

Expert Meeting on Definitions and Dimensions of  
Environmental Goods and Services in Trade and Development

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# INDONESIA

FISCAL AND FINANCIAL ASSISTANCE  
FOR ENVIRONMENTAL GOODS UNDER ENVIRONMENTAL PROGRAMME IN INDONESIA

ENVIRONMENTAL LABELLING AND TRADE

TRADE LIBERALIZATION OF ENVIRONMENTAL GOODS AND SERVICES  
FROM PRESPECTIVE OF INDONESIA

**Prepared by Laksmi Dhewanthi**

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**FISCAL AND FINANCIAL ASSISTANCE FOR ENVIRONMENTAL GOODS**  
**UNDER ENVIRONMENTAL PROGRAMME IN INDONESIA**

**By**  
**Laksmi Dhewanthi, INDONESIA**

**BACKGROUND**

1. For developing countries like Indonesia, the principle of *common but differentiated responsibilities* is the key phrase in negotiating fair trade rules. Countries share a common responsibility for the global environment, yet they have different capabilities to contribute to environmental protection measures. Therefore, Indonesia has a vital interest to pursue two objectives. First, to keep markets open for its exports, liberalize its own economy and thus insist on upholding the basic principles of the WTO regime. And second, as a commitment to environmental agreements.

2. Today's economic activities already place considerable pressure on Indonesia's environment. Rapid industrialization and urbanization has led to the concentration of people and accelerated industrial growth in urban areas, which in turn has generated higher concentrations of domestic and industrial pollution and increased threat to community health. The current and future challenge for Indonesia is to minimize pollution and resource degradation while at the same time ensuring sustainable economic growth.

3. The 1993 State Policy Guidelines indicate that sound environmental management has become an integrated part of sustainable development aims in Indonesia. In addition, it also reflects the government's intervention to tighten the pollution control regulations and procedures and to strengthen the institutions involved in pollution control. Regulations have been established on waste

discharge and handling, and policies to promote training, capacity building, and international co-operation were developed. The earlier strategy “Command and Control” (CAC) has been modified and blended with various market and economic instruments in line with trends in other world economies. Industries are under increasing pressures from society and government to meet requirements for a clean environment and there is recognition that improved competitive performance can be linked to sustainable development.

## **THE INDONESIAN ENVIRONMENTAL INDUSTRY**

4. In any national economy that has to deal with a wide range of environmental problems arising from both its population and industrial sector, the existence of a strong market driven environmental goods and services industry is of vital importance. In most circumstances, problems are solved by purchase of solutions from a technology and service supplier; there are fewer circumstances in the modern economy where specialized solutions are generated from internal resources. A strong environmental industry, marketing vigorously to domestic needs, would contribute substantially to ensuring that standards of environmental performance would improve throughout the economy.

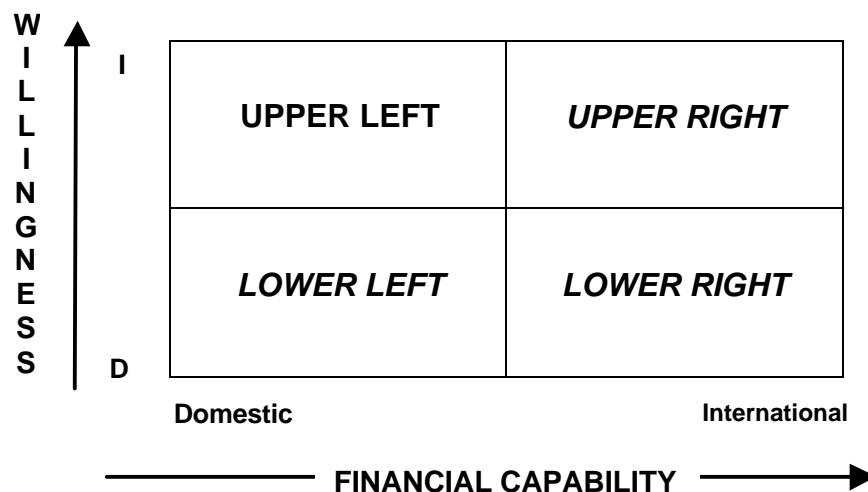
5. At present, there is little real data on the size, health or characteristics of the Indonesian environmental industry. A study by a reputable organization dealing with environmental goods trading (the Hidup Association) in 1995 indicated some 200 companies existed in Indonesia, both domestic and foreign suppliers, but it is assumed that this number may have decreased since then, as a result of economic problems. This decline may not be reversed as economic conditions improve, but as yet, the potential for a strong Indonesian environmental industry remains unfulfilled.

6. The initial regulatory framework resulted in the installation of wastewater treatment investment, and subsequent rounds of increasingly stringent regulations have tightened the needs and applied pressure for greater efficiency and installation of additional treatment systems. Yet one of the biggest problems faced by industries, especially small and medium enterprises, in environmental

compliance is financial inability for investment in pollution prevention and pollution equipment.

