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CHALLENGES/OBSTACLES FACED BY COMPETITION AUTHORITIES IN ACHIEVING GREATER ECONOMIC DEVELOPMENT THROUGH THE PROMOTION COMPETITION

Contribution from Indonesia

-- Session II --

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CHALLENGES/OBSTACLES FACED BY COMPETITION AUTHORITIES IN ACHIEVING GREATER ECONOMIC DEVELOPMENT THROUGH THE PROMOTION OF COMPETITION¹

By Didik Rachbini, Commissioner, KPPU, Indonesia

1. Before competition law (Liberalisation 1983-1999 for Greater Economic Development)

1.1 Trade Reform

- Trade deregulation was started in the beginning 1980's, by removing entry barrier from bureaucracy.
- Export orientation policy needs more effective support from bureaucracy, especially custom.
- In 1985: government privatised custom office & replaced by SGS (Switzerland).
- In 1985: system procedure in shipment was improved & handling system in harbour was simplified.
- This policy reduced inefficiency in export and import activities.
 - Tariff system was slowly harmonised too and reduced significantly to make more competition.
 - It was continuously done to get more positive effect of the market and more competition.
 - In 1987, import license was also improved by reducing bureaucratic procedure.
- Import quota was reduced significantly to get more participants and more competition in this business.
- Many import licenses had been given to monopolists, then deregulated by opening these activities for any investors.
- Trade reform further to medical industry and animal husbandry, by removing tariff and non-tariff barriers.

1.2 Reform on Investment

- In 1985: an economic policy package to simplify the application for FDI.
- Reform for promoting investment in bureaucracy and its regulatory system.

1. Outline of a presentation Powerpoint

- The objective of this reform was to support more inflow of investment and more foreign investors coming to Indonesia.
- The impact was to limit the document involved in the process & an increasing investment application to Indonesia from abroad.
- In 1985: the government opened more areas in investment activities, opened to foreign investors in retail and distribution system in Indonesia.
- The impact was increase in activities of foreign investor in national trading system.
- Reform was continued by simplifying custom procedure & to free an entrance visa for 29 countries.
- In this year tax for capital good imported from other countries was removed for the purpose of more export orientation activities.
- In 1988: shipping industry was further deregulated by inviting foreign investor.
- Before 1988, this industry was closed to only state owned companies.
- More deregulation, joint venture company was allowed to distribute the product in local market.
- Distribution system was opened to foreign investor, especially to distribute their own products.
- The impact, increased competition in domestic market.
- More negative investment lists were reduced to allow more investors.
- More state owned companies were listed in stock market which meant more control from the public and more transparent.
- In 1989: the government allowed maximum 49 percent of non-banking companies in stock market.
- SOE's further included in the reform in 1989 to increase their efficiency level, especially 75 SOE's.
- In 1990: more investments areas were opened to the domestic and foreign investors.
- About 75 negative lists of investment were reduced to only 60.
- License for land use was also allowed to foreign investors (Presidential Decree 32/1992).

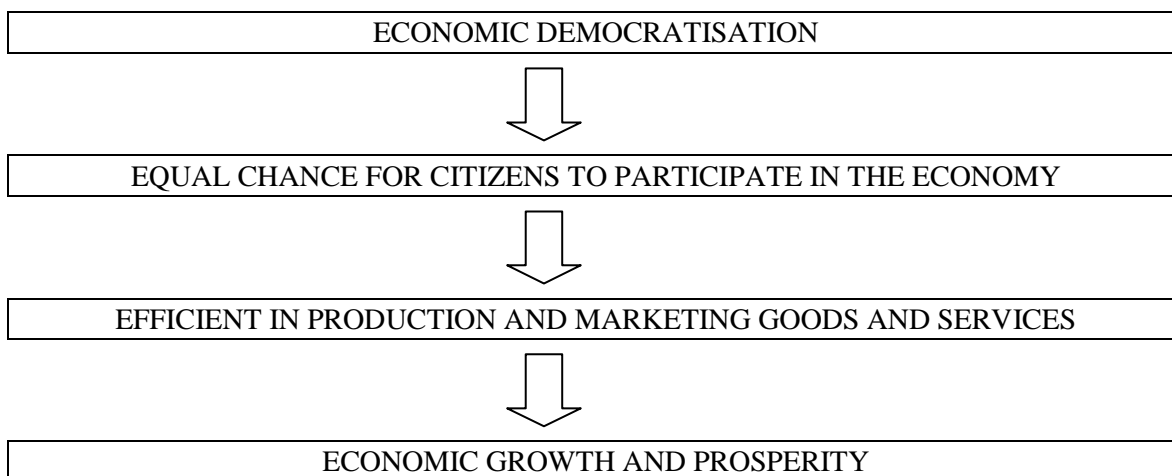
2. Competition law and obstacles in promoting competition policy for greater economic development

- In 1999, Indonesia has started to implement new law, called competition law.
- The commission was able to demolish cartel system in air transport. Airline is in full competition which makes ticket price decrease radically to almost 35 percent level.

2.1 Main Objectives:

1. To increase efficiency in the national economy efficiency & the people's welfare.
2. To improve the business climate through fair competition & to treat equal business opportunity for large & sme.
3. To prevent monopolistic & unfair business competition caused by business actors.
4. To create effectiveness & efficiency in business.

2.2 Reasons of enacting Law No 5/1999:



3. Challenges

3.1 *Handling Cases*

- Removing obstacles in obtaining public trust and confidence in the institution has been achieved.
- The initial cases were handled carefully from the choice of cases to the final stage of process.
- Cases selected were considering the direct benefit for the public.
- However, further step of legal process in court was misunderstood.
- Many strategic cases were mishandled by the court.
- Major challenges are court system.
- KPPU started to have cooperation with supreme court to train judge in competition law to minimize such obstacles.

3.2 *Policy Advice*

- KPPU is an independent institution outside the executive body (government).
- To promote economic development in line with competition policy, KPPU has a policy instrument, i.e. policy advice (formal).
- The obstacles are many different perception as well as misunderstanding in promoting competition policy.
- There are many policy launched by the government in contradictory with competition policy.
- Previous government was initiator of anticompetitive policy.
- Many sectors in the economic system are still under monopolistic and oligopolistic structure.

3.3 *Obstacles in Strategic Alliance*

- This is handled through Communication Program in order to get support of the public and to develop alliances with potential strategic allies.
- It is important be able to alleviate the monopoly and unfair business practices issues in competition with current main issues such as macroeconomic restoration and political issues both in media and at decision-making level.
- The main obstacles are level of consciousness of the media and journalists.

- Competition policy is a new issue in the country that is frequently misunderstood by the public.
- For instance, the existing dominance position is directly recognised as guilty which is then forced by the press to be punished by KPPU.

3.4 *Institutional Development*

- KPPU is a new institution with many weaknesses (human resources, organisation, system, etc).
- This obstacle is tried to be solved with capitalisation of the office, development of protocols and procedures, flow of information, recruitment and:
- To strength the standard process, training, career planning, development of further legislation required, and operational guidelines.

3.5 *Bureaucratic Culture*

- The culture of the organisation in the government as a whole in one of obstacles in promoting competition policy.
- Team work is weak, too much bureaucratisation, as well as problem of leadership in the government.