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# Prospects for Electric Battery Production in Indonesia



# Introduction

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Indonesia is looking to take advantage of having the world's largest deposits of nickel to develop an integrated domestic electric vehicle supply chain.

The government has an ambitious target to become the third largest producer of electric batteries in the world by 2027 and produce approximately 140GWh per year of EV battery capacity by 2030.

As such, businesses will find investment opportunities throughout Indonesia's EV supply chain, whether it is investments in nickel smelters or establishing manufacturing operations for EV batteries and vehicles.

In this issue of the ASEAN Briefing magazine, we provide an overview of Indonesia's EV battery industry before exploring the various incentives offered by the government. Finally, we discuss the type of business entity foreign investors should use when entering into this industry.

With offices located across Southeast Asia and years of experience helping foreign enterprises set up operations in Asia, Dezan Shira & Associates is well positioned to assist your company in entering ASEAN markets. For more information, please email us at **asean@dezshira.com**.

With kind regards,

Alberto Vettoretti

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# Prospects for Electric Battery Production in Indonesia

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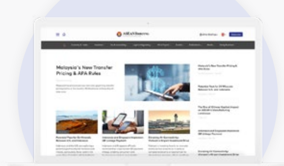

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# Indonesia's Electric Battery Industrial Strategy

*Indonesia's ambitious targets in the electric battery industry offer a prime opportunity for strategic investments and partnerships. Foreign stakeholders are advised to adopt a comprehensive approach that includes regulatory compliance, sustainable practices, and market differentiation, to stay ahead of the curve.*

**Ayman Falak Medina**
Deputy Editor, ASEAN Briefing
*Author*

Indonesia is developing an integrated electric vehicle (EV) supply chain and has a target to become one of the top three producers of EV batteries in the world by 2027. The country is seeking to take advantage of the abundance in natural resources, particularly for nickel, to create a domestic EV market. Further, Indonesia is also aiming to produce EV batteries with a total capacity of 140GWh per year by 2030, which will account for between 4 to 9 percent of global demand.

Indonesia is ambitiously charting its course within the EV industry, aiming to achieve 2.5 million EV users by 2025.