7. In many cases, multi-national companies are able to meet these standards, often following their own companies corporate policies. The bulk of manufacturing in Indonesia, however, is carried out by small and medium sized enterprises (SMEs) and this sector has come under increasing financial and technical pressures. Much of the environmental technology needed to meet their needs is imported from abroad and as a consequence exchange rate declines, this has become increasingly expensive although usually reliable.

8. On the other hand, local suppliers of environmental technology are more reasonably priced but are technically weak and less able to demonstrate performance of their products. Purchasers have low confidence in vendor performance claims and are unwilling to invest in such circumstances. The users of environmental technology in Indonesia can be characterized by the following matrix.



D = Indigenous Manufactures Users of Environmental Technology

I = International Subsidiary Users of Environmental Technology

9. The most attractive segment in the upper right quadrant, where there is a high willingness together with financial capability to purchase, is primarily

occupied by multi-nationals of foreign owned companies. This segment is supplied largely by international environmental technology suppliers. Domestic technology suppliers are relatively weak and usually struggle in the lower left quadrant where market demand is low.

## **FISCAL AND FINANCIAL ASSISTANCE**

10. The government, through Ministry of Environment, has been pursuing strategies to strengthen the demand for environmental goods and services by increased regulation and promotion of global voluntary initiatives such as Cleaner Production, Pollution Prevention, ISO 14000 and others. Additionally, to response to the above situation, Government of Indonesia has introduced some fiscal and financial assistance schemes, from both domestic and international sources, to encourage environmental investments. The fiscal and financial assistance schemes are exemption of Import duty and environmental soft loan for investment of environmental goods. Exemption of Import Duty has been applied for importing waste water treatment equipment to Indonesia. While, environmental soft loan schemes has been established to provide soft loan to industries to invest environmental pollution abatement equipment as well as technology for industrial efficiency.

11. Principally, objective of the policy on exemption of import duty for pollution abatement equipment is to reduce investment cost of pollution control equipment by industries, especially for equipment which is not produced in Indonesia. Generally, levels of tariffs applied to imported goods (including environmental goods) are various from 0 to 40% of the price. The exemption of import duty will allow elimination or reduction of the tariffs to level of 0%. The exemption of import duty can be granted to the enterprises based on technical recommendation by Ministry of Environment on a case- by-case basis.

12. To improve environmental quality by reducing pollution load through extending loans to enterprises for environmental investment, including importing environmental technology/equipment, Government of Indonesia provides environmental credit schemes, namely Pollution Abatement Equipment (PAE)

scheme and Industrial Efficiency and Pollution Control (IEPC) scheme. The soft loan can be disbursed to the end users based on technical recommendation by Ministry of Environment and financial appraisal by handling banks. Maximum loan is up to 3 billion rupiah (for SMEs) and 70 billion rupiah (for big enterprises), with interest rate 9-12% per annum (or 3-4 % below market rate). Repayment period is 3-10 years with grace period 0-1 year.

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**ENVIRONMENTAL LABELLING AND TRADE:**  
**The Case of Indonesia**

**By**  
**Laksmi Dhewanthi, INDONESIA**

1. Indonesia's economy is vulnerable to trade – related environmental measures such as environmental labeling scheme. Actual data shows that significant proportion of Indonesia's exports go to eco-sensitive markets. Prior to crisis those exports were close to one third to overall exports before dropping to 23 percent in the midst of the economic crisis. With the depreciation of the Rupiah, exports rebounded and were strong in 1999 before dropping again in the following year. The share of eco-sensitive products in non-oil exports are even higher and show the significance of trade-related environmental measures in Indonesia.

2. Until now, environmental labeling schemes are hardly used in trade of many Indonesian products and can be, therefore, not considered by Indonesian exporters as a trade barrier. However, due to several developments in many countries, attention of that countries importer to environmental performance of the product will likely be increased significantly in the near future. The fact that more and more importers, especially from developed countries, consider 'attention to the environment' to be crucial part of their total quality management.

3. The choice for either national environmental labeling schemes (such as the Dutch Milieukeur, the Germany Blue Angel, etc) or the international/regional schemes (the ISO, the EU Ecolabel, etc) is a dilemma for the Indonesian exporters. The international environmental labeling has in most cases the advantage of less stringent requirements and a much wider market reach

(economies scales). However, in the importer countries, the national environmental labeling is much better known and appreciated (because of more stringent requirements) among consumers.

4. For various reasons, it would be difficult for many Indonesian manufactures to comply with certain requirements of environmental labeling schemes. Certain standards are too high in the Indonesia situation. Many Indonesian businessmen would meet practical difficulties, e.g. if environmentally sound products or techniques can not be obtained in Indonesia. In general, it can be said that current environmental label are mostly tailored to production circumstances in advanced industrialized countries. This is a missed opportunity, particularly in developing countries, as comparatively easy and significant environmental improvements could be realized, if appropriate and flexibility requirements were developed. The developer of environmental labeling schemes could consider the development of more flexible schemes or 'adjusted' schemes for manufacturers in developing countries.

