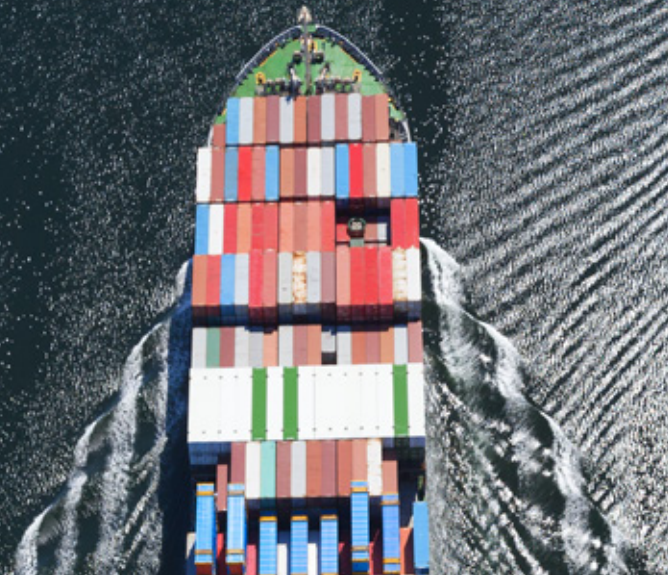


Indonesia Regulatory Update

August 2016



Regulatory Highlights

This publication sets out to highlight at summary level, some of the key current regulatory changes in Indonesia. These important changes have implications for industry, covering a wide range of industries and within these, specific and complex business processes. For further details on any of the items covered, a listing of KPMG Contact Points for further discussion is included at the end of the document. If you wish to receive a full research pack of all of the Indonesia regulatory change then please contact Mark Godson, contact details provided at the end of this document. Hyperlinks to the source documentation (Bahasa Indonesia for most items) are provided as appropriate.

Regulatory updates covered in this publication are as follows:

- Procedures of Securing the Natural-Gas Prices for Certain Industrial Sectors
- Certain Industries Entitled for Inland Free Trade Agreement Facility
- Halal Product Assurance
- Chip-Technology Management Standards for ATM and Debit Cards
- Taxation and Customs Treatment at Special Economic Zones

Energy and Natural Resources Sector

Procedures of Securing the Natural-Gas Prices for Certain Industrial Sectors

Ministry of Energy and Mineral Resources ("MEMR") Regulation No. 16/2016 was issued with the aim to set out procedures for certain businesses regarding the purchase of natural gas at specific prices as mandated by [Presidential Regulation No. 40 of 2016](#) on the Determination of Natural-Gas Prices. Pursuant to the Presidential Regulation, the Minister is authorized to set a specific natural-gas price for certain business sectors, provided that both of the following

conditions are met: the natural-gas price does not match up with the needs of domestic industrial users; and the natural-gas price for businesses exceeds USD 6 per MMBTU. The specific natural-gas price only applies to the following industrial sectors: fertilizers; petrochemicals; oleo chemicals (chemicals derived from plants and animal fats); steel; ceramics; glass; and rubber gloves. Business entities under those categories may submit applications to the MEMR through the Directorate General of Oil and Natural Gas in order to enjoy the benefits of specific natural-gas price.

The application must be supported by the following documents:

1. Recommendation from the Minister of Industry;
2. Audited annual report as a basis of the application; and
3. Existing sale-and-purchase of natural gas contract between the business and oil-and-gas company, or holder of natural-gas commercial business permit.

This regulation has been in force since 22 June 2016 and applies retroactively from 1 January 2016.

(Issued regulation in Bahasa: [MEMR Regulation No. 16/2016](#))

Consumer and Industrial Markets Sector

Certain Industries Entitled for Inland Free Trade Agreement Facility

Ministry of Industry ("MoI") Regulation No. 38/M-IND/PER/6/2016 lists out nine industries sectors entitled for inland Free Trade Agreement ("FTA") facility, namely: farming and forestry machinery (two-wheel tractor and irrigation pump); internal combustion engine; medical (hospital bed); laboratory and pharmaceutical equipment (sphygmomanometer); four-wheel vehicle or more (engine, transmission, chassis); spare parts and accessories for four-wheel vehicle or more (steering system, braking system, suspension system, fuel system, air intake system, motor cooling system,

clutch and cabin); train (carriage and rail); NPK fertilizer; and urea fertilizer. FTA facility exempts industries located in bonded zone (kawasan berikat) from value added tax ("VAT") and raw materials import duties. The FTA facility will be given only to industries which possess Local Content (Tingkat Kandungan Dalam Negeri – "TKDN") Certificate. Local Content Certificate is issued by the Ministry of Trade. This regulation has been in force since 1 July 2016 and is subjected to annual evaluation.