## Indonesia's nickel reserves

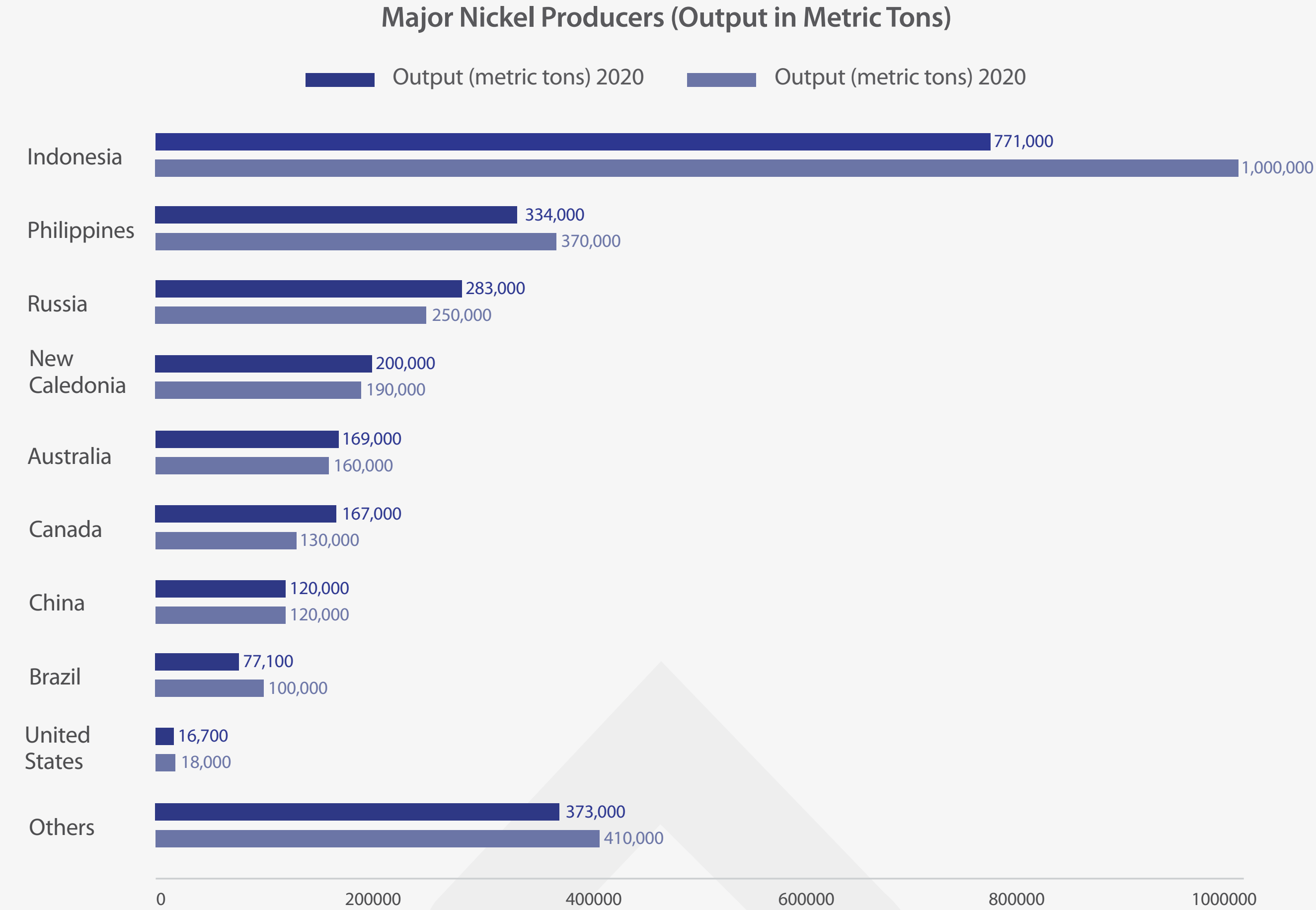
Indonesia holds the world's largest nickel reserves with an estimated 21 million tons, which roughly accounts for 22 percent of global reserves. The country is also the world's top producer of the metal, with production hitting 1 million tons in 2021.

Although 70 percent of all nickel usage goes towards the stainless-steel sector, there is increasing demand for the manufacture of EV batteries. This demand for battery production is expected to account for one-third of total nickel demand by 2030, particularly as countries worldwide look to lower carbon emissions and meet their net-zero targets. As such, Indonesia is aware of the huge economic opportunities this provides and is focused on increasing production capacities along the EV supply chain and become an EV battery production hub.

## Indonesia's nickel ban

Indonesia first imposed the ban on the export of nickel ores in 2014 and introduced a requirement for producers to purify the raw nickel in Indonesia before export.

Following a budget deficit in 2016 and a reduction in nickel production, the government partially relaxed the ban in 2017 with plans to reimpose it in

