Indonesia
Motor Vehicle Market Overview

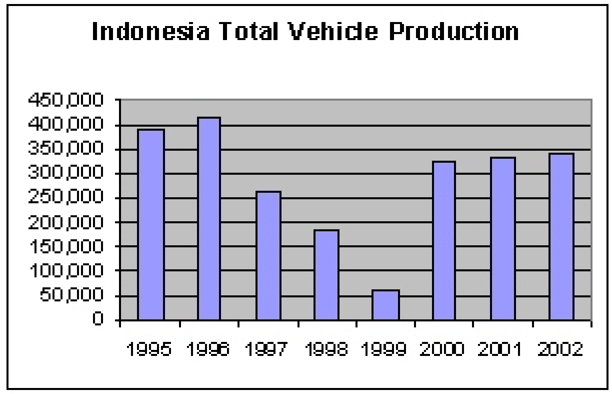

*Chart Source: Automotive News

Imports/Exports

Total U.S. exports to Indonesia in actual U.S. dollars and units

Type	2000	2001	2002
Passenger Vehicles & Light Trucks	$11,002,571	$573,694	[$933,246]
Passenger Vehicles & Light Trucks-UNITS	532	28	17
Medium & Heavy Trucks and Tractors	$1,937,297	$3,917,896	$1,083,273
Medium & Heavy Trucks and Tractors-UNITS	18	29	17

*Data Source: compiled from tariff and trade data from the U.S. Department of Commerce, U.S. Treasury, and U.S. International Trade Commission

U.S. General Imports from Indonesia in actual dollars and units

List of Commodities	2000	2001	2002
Passenger Vehicles & Light Trucks	$22,174	0	$14,360
Passenger Vehicles & Light Trucks-UNITS	2	0	1

*Data Source: compiled from tariff and trade data from the U.S. Department of Commerce, U.S. Treasury, and U.S. International Trade Commission

Market Summary

Indonesia is a member of the Association of South East Asian Nations (ASEAN), a regional economic grouping with combined annual vehicle sales of 1.5 million units in 2003 (see companion paper on the ASEAN Auto market).

With a population of approximately 230 million people, Indonesia is by far the largest potential automotive market in Southeast Asia. Indonesia fell the hardest out of all the ASEAN member economies due to an environment of political instability combined with the economic crisis. However, when the Asian Financial Crisis hit in late 1997, Indonesia was only beginning to realize its potential. Sales in 1998 were down 85 percent, reaching only 58,261 vehicles from nearly 400,000 units in 1997. In 2000, the Indonesian vehicle market achieved meteoric growth, with sales reaching around 299,000 vehicles. The market has continued to recover, reaching 317,607 units in total vehicle sales for 2002. The 2004 forecast for total vehicle sales in Indonesia is an estimated 376,000 units, and automotive experts are fairly optimistic that Indonesia growth will be around 5 to 6 percent in the near term.

The Indonesian automotive market is dominated by two Indonesian firms, Astra and Indomobil, which control 15 of the 28 brands available in Indonesia by serving as contract manufacturers for Japanese and European companies. Like the other ASEAN markets, the Indonesian market is largely controlled by the Japanese manufacturers (Toyota, Mitsubishi, Suzuki, Isuzu, Daihatsu, Honda, Nissan, Hino and Mazda), which, through local assembly and imports, hold 90 percent of the vehicle market. The other ten percent of the market is divided among U.S., European and Korean imports, with the majority coming from Europe.

The Indonesian automotive industry is highly fragmented and primarily focused on assembly operations. No one manufacturer has large volumes of any one kind of vehicle or component, making it difficult to justify investment in more sophisticated processes and components. The 18 car assembly plants in Indonesia have a total production capacity of approximately 450,000 units per year.

U.S. Motor Vehicle Investment in Indonesia

DaimlerChrysler:

Chrysler Corporation signed an agreement with Djakarta Motor Company (DMC) to assemble completely knocked down kits (CKD), which grants to DMC a license to assemble and distribute right-hand drive Jeep Cherokees in Indonesia. Assembly began in 1994. DCM is the sole assembler and distributor of CKDs from Chrysler.

Ford:

PT. Ford Motor Indonesia reentered the Indonesian market in 2002 distributing three main vehicles the Ranger (pickup truck), the Lynx (sedan) and the Escape (SUV model). This purchase represents a significant investment by Ford and is a strong vote of confidence in the Indonesian automotive market, which represents the 2nd largest market in ASEAN, with total sales of over 300,000 cars and trucks per year. The company will shortly introduce the Everest (SUV) made in Thailand into the market.

Ford has also recently taken the first steps to establish Indonesia as a supply force for its plants in Thailand and the Philippines by issuing tenders to local suppliers for components for models to be assembled in ASEAN.

General Motors:

PT General Motors Buana Indonesia (GMBI) was originally set up as a joint venture with PT Garmak Motors Ltd. (GM: 60 percent/PT Garmak: 40 percent). GM now owns 100 percent of GMBI. GMBI began assembling the Opel Vectra sedan in August 1994 and began assembling a U.S.-sourced Chevrolet light commercial vehicles from imported CKD component kits in 1995. GM has invested $110 million in the plant at Bekasi, which has a capacity of approximately 21,000 Chevrolet Blazers and 9,000 passenger cars (Opel Astras and Optimas).