(Issued regulation in Bahasa: [Mol Regulation No. 38/M-IND/PER/6/2016](#))

Halal Product Assurance

Government is currently preparing the issuance of Halal Product Assurance Law. Halal Product Assurance is legal certainty of halalness of a product that is proven by halal certificate. The objective of Halal Product Assurance is to assure security, safety and certainty of the available halal products for public consumption and utilization. Halal certification obligation will be implemented within three stages, starting from 1 November 2016 for food & beverages; 2017 for cosmetics, chemical products, genetic engineering products, consumer goods used, consumed or utilized by people; and 2018 for medicine and biological products. According to the draft regulation of Halal Product Assurance, all of the locations as well as the equipment used for slaughtering, storing, packaging, distributing, selling and presenting must be separated between halal and non-halal products. In addition, they must be maintained for its cleanliness and hygiene, as well as free of non-halal material at all times.

This legislation has significant business process and IT impact for consumer goods, supply chain, and vendor management. Companies will need to ensure that their extended supply chain as well as their own supply chain is compliant. Brand implications for getting this wrong are significant, therefore, businesses need to plan and execute the required changes carefully and prior to November 2016 for food and beverages organizations. To have an informal discussion regarding this with one of our supply chain experts, please contact initially Wah Lee Ho (details provided at the end of this document).

(Draft regulation in English: [Draft regulation of Halal Product Assurance](#))

(Draft regulation in Bahasa: [Draft regulation of Halal Product Assurance](#))

Financial Services Sector

Chip-Technology Management Standards for ATM and Debit Cards

Bank Indonesia ("BI") Circular Letter No. 18/15/DKSP on Chip-Technology Management Standards for ATM and Debit Cards required owners of Automated

Teller Machines ("ATM") and/or the issuers of debit cards to incorporate chips, magnetic strips, and six-digit personal identification numbers ("PIN") into their ATM and debit cards. The ownership of chip technologies for ATM and debits-card standards lies with Bank Indonesia, while the management of chip technologies is to be undertaken by National Standard Organizers. Entities wishing to be acknowledged as National Standard Organizers must first secure approval from BI after fulfilling several requirements set by BI. BI will supervise the management of chip technology undertaken by the National Standard Organizers. This supervision can be conducted either indirectly or directly. National Standard Organizers are also required to submit quarterly and annual reports as well as incidental reports if any disruptive incidents occur or if any changes to personnel take place. The Circular Letter has been in force since 20 June 2016.

(Issued regulation in Bahasa: [BI Circular Letter No. 18/15/DKSP](#))

Customs and Taxation Regulations

Taxation and Customs Treatment at Special Economic Zones

Ministry of Finance ("MoF") Regulation No. 104/PMK.010/2016 on the Treatment of Taxation and Customs at Special Economic Zones ("SEZ") was issued on 1 July 2016 and will come into force 30 days after its date of enactment. Pursuant to article 2 of the regulation, Business Entities (legal entities in the form of a state-owned enterprise, regional-owned enterprise, cooperative, private or joint venture business) and Business Players (legal entities, non-legal entities or individuals conducting business) in SEZ may be granted income tax, VAT, luxury goods VAT, and customs and/or excise facilities. To enjoy such facilities, Business Entities must satisfy the following requirements: stipulated by the local or central government as a business entity that builds and/or manages the SEZ; has an agreement for the construction and/or management of the SEZ with the local or central government; and specifically demarcates the area of activity in the SEZ. While Business Players must fulfill the following requirements to enjoy the facilities: domestic taxpayers, already secured investment principle license from the administrator of the SEZ, and utilizes an IT inventory control system connected to the Directorate General of Customs and Excise and the Directorate General of Taxation ("DGT"). Furthermore, Business Entities in the SEZ are required to provide DGT the authorization to access all of their bank accounts associated with their business operation in order for them to enjoy the facilities.

(Issued regulation in Bahasa: [MoF Regulation No. 104/PMK.010/2016](#))

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