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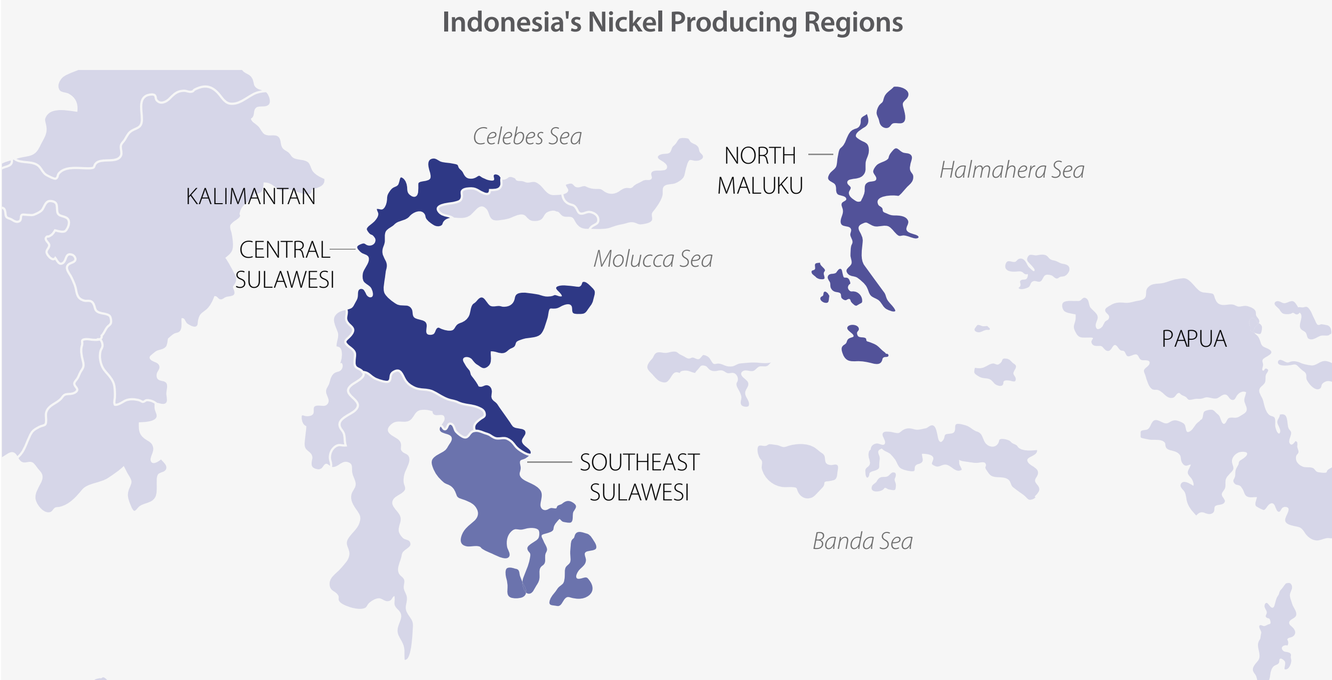


*Source: Channel News Asia*

2022. At the time, Indonesia had constructed nine new nickel smelters. Eventually, the government brought the ban forward to January 2020.

Foreign investors, primarily from China, began investing in the Indonesian nickel supply chain, particularly in the building of smelters – Indonesia has already more than 60 nickel smelters in 2023, a huge jump from just two in 2016.

Indonesia's exports of processed nickel reached an estimated US$30 billion in 2022, a huge increase from just US$1 billion in 2015. The country is expected to account for half the world's increase in nickel production to 2025.

## Electric vehicle batteries supply chain

Global EV makers, which include US's Tesla and China's BYD, are said to be finalizing deals to invest in Indonesia. Moreover, to complement its nickel-based battery industry, the country is also developing lithium refineries and anode material production facilities. Historically, Indonesian nickel smelters are equipped to produce Class 2 nickel (ferronickel/pig iron) while battery cathode production requires Class 1 nickel that contains at least 99.8 percent nickel.

However, Indonesia lacks rich deposits of lithium. Australia supplies approximately half the world's lithium and can export this mineral to Indonesia. Most of Australia's lithium exports currently head to China.

Indonesia's Minister for Maritime Affairs and Investment, Luhut Binsar Pandjaitan, stated that the government planned to import 60,000 tons of lithium from Australia starting in 2024. The lithium will be processed at the Morowali Industrial Park in Morowali, Central Sulawesi province, where the


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Opportunities in Indonesia's Special Economic Zones


Buoyed by the success of its free trade zones, Indonesia's government made the development of special economic zones (SEZ) a priority policy in 2014. As of 2022, there are 19 SEZs, of which 12 are in operation and the remaining in the construction phase. Through the SEZs, Indonesia aims to attract over US$50 billion in foreign investment in the next decade.

In this issue of the ASEAN Briefing magazine, we provide an overview of Indonesia's special economic zones and explore the tax incentives available. Finally, we discuss choosing the ideal location in Indonesia's SEZs by highlighting select zones.

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government inaugurated a hydrometallurgical nickel laterite production facility in October 2022. The plant has the capacity to produce 50,000 tons of pure nickel annually.

## Highlights of major foreign investments in Indonesia's EV ecosystem

In the years since the nickel export ban was introduced, Indonesia has signed deals worth over US$15 billion for electric battery production with multinationals such as Hyundai and LG. Tesla are also rumored to have plans to expand in Indonesia.