Automotive Background/National Car Program

Indonesia's automotive development plan, initiated in 1993, granted tax/tariff benefits for achieving local content goals. The 1996 Program expanded on these goals and established a National Vehicle. These policies were in violation of several articles of the World Trade Organization (WTO). On October 1, 1996 the United States Trade Representative announced the initiation of a Section 301 investigation of Indonesia's National Car Program. Additionally, the United States, as well as Japan and the European Union brought WTO dispute settlement cases against the Program. Both the 1993 and the 1999 programs were found to be WTO violative. The Government of Indonesia (GOI) budget, per agreement with the International Monetary Fund (IMF), eliminated all special tax, custom and credit privileges for the1996 Program.

On January 15, 1998, as part of its agreement to receive $43 billion in financing from the IMF, Indonesia agreed to end support for its WTO-violative National Car Program. Official Decrees were issued by the GOI on January 21, 1998. As determined by WTO Arbitration, the 1993 program was required to be removed by July 23, 1999. Indonesia cited economic hardship in removing the 1993 program and requested 15 months to replace this program with a new WTO compliant version. Aside from the general macroeconomic conditions, the GOI cited the importance of the employment offered by the 109 manufacturing firms which would be effected by the removal of the 1993 program. The European Union and the United States opposed a 15 month transition and requested arbitration. The arbitrator ruled that Indonesia would receive 6 months for making the necessary legal changes and six additional months to allow for economic hardship. Thus the final date for removal was one year after the original WTO Panel Ruling on the program, or July 23, 1999.

Under the new policy, Indonesia removed all support for the National Car Program and removed all local content requirements. Tariff rates were also significantly lowered for most automotive products. Import duty and luxury tax rates are based on engine size, with lower rates applied to vehicles with smaller sized engines. Lower duty rates are also applied to CKDs verses Completely Built-Up (CBUs) for the same vehicle categories.

Automotive Policy

In July of 1999, the GOI revised its automotive policy, created to replace the 1993 and 1996 automotive programs. For most categories, tariff rates were significantly reduced. One important change made from the previous policies has been the removal of preferential tariff rates based on local content usage. In general, the new tariff rates are based on three factors: vehicle type (e.g. sedan, jeep, truck), engine size (with higher rates for larger size engines), and level of assembly required after importation (i.e. CKD or CBU, with CKDs receiving lower rates).

The new regulations cut tariffs on CBU models from 200 or 105 percent (depending on vehicle type) to between 65 and 80 percent. Tax incentives for local content have been abolished as part of Indonesia's alignment of its auto policy with its WTO obligations.

The luxury tax on vehicles has also been modified. Instead of the previous policy of a flat 35 percent tax for all vehicles (or 20 percent for minibuses), the luxury sales tax on 4,000cc sedans and 4x4 Jeeps or vans was raised from 50 percent to 75 percent. The luxury tax on automobiles with engine capacity between 1,500cc and 3,000cc was increased from 15 percent to 20 percent. This decision had a significant negative impact to the market since 65 percent of the market share belongs to automobiles with engine size between 1,500cc and 3,000cc.

In 2002, U.S. exports to Indonesia totaled $2,016,519. While Indonesia is not a large U.S. market, the luxury tax unfairly discriminates against U.S. manufacturers due to their tendencies to build vehicles with larger engines. The luxury sales tax is very high and burdensome for U.S. automotive companies, as vehicles with larger engine sizes are assessed a higher luxury tax. While imported CBU models will see their prices fall somewhat, higher luxury taxes on sedans with large engines and lower import tariffs on parts for CKD vehicles in Indonesia will keep the market tilted in favor of locally assembled small cars and SUVs.

Taxes:

- In addition to the duty and luxury tax, Indonesia applies a 10 percent Value Added Tax (VAT).

- The [1999] tax increase brought the rate for trucks to 22.47 percent, followed by the tax on sedans (14.87 percent), on jeeps (14.27 percent), on motorcycles (8.12 percent), on dump trucks and tank trucks (6.85 percent), on minibuses (5.14 percent), and on heavy equipment (0.34 percent). Other vehicles such as station wagons, three wheelers, and minivans are excluded from the tax increase.

Other Measures:

Local Content Requirements:

- With the implementation of the automotive policy in 1999, Indonesia removed all local content requirements.

Import Bans and Quotas:

- Used vehicle and automotive parts imports are prohibited.

Investment Requirements:

- Under the Government Regulation No.20/1994 and the Presidential Decree No.31/1995, foreign investors are allowed to acquire 100 percent ownership of their investment in Indonesia and the automotive sector is open for foreign direct investment.

- The minimum capital requirement for foreign investment has been eliminated.

- Under the decrees of the Ministry of Finance No.297/1997 jo., No.545/1997 and No.546/1997, the GOI exempts importation of capital equipment, which includes production machinery and raw materials, from import duties.