief.
- On the importation of goods and materials or raw materials regardless of their types and composition, which are used as materials or components to produce finished goods or to produce services for the purpose of two years full production (accumulated production time).
- However, the decree as mentioned is not applied to the assembling of cars and motor-bikes except for its component industries.

b. Exemption from Transfer of Ownership Fee for ship registration deed / certificate made for the first time in Indonesia.

## 2. Tax Facilities

The government has introduced a Tax Bill No's 16, 17, 18, 19 and 20 of 2000 and applied since January 1, 2001. Based on this tax law, the domestic and foreign investors will be granted tax allowances in certain sector and/or area as follows:

- An Investment Tax Allowance in the form of taxable income reduction as much as 30 % of the realized investment spread in 6 (six) years.
- Accelerated depreciation and amortization.
- A Loss carried forward facility for period of no more than 10 (ten) years.
- A 10 % income tax on dividends, and possibly being lower if stipulated in the provisions of an existing particular tax treaty.

b. The government has also introduced provisions No's 146 of 2000 of 2000 and 12 of 2001 on the importation and/or delivery of Selected Taxable Goods, and or the provision of Selected Taxable Services as well as the importation and or delivery of Selected Strategic Goods which are exempted from Value Added Tax.

## 3. Export Manufacturing

There are many incentives provided for exporting manufacture products. Some of these incentives are as follows;

- a. Restitution (drawback) of import on the importation of goods and materials needed to manufacture the exported finished products.
- b. Exemption from Value Added Tax and Sales Tax on Luxury goods and materials purchased domestically, to be used in the manufacturing of the exported products.
- c. The company can import raw materials required regardless of the availability of comparable domestic products.

## 4. Bonded Zones

The industrial companies which are located in the bonded areas are provided with many incentives as follows;

- a. Exemption from import duty, excise, income tax of Article 22, Value Added Tax on Luxury Goods on the importation of capital goods and equipment including raw materials for the production process.
- b. Allowed to divert their products amounted to 50% of their export (in term of value) for the final products, and 100% of their exports (in term of value) for other than final products to the Indonesian customs area, through normal import procedure including payment of customs duties.

c. Allowed to sell scrap or waste to Indonesian custom area as long as it contains at the highest tolerance of 5% of the amount of the material used in the production process.

d. Allowed to lend their own machineries and equipments to their subcontractors located outside bonded zones for no longer than 2 (two) years in order to further process their own products.

Exemption of Value Added Tax and Sales Tax on Luxury Goods on the delivery of products for further processing from bonded zones to their subcontractors outside the bonded zones or the other way around as well as among companies in these areas.

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