



**USAID**  
FROM THE AMERICAN PEOPLE



# STREAMLINING NON-TARIFF MEASURES ON FOOD PRODUCTS IN INDONESIA

Case Study: Milk, Sugar, Salt and Wheat Flour

OCTOBER 2021

DISCLAIMER: This publication is made possible with the support of the American people through the United States for Development Agencies (USAID). Its contents are sole responsibility of DevTech Systems, Inc., and does not necessarily reflect the views of USAID or the United States Government.

## **ACKNOWLEDGEMENT**

This study was prepared by Christina Ruth Elizabeth, Trade Economist, with contribution from Catherine Setiawan, Regulatory Reform Expert, under the guidance of Georgius Joseph Viandrito, USAID EGSA BEE Expert, Renata Simatupang, Chief of Party and Tuti Soepardjo, Deputy Chief of Party. Valuable research support was provided by Puri Mahestyanti, USAID EGSA BEE Research Assistant. The team appreciates the collaboration with the Coordinating Ministry of Economic Affairs Republic of Indonesia under the guidance of Tatang Yuliono, Assistant Deputy for Trade Facilitation.

## EXECUTIVE SUMMARY

The pandemic has impacted Indonesian macroeconomic performance and the competitiveness of domestic industries. The manufacturing sector is more affected by the pandemic than the agricultural sector. Only a few manufacturing industries had positive growth; the food and beverage industry are one of those sectors (3.94% QW-I 2020). However, the food and beverage industry still depend on the imported input as 70-80 percent of input is imported, particularly for sugar, salt, milk, and flour.

Non-tariff measures (NTMs) are intensively imposed on food products. Indonesia imposes both tariffs and NTMs on imported food products. While tariffs decreased, NTMs increased on food products; 98 percent of imported food is affected by at least 1 NTM. Overall, the main objectives of NTMs imposed on imported food products are to protect consumers' health and safety, the environment, and absorb local production.

The literature on NTMs shows that NTMs may have two potential effects, both positive and negative. It can improve consumer welfare by ensuring product quality and safety. However, the NTMs may also increase the prices of the products due to the cost of compliance. Nowadays, NTMs on imported intermediate inputs have become a concern for trade negotiations as the cost of compliance of NTMs, particularly on imported inputs, may affect not only the consumer but also producer welfare. NTMs may increase the cost of production, increase the price of final products and reduce the competitiveness of the domestic industry in the global market.

The objectives of this study are as follows: *First*, to identify NTMs regulation and issuing institution of four selected food commodities (Milk, Sugar, Salt, and Wheat Flour). *Second*, to identify challenges and obstacles on procedures and the cost of compliance of NTMs faced by the private sector. *Third*, to identify challenges and obstacles on the design, implementation, and coordination of NTMs faced by relevant Ministry or Government Institutions. *Fourth*, formulate a roadmap to streamline NTMs on food products.

We used the United Nations Conference on Trade and Development (UNCTAD) framework to review NTMs on the four food products in five strategic steps. In the first step, we identified and selected the important intermediate inputs in the food industry. We found that milk, sugar, salt, and wheat flour are important inputs in the food and beverage industry. The proportion of imports of those products is still high in Indonesia. In this step, we also identified the NTMs imposed on the selected products using the official regulations published on the online government website. We conducted a comprehensive review of NTM regulation from relevant Ministries and validated whether the regulation is still applied or repealed on the four selected products. In the second step, for the stakeholder identification, we carried out two identification processes. First, we tracked the issuing institution of NTMs, which are the relevant Ministries. Second, we regulated firms or associations which were affected by the NTMs. In the third step, for stakeholder engagement, we conducted Focus Group Discussions (FGDs) and in-depth interviews to gather information regarding the challenges and obstacles of the implementation, coordination, and design of NTMs. In the fourth step, we analyzed the information from the FGD and an in-depth interview. Lastly, we formulated the policy option.

We collected both primary and secondary data to gather comprehensive information regarding NTMs on food products. We conducted FGDs and in-depth interviews to obtain primary data. We also used secondary data for analysis, such as documents of official regulations published on the online website of GOI, Central Statistics Agency, World Bank, Trade Map, UNCTAD, WTO, WITS, USDA, Observatory of Economic Complexity (OCE), and BACI.

We identified several challenges and obstacles from the private sector FGD. We found that procedures and registrations, certification, labeling, and halal certification were the main issues for milk commodities. Meanwhile, import licensing, overlapping regulations, NTMs related logistic costs,

and product standards (SNI) were the main concern for sugar commodities. Product quality and standards, availability of raw materials, and seaport restrictions were the main challenges for users and importers of salt commodities. Furthermore, upgrading the technology of testing laboratory, standards and VAT treatment were the main concerns for wheat flour.

We identified and classified three main issues from the private sector FGD results. First, the overlapping NTMs, namely, Ministry of Marine and Fisheries Regulation No. 33 / 2021 regarding port restriction for salt and Law No. 23 / 2014 regarding local government, which requires the recommendation of the district government to import milk products. Second, excessive NTMs, such as the Ministry of Industry Regulation No. 3 / 2021 regarding restrictions on sugar factories, which state that sugar factories must have a business license to import since May 25, 2010. The private sector considered that this regulation increased the price of sugar as the factories are concentrated in several areas and affect the availability of sugar as a production input of the food and beverage industry. Another relevant regulation is Government Regulation No. 39 / 2021 concerning the implementation of the mandatory halal certification which requires the importer to obtain a halal certificate from an institution recognized by the government from the import origin country. This rule is considered difficult to fulfill because the government has no authority over religious issues in several countries. Third, NTMs need to be facilitated. SMEs tend to find NKV and Halal requirements challenging to fulfill. The government can provide assistance to improve the standard of sugar and salt, improve production technology in sugar mills, and improve technology for farming systems and local salt processing. Lastly, the government can also upgrade laboratory technology for testing requirements.

