

Terms of Reference of the High Level Consultation for Investment Promotion

The Memorandum of Cooperation on the Cooperation for Establishing Metropolitan Priority Areas for Investment and Industry (hereinafter referred to as "the MOC") was signed between the relevant Ministers of Indonesia and Japan in Bali, Indonesia on December 10, 2010.

In the MOC, both sides recognize the need for regular consultations between high-level representatives from the Government and the private sector of Japan and relevant institutions of Indonesia (hereinafter referred to as "the High Level Consultation for Investment Promotion" or "the Consultation") in order to create top-level investment climate in the region. Both sides also share the view that the first Consultation will be held in the first quarter of the year 2011.

Against this background, the first Steering Committee of the Metropolitan Priority Areas for Investment and Industry (hereinafter referred to as "the Steering Committee") approved the terms of reference of the High Level Consultation for Investment Promotion as follows:

1. Basic Principles of the Consultation

The purpose of the Consultation is to explore, with a spirit of reciprocity, ways to promote direct investment in Indonesia by making the investment-related regulations, rules and practices more conducive to direct investment.

In order to achieve tangible results, the Consultation will consist of a series of rounds. In each round, the Consultation will focus on a small number of urgent issues and draw concrete conclusions within approximately one year.

The issues to be taken up in the first round of the Consultation are listed in the paragraphs below. The issues to be discussed in and after the second round of the Consultation will be discussed and decided in the Steering Committee after the completion of the first round.

2. Issues to be Taken Up in the First Round of the Consultation

(1) Enhancing Socialization of the New Regulation on Investment Area

The Consultation will explore concrete measures to enhance predictability of the regulations, using practices in Japan, such as "public comment," "grace

period,” “transitional measures” and “standard processing period,” for reference.

(2) Promoting Dialogues between Japanese Investors and the Key Indonesian Agencies

The Consultation will give encouragement and support for realizing fruitful dialogues between Japanese investors and the following two agencies:

(i) Directorate General of Tax of the Ministry of Finance

This dialogue has already started since October 2010.

(ii) Directorate General of Customs and Excise of the Ministry of Finance

This dialogue needs to start as early as possible. The dialogue needs to be consistent with the policy consultation between the Customs authorities of Japan and Indonesia.

(3) Improving the Import and Customs Procedures

The Consultation will give necessary support to the “Project on Capacity Development for Trade-related Administration,” which is now in progress between the Coordinating Ministry for Economic Affairs and JICA, in order to improve the import and customs procedures by streamlining and integrating the existent import licenses and improving accessibility of INSW (Indonesia National Single Window).

(4) Improving Labor-related Practices and Regulations

Japanese investors and relevant Ministries related to the labor issues will start dialogues on the following issues:

- (i) Securing the appropriate implementation of labor-related laws and regulations (including labor law and labor dispute settlement law)
- (ii) Simplifying and securing the appropriate implementation of regulations and procedures for foreigners who work in Indonesia

(5) Promoting Investment in the Energy Sector

The Consultation will explore concrete measures to promote Japanese investment in the energy sector.

(6) Promoting Incentive for Direct Investment in Indonesia

The Consultation will discuss and explore possible incentives for direct investment in Indonesia.