



Indonesia Energy Subsidy Briefing

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AS PART OF ITS WORK ON ENERGY POLICY AND SUSTAINABLE DEVELOPMENT IN INDONESIA, THE GLOBAL SUBSIDIES INITIATIVE (GSI) OF THE INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT (IISD) PUBLISHES A REGULAR BRIEFING ON ISSUES RELATED TO ENERGY SUBSIDIES. FOR MORE INFORMATION, CONTACT LUCKY LONTOH AT LUCKY.LONTOH@IISD.ORG AND CHRISTOPHER BEATON AT CBEATON@IISD.ORG.

Tax incentives for fuel-efficient vehicles to reduce fuel consumption

In attempt to reduce its dependency on imported oil and a large fuel-subsidy bill, the Indonesian government recently launched several initiatives to reduce consumption. The latest policy, Government Regulation No.41/2013, encourages the use of energy-efficient vehicles in Indonesia's fast-growing automotive market.

The regulation introduced a new classification of vehicle in Indonesia, the so-called 'low-cost green car' (LCGC), and provides tax incentives on several types of vehicles that are considered energy efficient and affordable. The policy levies progressively lower sales tax on vehicles with smaller engines (see Table 1).

Table 1. List of Tax Incentives for the 'Low-Cost Green Car' Policy

Tax Incentive	Vehicle Type
Sales Tax on Luxury Goods (PPnBM) applied to 75 percent of the vehicle's sales value.	Any motor vehicles using advanced diesel/petrol engines, dual petrol gas engines (with converter kit to CNG/LGV), biofuel engines, hybrid engines, CNG/LGV dedicated engines, with a fuel consumption less than 20 kilometer until 28 kilometer per liter, or any other fuel type with equivalent fuel consumption ratio.
Sales Tax on Luxury Goods (PPnBM) applied to 50 percent of the vehicle's sales value.	Any motor vehicles using advanced diesel/petrol engines, dual petrol gas engines (with converter kit to CNG/LGV), biofuel engines, hybrid engines, CNG/LGV dedicated engines, with a fuel consumption more than 28 kilometer per liter, or any other fuel type with equivalent fuel consumption ratio.
Zero percent Sales Tax on Luxury Goods (PPnBM)	1. Vehicles with 1,200cc engine, and fuel consumption at minimum 20 kilometer per liter, or any other fuel type with equivalent fuel consumption ratio. or; 2. Vehicles with 1,500cc engine, and fuel consumption at minimum 20 kilometer per liter, or any other fuel type with equivalent fuel consumption ratio.

Source: Government Regulation No. 41/2013.

The government believes that the integration of the ASEAN Economic Community (the regional process that ASEAN members are trying to complete by 2015) will increase automotive sales, and expose the Indonesian market to more foreign automotive products, as well as opening up neighboring markets to Indonesia. The government sees this as an opportunity to expand the domestic automotive industry. The Ministry of Industry has set a target of 120,000 domestically produced LCGCs by 2014, with 15 to 20 percent of that number destined for export (Detik.com, 2013).

Several car producers, such as Toyota, Honda, Nissan, Suzuki, and General Motors are said to be developing capacity to produce LCGCs in Indonesia. Some of the producers have already introduced LCGC cars onto the Indonesian market, with prices around Rp100 million (US\$10,256) or below. So far, these vehicles have been well received. Toyota Astra Motor claimed to have sold 17,272 units of its new LCGC line, Agya, in the first week since it was launched at Indonesia International Motor Show in September 2013 (Tribunnews, 2013).

The popular Governor of Jakarta, Joko Widodo, has criticized the policy, noting that it will exacerbate Jakarta's already notorious traffic problems (Tempo, 2013a). Vice Governor of Jakarta, Basuki Tjahaya Purnama, also expressed concern over the flow of cheap cars into the market. He has suggested an additional income tax for individuals who own several motor vehicles. However, Basuki also noted that the provincial government of Jakarta does not have an authority to decide such measures (Gatra, 2013).

The LCGC policy has also drawn criticism for not clearly demonstrating how it will contribute to a reduction in fuel consumption, especially subsidized fuel. For example, Tulus Abadi, the Member of Executive Board of Indonesian Consumer Association and Member of Jakarta Transportation Council, argues that the cheap car policy will increase the demand for subsidized fuel instead of decreasing it (Sindonews, 2013a).

Other efforts announced to reduce consumption of subsidized fuel

For several years the government of Indonesia has also experimented with Radio Frequency Identification (RFID) technology as a means to monitor and reduce the consumption of subsidized fuel. The RFID equipment is able to scan the vehicles that are eligible to purchase subsidized fuel, and to determine the quota for that vehicle. However, the RFID is still not effectively operating due to several technical issues in importing and installing the equipment.

To tackle the problems in installing the RFIDs, the Minister of Energy and Resources, Susilo Siswoutomo, announced on 24 September another initiative, dubbed 'cashless transaction', in which ATM cards would be required to purchase subsidized fuel. That would create a record of every purchase, which could then allow for limits to be set on the purchase of subsidized fuel by individual bank accounts. The institutions planned to manage this mechanism are PT Pertamina and BPH Migas (Tempo, 2013b). The government is still discussing the plan to implement this policy with relevant agencies, especially with Bank of Indonesia.

The government argues that the method is feasible because the share of the population with bank accounts is reasonably large (Tempo, 2013c). Research by Lembaga Riset Teleatika Sharing Vision indicates that 68 percent of Indonesians do not have bank accounts. Although there is positive growth of access to banking services, it is concentrated only in big cities (Tempo, 2013d).

Another plan is to create a specific card to purchase subsidized fuel. This plan requires consumers to register their vehicles at gas stations to obtain the card, which subsequently will record the purchase from that individual vehicle (Inilah.com, 2013).

The cashless transaction method is to be introduced in 2014 in Bali (Sindonews, 2013b).

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