The results of the Government FGD highlighted ten critical aspects of the design, coordination, and implementation of NTMs. First, the purpose of NTMs is generally described in the document, although some of the objectives of NTMs are not described in detail. Second, policy designs are generally carried out in the relevant departments. The review process is rarely carried out both from internal Ministries/Agencies (K/L) and between K/L. The Coordinating Ministry of Economic Affairs (CMEA) plays a more important role in harmonizing existing regulations. Third, the implementation process is in accordance with the plan and does not cause high implementation costs. Fourth, the cost to implement NTMs was not significant. Fifth, the main objective of applied NTMs is for consumer protection and absorption of local products. Import permits are used to control the absorption of domestic supply. Firms are required to receive a recommendation from the relevant ministry to obtain an import permit. Sixth, relevant ministries conduct NTM dissemination for the private sector using the FGD forum and publish updated regulations on the official website. Technical staff can provide more detailed data and procedures of updated or new NTMs. Seventh, coordination between stakeholders is mainly carried out for products regulated by quotas. The implementation of the seaport restriction for salt is considered poorly coordinated NTMs. Eighth, several ministries have allocated resources for capacity building, particularly the Ministry of Industry. Other ministries do not allocate many resources to facilitate the business sector to fulfill NTMs. Ninth, CMEA has identified overlapping regulations. The government regulation derived from the Job Creation Law is expected to be the basis for every relevant Ministry to facilitate business sectors to ensure the availability of raw material. Tenth, NTMs related to the protection of consumer health and safety (SPS and TBT) are considered effective. NTMs related to quotas are considered ineffective in achieving the objectives. The upcoming rules for commodity balance are expected to improve the effectiveness of quotas.

There are 7 key words from our policy recommendation, namely, Coordination, Regulatory Harmonization, Simplification, Transparency, Capacity Building, Facilitation, and Standard Harmonization. The detailed recommendations are as follows: First, improve NTMs coordination among relevant ministries and institutions. Second, harmonize NTMs regulation with the Job Creation Law (Omnibus Law) and its derivatives. Third, simplify NTM procedures using online systems. Fourth, increase stakeholder engagement and transparency. Fifth, provide SME assistance to improve their capacity to comply with NTMs. Sixth, increase trade facilitation and improve the infrastructure of NTMs. Seventh, harmonize standards to international standards.

This study depicts good results and has accomplished all review objectives successfully. We obtained several achievements: First, we can provide updated NTMs regulations to the CMEA. We have reviewed 106 regulations to provide comprehensive NTMs regulations on the four specific products. Second, we received a good response from the private sector. The FGD was attended by 66 participants, primarily high-level executives such as CEOs, owners, investors, senior managers, and members of associations in the food and beverage industry. Third, as stated by the Assistant Director of the trade facilitation division, this FGD was the first NTMs FGD that involved various ministries in Indonesia. We received good responses and support from government officials. They considered that the review was highly effective as it was conducted on specific commodities. The results of the review could support the policy of Commodity Balance, conducted by the CMEA, which is an important policy to improve import transparency.

This study also contributed to several strategic NTM policies. First, it has been used as the draft to repeal the regulation of seaport restriction on imported salt, which causes high logistic costs. Second, it has been used to accelerate the implementation of Commodities Balance rules in improving import transparency. Third, it has been used to rationalize and draft the revision of Government Regulation (PP) No. 5 / 2021 regarding the Implementation of Risk-Based Business Licensing. Fourth, it has been used to harmonize NTMs on food products of the Omnibus Law and its derivatives, particularly Government Regulation No. 28 and 29 / 2021 regarding the implementation of the industrial and trade sectors.

## ACRONYMS

AGRI	Asosiasi Gula Rafinasi Indonesia
AIPGI	Asosiasi Industri Pengguna Garam Indonesia
AIPS	Asosiasi Industri Pengolahan Susu
APTINDO	Asosiasi Produsen Tepung Terigu Indonesia
ASEAN	Association of Southeast Asian Nations
BACI	Base pour l'Analyse du Commerce International
BPJH	Badan Penyelenggara Jaminan Produk Halal
CMEA	Coordinating Ministry of Economic Affairs
FGD	Focus Group Discussion
GAPMMI	Gabungan Pengusaha Makanan dan Minuman Indonesia
GOI	Government of Indonesia
INSW	Indonesia National Single Window
NKV	Nomor Kontrol Veteriner
NTM	Non-Tariff Measures
OCE	Observatory of Economic Complexity
SNI	Standar Nasional Indonesia (Indonesia National Standard)
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
UNCTAD	United Nations Conference on Trade and Development
USDA	US Department of Agriculture
VAT	Value Added Tax
WTO	World Trade Organization
WITS	World Integrated Trade Solution

## CONTENTS

ACKNOWLEDGEMENT	I
EXECUTIVE SUMMARY	I
ACRONYMS	I
1 INTRODUCTION	I
2 METHODOLOGY	2
2.1. REVIEW FRAMEWORK	2
2.2. DATA COLLECTION	2
2.3. PRODUCT SELECTION	3
2.4. COMPREHENSIVE REVIEW OF NTMS RELATED REGULATIONS	4
3 DATA ANALYSIS	5
3.1. FGD QUESTIONS	5
3.2. FGD RESULTS	6
4 POLICY RECOMMENDATION	9
5 RESULTS AND WAY FORWARD	10
REFERENCES	12

## LIST OF FIGURES

Figure 1: Framework for NTM Review .....	2
Figure 2. Framework of Regulatory Review .....	5
Figure 3: Main Issues of NTMs Faced by the Private Sector .....	8
Figure 4: Policy Recommendation to Streamline NTMs .....	9

## I INTRODUCTION

The pandemic has impacted Indonesian macroeconomic performance and the competitiveness of domestic industries. Currently, the GOI is prioritizing the policy and program to accelerate the recovery of economic growth and competitiveness of the domestic industry. The manufacturing sector is more affected by the pandemic than the agricultural sector. Only a few manufacturing industries had positive growth; the food and beverage industry are one of those sectors (3.94% QW-I 2020). The food and beverage industry still relies on imported input as 70-80% of input is imported, particularly for sugar, salt, milk, and wheat flour.