Below we list some of the major foreign investment-related announcements from 2023 and 2024.

**2023**

- Indonesian company Aneka Tambang and Hong Kong CBL Limited sign a conditional share purchase agreement for the partial ownership of Aneka's nickel mine in North Maluku province.
- German company BASF, French mining group Eramet, and auto producer Volkswagen have stated that they will invest in Indonesia's EV ecosystem.
- BASF plans to invest US$2.6 billion to develop a car battery plant in North Maluku province.
- Indonesia will grant incentives to EV makers that plan to open EV plants – based on their imports of completely built-up EVs until 2025. As such, the new rules will remove import duties and luxury-goods tax on EV vehicles brought into the country.

**2024**

- Chinese EV producer BYD plans to build a production facility in Indonesia in 2024. The company also launched three car models to the Indonesian market.
- BYD's investment is expected to reach US$1.5 billion with a production capacity of 150,000 units per year.
- Hyundai and LG's joint venture to build a lithium battery plant in Indonesia is expected to begin production in 2024. The plant is expected to have a production capacity of 10 GWh of battery cells.
- Chinese EV producer Neta, will begin production of completely knocked-down (CKD) EV cars in Indonesia in 2024.
- Vietnamese EV maker, VinFast, announced that it would invest US$1.2 billion to build an EV manufacturing facility in Indonesia.
- Vale Indonesia and China's Zhejiang Huayou Cobalt sign an agreement with Ford Motor to build a hydroxide precipitate (MHP) plant in Southeast Sulawesi province. The plant will have a capacity to produce 120,000 tons of hydroxide precipitate. Vale Indonesia and Zhejiang Huayou Cobalt have also agreed to build a second MHP plant with a 60,000 ton capacity.

# Incentives for Manufacturing in Indonesia

*Indonesia's pro-EV incentives present a unique opportunity for businesses to establish a strong presence in the growing electric vehicle manufacturing industry and allied sectors.*

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Although not directly tailored to electric vehicle (EV) battery production, Indonesia offers incentives for investors engaging in the country's midstream and downstream EV supply chain, mainly for the supply of EV cars, motorcycles, and buses. The central and regional governments are mulling over fiscal and non-fiscal incentives for players throughout the EV supply chain from the EV component industry to research and development.

Staying informed about this evolving landscape is crucial for investors to fully benefit from Indonesia's EV manufacturing potential.

The Indonesian government is actively trying to attract EV producers to open manufacturing facilities in the country while also increasing the uptake of EV vehicles domestically such as through cost subsidies for the purchase of such vehicles.

EV adoption is increasing in Indonesia. More than 74,000 two-wheeler EVs and 20,000 four-wheeler EV vehicles were recorded on the road in 2023, an increase of 264 percent and 479 percent, respectively, from when the first certified EV vehicles were sold in 2020.

## Incentives for local content production

Consumers that purchase an electric car or bus that has more than 40 percent of its component produced in Indonesia will be afforded a value added tax (VAT) reduction from 11 percent to 1 percent. Electric cars or buses that have a domestic component level of between 20 and 40 percent will be afforded a VAT incentive of five percent. The Indonesian government is giving automakers until 2026 to meet the eligibility requirements.

The local content requirement will gradually increase to 60 and 80 percent by 2029 and 2030, respectively.

Significant investment commitments have already been made by China's Neta EV brand and Japan's

Mitsubishi Motors to qualify for these incentives. Mitsubishi Motors has reportedly invested US$375 million to expand its EV production in Indonesia. Currently, only South Korea's Hyundai and China's Wuling have met this local content requirement, both having factories outside Jakarta.

## Relaxation of tax rules on EV imports

Indonesia will grant EV makers that plan to build EV plants in the country incentives on their imports for CBU EVs until 2025.

## Incentives for electric motorcycles

The government has provided an assistance program for the purchase of electric motorcycles. Consumers are eligible for a discount of 7 million rupiah (US$460) for a one-time purchase of an electric motorcycle.