5. The best opportunities for environmental labeling on Indonesia export products will arise if:

- Other more basic requirements in international trade, such as price, quality and delivery times are met;
- There is a durable business relationship between the Indonesia supplier and buyers on country of destination. In that case, the supplier can discuss the possibly desired environmental labeling with buyer; he has a better guarantee that this investment will be covered by the sales and, possibly, environmental investments and application cost can be shared;
- The environmental requirements of the environmental labeling scheme are comparatively easy to meet and test and do not involve major adjustments of production processes and/or investment. In that respect, environmental labeling schemes which emphasize the use of renewable and sustainable materials are generally more 'attractive' than schemes which focus on the reduction of the environmental impact of production process;

- The testing requirements are comparatively simple and can be carried out by a single certification body. In most cases, several Indonesian testing/certification bodies would have to co-operate to cover all testing issues or a specific environmental labeling scheme;
- The importer and/or final consumer really 'understands' and appreciates the value of the environmental labeling for the protection of the environment and/or consumer health;
- The products are aimed at 'higher' market segments where 'price' is comparatively less important and quality/durability and image are more important.

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**TRADE LIBERALIZATION OF ENVIRONMENTAL GOODS AND SERVICES**  
**FORM PRESPECTIVE OF INDONESIA**

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13. Article 31 (iii) of the Doha Declaration calls for “the reduction, or as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.” Before embarking future on the issue of reduction or elimination of tariffs or non-tariff barriers (NTBs), one need to be entirely clear on the definition of environmental goods and services (EGS) as well as products or services could be included in the term “environmental goods and services.” There is a need to have a more comprehensive and clearer understanding before embarking further on the treatment that will be accorded to environmental goods and services.

14. Environmental goods and services, as supporting tools, play significant roles in enhancing and promoting sustainable development objectives. Yet, for developing countries like Indonesia, the principle of *common but differentiated responsibilities* is the key phrase in negotiating fair trade rules. Countries share a common responsibility for the global environment, yet they have different capabilities to contribute to environmental protection measures. Therefore, Indonesia has a vital interest to pursue two objectives. First, to keep markets open for its exports, liberalize its own economy and thus insist on upholding the basic principles of the WTO regime. And second, as a commitment to environmental agreements.

15. Regulations have been established on waste discharge and handling, and policies to promote training, capacity building, and international co-operation were developed. The earlier strategy “Command and Control” (CAC) has been

modified and blended with various market and economic instruments in line with trends in other world economies. Industries are under increasing pressures from society and government to meet requirements for a clean environment and there is recognition that improved competitive performance can be linked to sustainable development.

16. The initial regulatory framework resulted in the installation of wastewater treatment investment, and subsequent rounds of increasingly stringent regulations have tightened the needs and applied pressure for greater efficiency and installation of additional treatment systems. The stage of environmental management is, however, still more focus on the “end-of-pipe” treatment than the “beginning-of-pipe.”

17. In order to have the common perception, the relevant criteria of what constitute EGS should be discussed before coming up with a definition, for example, in classifying EGS, it should be based on the understanding that it should be end product-oriented and not process-oriented or product processing method (PPM), scientifically measurable.

18. Two important elements need be taken into consideration. The first element is the need to consider to the specific characteristic of the EGS, which is primarily the specification of the EGS in question. And second element is the need to consider the specific purpose of the EGS, which refers to the function of the EGS in question.

19. In this connection, to identify EGS in the context of environmental management, EGS would then be EGS with a certain standard of specification that has the function to improve the quality of environment, either by reducing the use of natural resources or controlling pollution. Such EGS may cover a wide range of sectors, such as water supply, water treatment, cleaner technology, waste treatment and energy efficiency. How we describe the characteristic and purpose of the EGS will then narrow or wide the definition of EGS.

20. Considering the level of development as well as the stage of environmental management in Indonesia, it is need for Indonesia to start with a very specific characteristic and purpose of EGS. Such specific purpose, for instance, would be the EGS that has a function which directly abate or reduce pollution discharge to environment.

21. On the issue of reasons for liberalization of EGS, some one could argue that liberalization in this sector would lead to economic growth and sustainable development benefits particularly for developing countries. In our view, developing countries will not be able to reap benefit of liberalization of this sector in term of attainment of economic growth and sustainable development. Ot must be recognized that developed and developing countries have a very different market sensitivity or orientation on EGS. Whilst markets in developed countries tend to be more quality oriented, yet markets in developing countries are more sensitive to price. Thus liberalization of this sector will not have the same effect for developing countries with for developed countries.