Non-tariff measures (NTMs) are intensively imposed on food products. Indonesia imposes tariffs and NTMs on imported food products. While tariffs decreased, non-tariff measures (NTMs) have increased on food products. 98% of imported food is affected by at least 1 NTM. Overall, the main objectives of NTMs imposed on imported food products are to protect consumers' health and safety, the environment, and absorb local production.

According to the United Nations Conference on Trade and Development (UNCTAD) definition, NTMs are policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade of goods, changing quantities traded or prices, or both (UNCTAD, 2010). The literature on NTMs shows that NTMs may have two potential effects, both positive and negative. It can improve consumer welfare by ensuring product quality and safety. However, the NTMs may also increase the price of products due to the cost of compliance. Nowadays, NTMs on imported intermediate inputs have become a concern for trade negotiations as the cost of compliance of NTMs, particularly on imported inputs, may affect not only consumer but also producer welfare. NTMs may increase the cost of production, increase the price of final products and reduce the competitiveness of the domestic industry in the global market.

Food products are important commodities for Indonesia's international trade. In 2020, exports and imports proportion of food products were 20.3% and 10.6% with accumulated growth of 74% and 31%, respectively. Indonesia is the largest exporter and importer of food products in ASEAN, followed by Thailand, Malaysia, and Singapore. While tariffs decreased, NTMs increased on food products. The Most Favored Nation (MFN) applied tariffs were 5.6% in 2010 and decreased to 4.9% in 2018. Meanwhile, the number of NTMs on food products was only 58 in 2010 and increased to 325 in 2018.

The types of NTMs that are most widely applied to food products are SPS (Sanitary and Phytosanitary), TBT (Technical Barriers to Trade), pre-shipment inspection, and quotas. 97% of food imports are affected by SPS, 49% are affected by TBT, 42% of the value of imports are affected by pre-shipment inspection, and 24% of the value of imports are affected by quotas. SPS and TBT are applied to protect consumer health and safety, as well as protect the environment. Those NTMs are allowed to be used following WTO disciplines.

The objectives of this study are as follows:

1. Identify NTMs regulation and issuing institution of four selected food commodities (Milk, Sugar, Salt and Wheat Flour).
2. Identify challenges and obstacles on the procedure and cost of compliance of NTMs faced by the private sector.
3. Identify challenges and obstacles on the design, implementation and coordination of NTMs faced by relevant Ministry or Government Institutions.
4. Formulating a roadmap to streamline NTMs on food products.



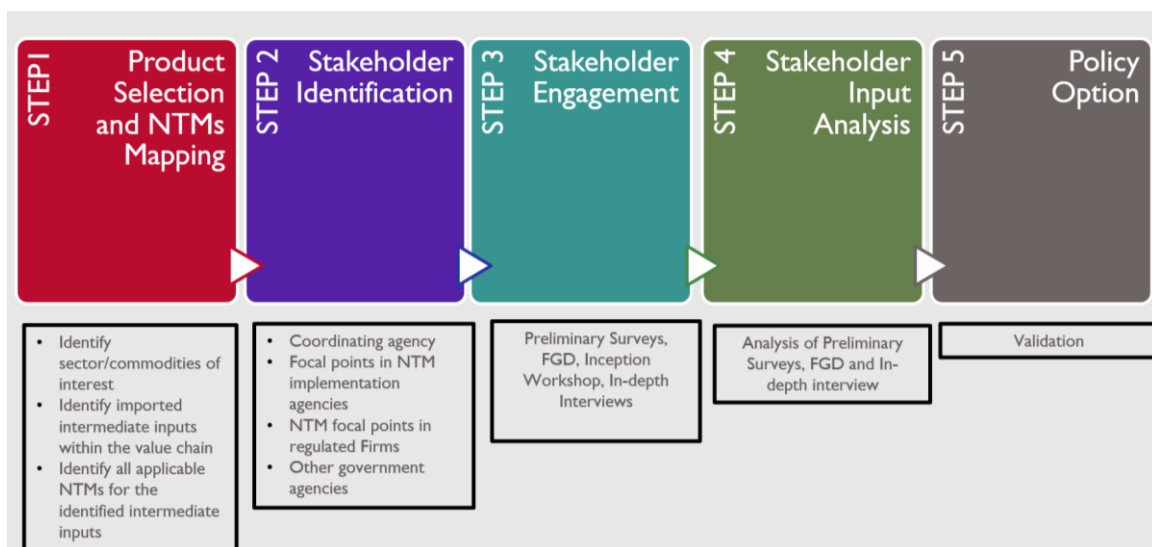
## 2 METHODOLOGY

### 2.1. REVIEW FRAMEWORK

We used the UNCTAD framework to review NTMs on the food products as shown in Figure 1. We reviewed NTMs on the four food products in five strategic steps. In the first step, we identified and selected the important intermediate inputs in the food industry. We found that milk, sugar, salt and wheat flour are important inputs on the food and beverage industry. The proportion of imports of the four products are still high in Indonesia. In this step, we also identified the NTMs imposed on the four products using the official regulations published on the online government website. We conducted a comprehensive review of NTMs regulation from relevant Ministries and validated whether the regulation is still applied or repealed on the four selected products.

In the second step, for the stakeholder identification, we carried out two identification processes. First, we tracked the issuing institution of NTMs, which are the relevant Ministries. Second, we regulated firms or associations which were affected by the NTMs. In the third step, for stakeholder engagement, we conducted Focus Group Discussions (FGDs) and in-depth interviews to gather information regarding the challenges and obstacles of the implementation, coordination and design of NTMs. In the fourth step, we analyzed the information from the FGDs and in-depth interviews. Lastly, we formulated the policy option.