The EV motorcycles must first meet the 40 percent local content production criteria to qualify for the incentives.

An estimated US$455 million has been allocated to subsidize the conversion and purchase of e-motorbikes over the next two years.

## Taking advantage of incentives in Indonesia's special economic zones

Foreign investors can also take advantage of the incentives provided in Indonesia's special economic zones (SEZs). The Indonesian government has pledged to make SEZs a policy priority to attract foreign investment, boost industrial activity, and promote job creation. This strategy has been further facilitated through various tax incentive programs by Indonesia's Ministry of Finance. These tax incentives include exemptions from income tax, VAT, import duties, sales tax on luxury goods, and excise duties.

### Exemption on corporate income tax

Business stakeholders in an SEZ are differentiated into two types of taxpayers: badan usaha (business entities) and pelaku usaha (businesspersons). Both business entities and businesspersons are eligible for a 100 percent reduction in corporate income tax (CIT) provided that their investments are conducted in SEZs and with a minimum investment value of 100 billion rupiah (US$7 million), for a period of 10 years. Businesspersons can receive more concession period – the greater their investment – as seen from the following table.

**Corporate Income Tax Holidays for Special Economic Zones in Indonesia**

| Taxpayer | Investment amount | Concession period (years) |
|---|---|---|
| Business entity | 100 billion rupiah (US$7 million) | 10 |
| Businessperson | Between 100 billion rupiah (US$7 million) to 500 billion rupiah (US$35 million) | 10 |
| | Between 500 billion rupiah (US$35 million) to 1 trillion rupiah (US$70 million) | 15 |
| | More than 1 trillion rupiah (US$70 million) | 20 |

After the mentioned CIT incentive expires, taxpayers are eligible for a 50 percent CIT reduction payable for the subsequent two years. Further, during the concession period, no withholding tax (WHT) is applied to eligible income, such as income from land and building rental.

### Corporate income tax allowance

Taxpayers that invest 100 billion rupiah (US$7 million) are also eligible to receive several CIT allowances. These are:

- A 30 percent reduction in net income on the total investment on fixed assets reduced over six years, at five percent per year;
- Accelerated depreciation allowances of up to 100 percent of tangible and intangible assets;
- A WHT rate of 10 percent, or the treaty rate (whichever is lower), on dividend payments made to non-resident recipients; and
- Tax loss is carried forward for up to 10 years.

### Import and excise duties

Import duties, tax on the importation, and excise duties are all exempted on the following dutiable/taxable goods:

- Capital goods used for the construction or development of SEZs for a period of five years;
- Entry of consumable raw materials for service industries (for tourism SEZs); and
- Entry of goods to be sold in shops and shopping centers (for tourism SEZs).

### VAT and sales tax on luxury goods

VAT will not be collected in relation to the following activities:

- The import of taxable tangible goods into an SEZ by a business entity;
- The delivery of taxable tangible goods from another Indonesian free trade zone, customs area, or bonded storage facilities to a business entity;
- The delivery of taxable services or goods, including land or buildings by a business entity in an SEZ to another business entity in the same or another SEZ; and
- The import of consumer goods into a tourism SEZ.

The non-collection of VAT also applies to raw materials needed to produce taxable services or goods related to ship and aircraft maintenance, repair, and overhaul (MRO) activities.

## Eligibility criteria

To be eligible for all the mentioned incentives, businesses will need to meet the following conditions:

- Possession of a business license;
- Evidence of being a domestic corporate taxpayer;
- Have approval from the Indonesian Investment Coordinating Board, based on the company's standard industrial classification (KBLI);
- Location of the project; and
- Determination of the type of production/services to be conducted.

## WHY INVEST IN INDONESIA?

Investing in Indonesia can be attractive for several reasons, as the country offers a combination of economic, demographic, and strategic factors that make it an appealing destination for investors. Here are some key reasons why investors might consider putting their money into Indonesia:

1. **Large and growing population:** Indonesia is the fourth most populous country in the world, with over 270 million people. This large and diverse consumer base provides significant market potential for a wide range of industries, including consumer goods, retail, and services.