Figure 1: Framework for NTM Review



Source: UNCTAD, 2020

### 2.2. DATA COLLECTION

We collected both primary and secondary data to gather comprehensive information regarding NTMs on food products.

#### PRIMARY DATA

- Focus Group Discussion (FGD)**, five FGDs were conducted to identify the challenges and obstacles for the implementation and design of NTMs:

- FGD on Milk Products, held on July 28, 2021, was attended by representatives of the Coordinating Ministry for Economic Affairs (CMEA), GAPMMI (Indonesian Food and Beverage Association), and AIPS (Association of Dairy Processing Industries).
- FGD on Wheat flour Products, held on Thursday, July 29, 2021, was attended by APTINDO (Association of Indonesian Wheat Flour Producers) and CMEA.
- FGD on salt products, held on Friday, July 30, 2021, was attended by GAPMMI (Indonesian Food and Beverage Producers Association), and AIPGI (Association of Salt User Industries) and CMEA.
- FGD on sugar products, held on Friday, July 30, 2021, was attended AGRI (Indonesian Refined Sugar Association), GAPMMI (Indonesian Food and Beverage Association), PT. Makassar Tene and CMEA.
- Government FGD, held on September 17, 2021, was attended by representatives of relevant ministries, namely: Ministry of Agriculture, Ministry of Trade, Ministry of Industry, Food and Drug Supervisory Agency, the Halal Product Guarantee Agency (BPJPH), and CMEA.

(b) **In-depth interviews** with relevant government officials held on October 11, 2021, were conducted to obtain information on the design and coordination of NTMs.

## SECONDARY DATA

We used documents of official regulations published on the online website of the GOI, Central Statistics Agency, World Bank, Trade map, UNCTAD, WTO, WITS, USDA, Observatory of Economic Complexity (OCE), and BACI.

### 2.3. PRODUCT SELECTION

The four selected commodities have been chosen for three main reasons. First, the products are important inputs in the food and beverage industry. Second, the supply of domestic or local production of the four products is not sufficient in supporting the needs of the food and beverage industry. Third, NTMs are intensively imposed on these four products.

- **Milk:** The domestic milk industry is only able to meet 20% of milk consumption in Indonesia. The dairy industry requires the input of dairy products used in the processing of the food and beverage industry, generally in the form of skim milk powder, milk powder, and whey powder.
- **Sugar:** Domestic demand for sugar is 5-6 million tons per year, but the domestic production of sugar is only 2 million tons per year. In the last few years, the demand for sugar, particularly refined sugar, has increased significantly in the food and beverage industry. However, quota restriction does not allow producers of food and beverage industries to directly import refined sugar. They are required to buy refined sugar from refined sugar producers. Only refined sugar producers (AGRI) are allowed to import sugar. However, the quantity of imported sugar is determined by the production plan of firms in the food and beverage industry.
- **Salt:** Salt demand increased in the last few years. The average domestic demand is 4.3-4.5 million tons per year, but domestic salt production can only meet 1.6-1.8 million tons per year. In 2020, domestic production was targeted to reach 3 million tons, but the realization was only 1.3 million tons.
- **Wheat:** The wheat flour industry relies on imported wheat as the primary source of raw material. The increase in wheat imports is not due to the increased demand for in the wheat

flour industry, but due to increased import for the animal feed industry to replace corn, which imports are prohibited.

## 2.4. COMPREHENSIVE REVIEW OF NTMS RELATED REGULATIONS

We conducted a comprehensive review of NTMs related regulation from relevant Ministries and validated whether the regulation is still applied or repealed on the four selected products. We conducted the comprehensive review in four strategic steps.

First, we identified NTMs on the selected products from relevant ministries and institutions. We reviewed 106 regulations. We identified 32 NTMs regulations related to sugar, 31 on milk, 20 on salt, and 23 on wheat flour.

Second, we checked whether the NTMs were still applied, amended, or repealed. For the updated and enforced NTMs, we carried out NTM classifications using UNCTAD classifications. We classified NTMs from the articles of the updated regulation.

Third, we reviewed the relevant Law or Regulation of the Ministerial Regulation. This step aims to identify whether the regulation is harmonized or disharmonized.

Fourth, we reviewed NTMs technical or procedures from relevant ministries' websites. We found that several NTMs are published in more detail on websites than in the documents.

From those comprehensive reviews, we highlighted the key or important NTM regulations on the four selected products, as follows:

### MILK

- Ministry of Agriculture Regulation No. 65/PERMENTAN/PD/410/5/2014 regarding animal quarantine measures on the import and export of materials of animal origin for consumption.
- Ministry of Agriculture Regulation No. 11 / 2020 regarding certification of veterinary control number of animal products businesses.
- Food and Drug Agency Regulation No. 29 & 30 / 2017 regarding the supervision of importation on drugs and food into the Indonesian territory.
- Ministry of Trade Regulation No. 29 / 2019 regarding provisions for export and import of animals and animal products.

### SUGAR

- Ministry of Agriculture Regulation No. 03/KPTS/KB.410/1/2003 regarding mandatory application of product standards (SNI) for raw crystalized sugar.
- Ministry of Trade Regulation No. 14 / 2020 regarding sugar import provisions.
- Ministry of Industry Regulation No. 3 / 2021 regarding the guarantee of availability of raw materials for sugar industry in fulfillment of national sugar needs.

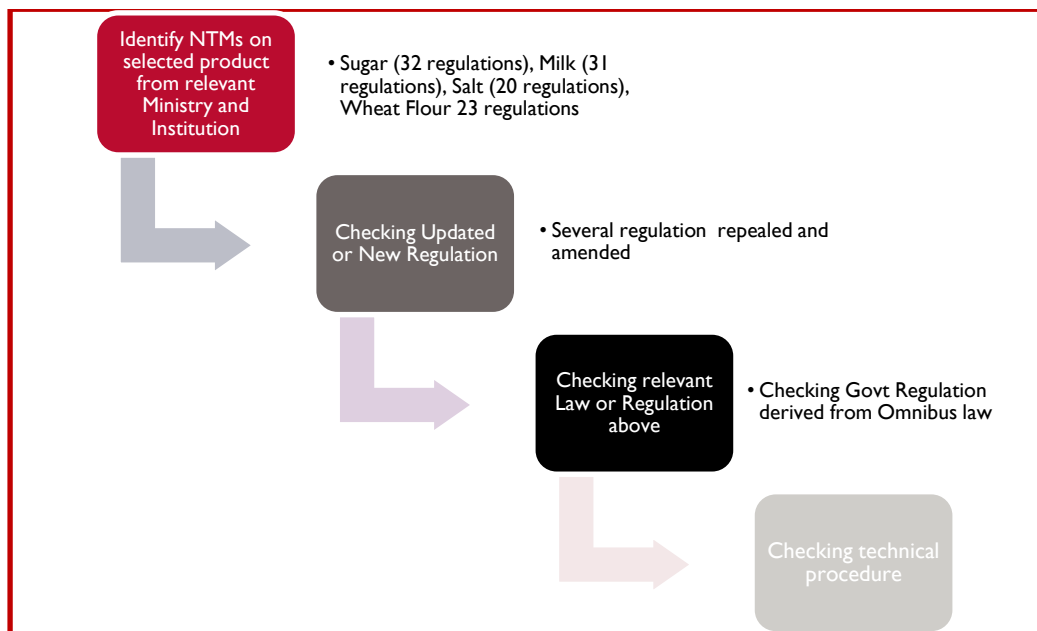
### SALT

Ministry of Marine and Fisheries Regulation No. 66/PERMEN-KP/2017 regarding the control of salt commodity imports.

## WHEAT FLOUR

Ministry of Industry Regulation No. 1 / 2021 regarding mandatory implementation of Indonesian national standards of wheat flour as food ingredients (SNI 3751:2018).

Figure 2. Framework of Regulatory Review



Source: Author's illustration, 2021

## 3 DATA ANALYSIS

### 3.1. FGD QUESTIONS

The FGDs were conducted separately between the private and government sectors to allow the private sector to freely discuss the challenges and obstacles in implementing NTMs and their cost of compliance.

In the private sector FGD, we discussed seven main aspects of the implementation of NTMs:

1. Administrative Formalities: Are administrative processes and requirements streamlined?
2. Time Constraints: Do firms face any time constraints when complying with the NTMs?
3. Transparency: Is the private sector fully aware of all NTMs, their rationale, and procedural requirements for compliance?
4. Quality of Implementation Staff: Is the implementation staff professional and competent?
5. Agency Support: Is the firm receiving adequate support from responsible agencies to ensure smooth compliance?
6. Compliance Costs: To what extent do these NTM impose a high-cost burden on the firm?
7. Benefits: Does the firm see any benefits arising from the NTMs?

Meanwhile, for Government FGD, we discussed ten important aspects of designing, coordinating, and implementing NTMs, particularly on the four selected products. These aspects were as follows:

1. NTM Objectives: Are NTM objectives clearly defined?

2. **NTM Design and Review Process:** Has the NTM been designed carefully through a consultative process and by accounting for international standards?
3. **The Implementation Process:** Is the stepwise procedure for implementation clearly defined?
4. **Implementation Time:** How efficient is the implementation process (for NTMs related to inspections and testing)?
5. **Implementation Costs:** Does the NTM implementation impose a high-cost burden on the agency?
6. **Transparency:** Has the agency taken adequate measures to ensure that the regulated firms are fully aware of the NTM, its rationale, and procedural requirements for compliance?
7. **Stakeholder Coordination:** Is the measure implemented in coordination with other relevant government agencies to avoid duplication?
8. **Resource Allocation:** Has the government agency allocated adequate resources for smooth implementation of the NTM?
9. **Facilitating Smooth Compliance:** Is the government agency taking adequate measures to identify and eliminate any bottlenecks to ensure compliance by the regulated firms and putting systems in place that makes compliance easier?
10. **Effectiveness:** Is the NTM achieving its designed objective?

### 3.2. FGD RESULTS

We summarized the results of FGDs in two sections. The first section is private sector FGD results, and the second section is Government FGD results.

#### PRIVATE SECTOR FGD RESULTS

##### MILK PRODUCTS

1. **Procedures and registrations:**
  - Import recommendation from the Ministry of Agriculture requires local government approval, which usually takes time.
  - Offline approval from the Ministry of Agriculture takes time and is not integrated.
  - Business Registration for milk importers takes approximately 2 years to obtain.
  - Import licenses are too short as they are only valid for 6 months.
2. **Certification:** The certification requirement for Animal Control Registration (NKV) is applied for all milk importers. For SMEs and small importers, the costs to provide large storage and transportation are significant.
3. **Labelling:** The labeling requirement of NKV creates additional costs while the benefits of the tracking system cannot be used directly by the consumer.
4. **Halal:** The issuing institution for halal certification needs to be recognized by the government of the import origin country, while governments of many countries do not regulate religious affairs. The registration of halal certification based on the importer entity and not the exporter entity causes inefficiencies.

##### SUGAR PRODUCTS

1. **Import Licensing:** The importer (AGRI) has a tight deadline for quota decision on CMEA, which causes higher prices and supply difficulty of raw sugar. For the food industry, the abolition of the mandatory contract from AGRI's import plan creates potential uncertainty to obtain raw sugar supply.
2. **Overlapping Regulations:** The Ministry of Finance applied significant penalties on any discrepancies in the import documents for sugar, while for quota products, the basis of the import document should be a total of 6 months of imports.
3. **NTMs and Logistic Costs:** The refined sugar factories, which can import raw sugar and produce refined sugar, are concentrated in Banten and Medan District, North Sumatra. Industries outside of these areas need to pay significant transportation costs.

4. **Product Standard (SNI):** The standard quality of sugar needs to be improved and harmonized to conform to international standards.

## SALT PRODUCTS

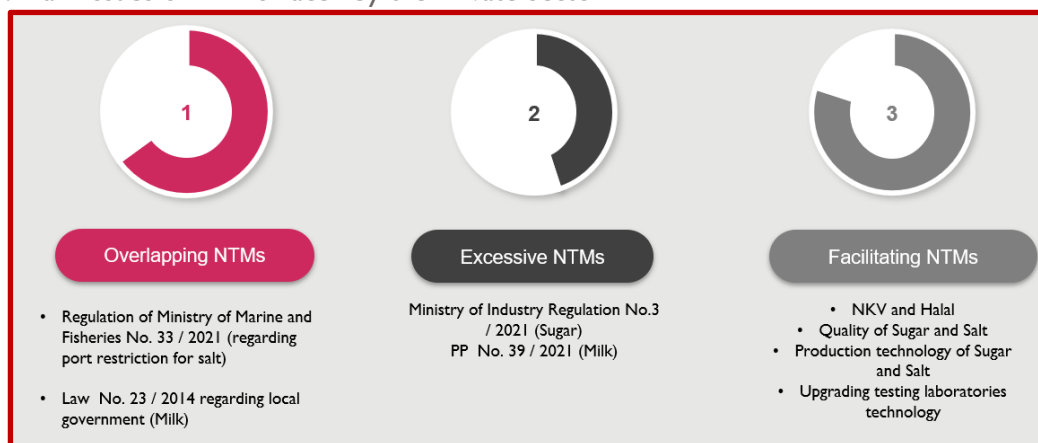
1. **Quality and Standard:** The regulation on local salt absorption before obtaining an import quota results in a salt supply that does not meet the standards of the food industry. Industries for food seasoning, noodles, butter, and snacks require salt with low water content.
2. **Availability of Raw Materials:** Limited import quotas impact production capacity and costs. Distributors and investors of snacks and seasoning industries have shifted their demand and investment to Thailand and Malaysia.
3. **Seaport Restriction:** The Minister of Marine and Fisheries Decree No. 33 of 2021 restricted seaports for imported salt, causing significant logistical costs.

## WHEAT FLOUR

1. **Laboratory Infrastructure:** The government needs to improve technology and laboratory capacity for larger and more automated data processing for the purpose of product standards assessment.
2. **Standard Treatment:** Wheat is an unregulated import commodity in which product quality is not being regulated. However, flour produced domestically has strict SNI standard prerequisites, especially related to flour fortification.
3. **VAT Treatment:** Wheat for the flour industry is subject to import VAT (Value Added Tax). Wheat for the animal feed industry is VAT free.

We identified and classified three main issues from the private sector FGD results, as shown in Figure 3. First, the overlapping NTMs, namely, Ministry of Marine and Fisheries Regulation No. 33 / 2021 regarding port restriction for salt and Law No. 23 / 2014 regarding local government, which requires the recommendation of the district government to import milk products. Second, excessive NTMs, such as the Ministry of Industry Regulation No. 3 / 2021 regarding restrictions on sugar factories, which state that sugar factories must have a business license to import since May 25, 2010. The private sector considered that this regulation increased the price of sugar as the factories are concentrated in several areas and affect the availability of sugar as a production input of the food and beverage industry. Another relevant regulation is Government Regulation No. 39 / 2021 concerning the implementation of the mandatory halal certification which requires the importer to obtain a halal certificate from an institution recognized by the government from the import origin country. This rule is considered difficult to fulfill because the government has no authority over religious issues in several countries. Third, NTMs need to be facilitated. SMEs tend to find NKV and Halal requirements challenging to fulfill. The government can provide assistance to improve the standard of sugar and salt, improve production technology in sugar mills, and improve technology for farming systems and local salt processing. Lastly, the government can also upgrade laboratory technology for testing requirements.

Figure 3: Main Issues of NTMs Faced by the Private Sector



Source: Author's illustration, 2021

### GOVERNMENT FGD RESULTS

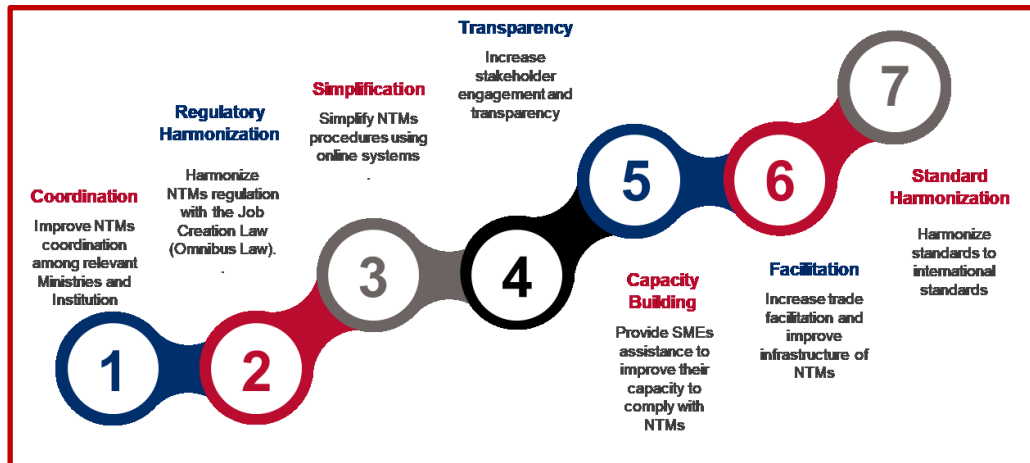
The points below summarize the results of Government FGD. These results highlight the critical aspects for the design, coordination, and implementation of NTMs, namely:

1. **NTMs Purpose:** The purpose of NTMs are described in the document although some of the objectives of NTMs are not described in detail.
2. **Design & Review NTMs:** Policy designs are carried out in the relevant departments. The review process is rarely carried out both from internal Ministry/Agencies (K/L) and between K/L. The Coordinating Ministry of Economic Affairs plays a more important role in harmonizing existing regulations.
3. **Implementation Process & Time:** The implementation process is in accordance with the plan and does not cause high implementation costs.
4. **Implementation Costs:** The cost to implement NTMs are not significant.
5. **Implementation Strategy:** The main objective of applied NTMs is for consumer protection and absorption of local products. Import permits are used to control the absorption of domestic supply. Firms are required to receive a recommendation from the relevant ministry to obtain an import permit.
6. **Transparency:** Relevant ministries conduct dissemination of NTMs for the private sector using the FGD forum and publish the updated regulations on the official government website. Technical staff can provide more detailed data and procedures of updated or new NTMs.
7. **Stakeholder Coordination:** Coordination between stakeholders is carried out for products regulated by quotas. The implementation of the seaport restriction for salt are poorly coordinated NTMs.
8. **Resource Allocation:** Several ministries have allocated resources for capacity building, particularly the Ministry of Industry. Other ministries do not allocate many resources to facilitate the business sector to fulfill NTMs.
9. **Facilitating NTMs:** CMEA has identified overlapping regulations. The government regulation derived from the Job Creation Law is expected to be the basis for every relevant ministry to facilitate business sectors to ensure the availability of raw material.
10. **Effectiveness:** NTMs related to the protection of consumer health and safety (SPS and TBT) are considered effective. NTMs related to quotas are considered ineffective in achieving the objectives. The upcoming rules of commodity balance are expected to improve the effectiveness of quotas.

## 4 POLICY RECOMMENDATION

There are 7 key words from our policy recommendation as shown in Figure 4, which are Coordination, Regulatory Harmonization, Simplification, Transparency, Capacity Building, Facilitation and Standard Harmonization.

Figure 4: Policy Recommendation to Streamline NTMs



Source: Author's illustration, 2021

The detailed recommendations and strategic steps are as follows:

1. Improve NTMs coordination among relevant Ministries and Agencies.
  - Increase coordination meetings between relevant Ministries/Agencies, particularly before the implementation of NTMs.
  - Before implementing NTMs, Ministries/Agencies should analyse the impact of NTMs, including risk analysis (as mentioned in section 7 of Presidential Instruction No. 7 / 2017). This analysis should be discussed in the coordination meeting to calculate the feasibility of NTMs.
  - Increase capacity building for the government agency to conduct risk analysis and RIA (Regulatory Impact Assessment).
  - Increase coordination for burdensome NTMs across sectors.
  - Conduct periodic reviews of NTMs, particularly for strategic commodities used as production inputs.
2. Harmonize NTMs regulation with the Job Creation Law (Omnibus Law).  
 In Indonesia, the scope of NTMs regulation is mostly related to industrial, trade, and investment policies. NTMs from the lower order must be harmonized to the highest hierarchy, namely Omnibus Law No. 21 / 2020. In addition, NTMs also need to harmonize to three derivations of Omnibus Law, namely Government Regulation No. 5 / 2021 regarding the Implementation of Risk-Based Business Licensing, Government Regulation No. 28 / 2021 regarding the Implementation of the Industrial Sector, and Government Regulation No. 29 / 2021 regarding the Implementation of the Trade Sector.
3. Simplify NTMs procedures using online systems  
 The simplification of procedures and documents of NTMs is intended to reduce time and trade costs. Below are several recommended steps:



- Integrating the online system across ministries and agencies. With an integrated system, all relevant ministries and agencies can monitor the progress of applications and evaluate which documents have and have not been fulfilled.
  - Accelerate the implementation of Commodity Balance rules. These rules also aim to ensure the availability of industrial inputs.
  - Improve the online system for all required documents, including recommendation documents for local (district or provincial) governments.
4. Increase stakeholder engagement and transparency
- Dissemination and transparency are important aspects to increase the responsibility of business actors in fulfilling NTMs requirements. Several efforts could be taken to improve this issue, namely:
- Invite and involve the private sector in the process of the design of NTMs to identify potential obstacles from the private sector's point of view.
  - Frequently invite the private sector in dissemination events of new NTMs regulation so that the private sector can be well prepared with the resources to fulfil the requirements.
  - Regarding transparency, the Government needs to publish more detailed NTMs on the online INSW (Indonesia National Single Window) website and increase notifications to the WTO (particularly for SPS and TBT measures).
5. Provide SME assistance to improve their capacity to comply with NTMs
- NTMs can create a cost of compliance. For SMEs with small-scale production, the cost of compliance is higher compared to large companies as SMEs have smaller production scales. For SMEs, the average fixed costs are higher than in large companies. For example, a required NKV certificate to import milk creates high fixed costs for SMEs since they need to invest in warehouse and transportation with a cooler as required by the certification. Government can provide financial assistance or allowances for SMEs to invest in these facilities.
6. Increase trade facilitation and improve infrastructure of NTMs
- Support or facilitation from the Government is needed to help the private sector comply with NTM requirements. In halal cases, the Government is expected to facilitate the private sector to obtain a halal certificate using the updated Mutual Recognition Agreement (MRA). Furthermore, upgrading technology in the testing laboratory is needed to speed up the testing requirement process.
7. Harmonize standards to international standards.
- NTMs on food must be harmonized to international standards. This harmonization will benefit domestic firms involved in the Global Value Chain, which have a large contribution to GDP in the food and beverage industry. With international standards, the investment and production network of food and beverage industries will increase significantly.

## 5 RESULTS AND WAY FORWARD

Overall, the review of NTMs depicts satisfactory results. We have accomplished all review objectives successfully and obtained seven achievements.

*First*, we can provide updated NTMs regulations to the Coordinating Ministry of Economic Affairs (CMEA). We have reviewed 106 regulations to provide comprehensive NTMs regulations on the four selected products.

*Second*, we received a good response from the private sector. The FGD was attended by 66 participants, primarily high-level executives such as CEOs, owners, investors, senior managers and members of associations in the food and beverage industry.

*Third*, as stated by the Assistant Director of the trade facilitation division, this FGD was the first NTMs FGD that involved various ministries in Indonesia. We received good responses and support from government officials. They considered that the review was highly effective as it was conducted on specific commodities. The results of the review could support the policy of Commodity Balance, conducted by the CMEA, which is an important policy to improve import transparency.

The last four achievements are related to our policy recommendations. This review contributed to several strategic NTM policies as shown in policy recommendations 4-7. First, it has been used as the draft to repeal the regulation of seaport restriction on imported salt, which causes high logistic costs. Second, it has been used to accelerate the implementation of Commodities Balance rules in improving import transparency. Third, it has been used to rationalize and draft the revision of Government Regulation (PP) No. 5 / 2021 regarding the Implementation of Risk-Based Business Licensing. Fourth, it has been used to harmonize NTMs on food products of the Omnibus Law and its derivatives, particularly Government Regulation No. 28 and 29 / 2021 regarding the implementation of the industrial and trade sectors.

## REFERENCES

- Bustos, P. (2011), "Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms", *American Economic Review*, Vol.101, pp.304-340.
- Cadot, O., E. Munadi dan Ing, L.Y. (2015), "Non-tarif Measures in ASEAN: The Way Forward", *Asian Economic Papers*, 14(1), 35 –70.
- Elisabeth, C.R., Panennungi, M., Verico K., and Ekananda, M. (2020), "Non-Tariff Measures on Imported Intermediate Input: Empirical Evidence from Indonesian Manufacturing Sector", *International Journal of Economics and Management*, 14 (2): 189-201 (2020).
- Ing, L.Y., and Cadot, O. (2017), "Ad valorem equivalents of non-tariff measures in ASEAN, ERIA Discussion Paper Series, October 2017.
- Melo and Shepherd (2018), "The Economics of Non-Tariff Measures: A Primer", in Non-Tariff Measures: Economic Assessment and Policy Options for Development, UNCTAD publication 2018.
- UNCTAD .(2013), "Classification of Non-Tariff Measures February 2012 Version", New York and Geneva.
- Verhoogen, E. (2008), "Trade, Quality Upgrading, and Wage Inequality in the Mexican Manufacturing Sector", *Quarterly Journal of Economics*, Vol.123, pp.489–529.
- APTINDO. (2019), Serapan Konsumsi Terigu Segmen UMKM Mencapai 65 Persen. <https://Industri.Kontan.Co.Id/News/Aptindo-Serapan-Konsumsi-Terigu-Segmen-Umkm-Mencapai-65>. [www.industri.kontan.co.id](http://www.industri.kontan.co.id)
- Kementerian Perindustrian. (2013). Profil Komoditas Garam. Diunduh dari: [https://ews.kemendag.go.id/file/commodity/130906\\_ANL\\_UPK\\_Garam\\_%20v1.pdf](https://ews.kemendag.go.id/file/commodity/130906_ANL_UPK_Garam_%20v1.pdf)
- Kementerian Perindustrian. (2012). Profil Komoditas Tepung Terigu. Diunduh dari: [https://ews.kemendag.go.id/sp2kp-landing/assets/pdf/120117\\_ANK\\_PKM\\_DSK\\_Tepung.pdf](https://ews.kemendag.go.id/sp2kp-landing/assets/pdf/120117_ANK_PKM_DSK_Tepung.pdf)
- Kementerian Perindustrian. (2012). Profil Komoditas Gula. Diunduh dari: [https://ews.kemendag.go.id/file/commodity/120116\\_ANK\\_PKM\\_DSK\\_Gula%201.4.pdf](https://ews.kemendag.go.id/file/commodity/120116_ANK_PKM_DSK_Gula%201.4.pdf)
- Kementerian Perindustrian. (2013). Profil Komoditas Susu Sapi. Diunduh dari: [https://ews.kemendag.go.id/file/commodity/131118\\_ANL\\_UPK\\_Susu%20v.1.4.pdf](https://ews.kemendag.go.id/file/commodity/131118_ANL_UPK_Susu%20v.1.4.pdf)
- FAO. (1985). The Codex General Standard for the Labelling of Prepackaged Foods.
- US Department of Agriculture [USDA]. (2021). Sugar Annual 2021 – Indonesia Report Number:ID2021-0018. USDA. Diunduh dari: [https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Sugar%20Annual\\_Jakarta\\_Indonesia\\_04-15-2021.pdf](https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Sugar%20Annual_Jakarta_Indonesia_04-15-2021.pdf)
- US Department of Agriculture [USDA]. (2021). Grain and Feed Annual 2021 – Indonesia Report Number: ID2021-0014. USDA. Diunduh dari: [https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Annual\\_Jakarta\\_Indonesia\\_03-27-2020](https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Annual_Jakarta_Indonesia_03-27-2020)

US Department of Agriculture [USDA]. (2020). Grain and Feed Annual 2020 – Indonesia Report Number: ID2020-0006. USDA. Diunduh dari:  
[https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Annual\\_Jakarta\\_Indonesia\\_03-27-2021.pdf](https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Grain%20and%20Feed%20Annual_Jakarta_Indonesia_03-27-2021.pdf)

US Department of Agriculture [USDA]. (2020). Dairy and Products Annual 2020 – Indonesia Report Number: ID2020-0030. USDA. Diunduh dari:  
[https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Dairy%20and%20Products%20Annual\\_Jakarta\\_Indonesia\\_10-15-2020](https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Dairy%20and%20Products%20Annual_Jakarta_Indonesia_10-15-2020)