2. **Robust economic growth:** Indonesia has experienced steady economic growth in recent years. The country has a growing middle class of over 50 million people who have with increasing purchasing power.

3. **Strategic geographical location:** Indonesia's strategic location in Southeast Asia makes it a gateway to the broader Asia-Pacific region. Its proximity to key markets such as China and India position it as a crucial player in regional trade and investment.

4. **Abundant natural resources:** Indonesia is rich in natural resources, including coal, palm oil, natural gas, and minerals. This abundance attracts investment in sectors, such as mining, energy, and agriculture.

5. **Infrastructure development:** The Indonesian government has been actively working on improving infrastructure, including transportation networks, ports, and energy facilities. This ongoing development enhances the overall business environment and reduces logistical challenges.

6. **Economic reforms:** The government has implemented various economic reforms to attract foreign investment and improve the ease of doing business. These reforms aim to streamline bureaucratic processes, reduce red tape, and create a more investor-friendly environment.

7. **Growing digital economy:** The country has seen a rapid expansion of its digital economy, driven by increasing internet penetration and a tech-savvy population. This creates opportunities for investment in e-commerce, fintech, and other technology-driven sectors.

Despite these opportunities, it's essential for investors to conduct thorough due diligence and consider potential challenges, such as regulatory uncertainties, cultural differences, and infrastructure gaps, before making investment decisions.

# Choosing the Right Business Entity

*Establishing a foreign investment company (PT PMA) is the optimal choice for foreign investors seeking to establish a manufacturing presence in Indonesia.*

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For foreign investors looking to establish a manufacturing presence in Indonesia, setting up a foreign investment company (PT PMA) is the ideal business entity for such business operations.

Further, there are several key advantages of establishing a PT PMA:

- Special financial and non-financial incentives, particularly in pioneer industries;
- Incentives for setting up in special economic zones (SEZs);
- Foreign investors can own as little as one percent and as much as 100 percent of the company (depending on the industry);
- Able to participate in government-sponsored business tenders in the country;
- Ease of processing for business licenses;
- Ease of processing for work permits;
- Lower tax and import duties;
- Simple organization structure (requiring only one director, one commissioner, and two shareholders); and
- Ability to sponsor foreign executives.

Investors should assess their specific needs carefully before deciding which corporate structure to operate from. Using a reliable local advisor is recommended for first-time investors in the country, as they find it easier to remain compliant with applicable regulations.

## Set up requirements for a foreign investment company

According to the Investment Coordinating Board of the Republic Indonesia Regulation No. 4 of 2021 (BKPM Reg 4/2021), investors looking to incorporate a PT PMA need to adhere to the following requirements:

- A minimum paid-up capital of 10 billion rupiah (US$696,000) to cover operational activity;
- Appointment of two shareholders (these can be foreign individuals or corporations – the percentage of local involvement will depend on

the foreign ownership limitation based on the Positive Investment List);

- The appointment of at least one commissioner and a director (these can be held by foreign individuals), although it is advisable to have one local director for the ease of administration; and
- The director will be responsible for running the day-to-day activities of the company.

## Set up process for a PT PMA

1. Reserve a company name with the Ministry of Law and Human Rights (which should not be similar to the name of other companies or contain vulgar language). Further the company name shall consist of three words and can be in English.
2. Determine the industrial business classification code (KBLI) based on the intended business activities.
3. Establish a legal entity with the company's activities stated in the Deed of Establishment (this must be done with a local notary and the Deed of Establishment will have to be ratified by the Ministry of Law and Human Rights).
4. Obtain a taxpayer identification number from the local tax office and a domicile letter from the district government (businesses established in Jakarta do not require a domicile letter).
5. Obtain a tax registration certificate through the tax office where the business is domiciled.
6. Obtain a Business Identification Number (NIB) by applying through the Online Single Submission (OSS) system. The NIB functions as the company's import identification number, customs ID, and registration certificate. Further, the NIB will also automatically register your company under the government's health and social security scheme.
7. Some companies may need to apply for additional business licenses (such as for mining and fintech). Business licenses will now be issued based on the assessment of the 'business risk level' determined by the scale of hazards a business can potentially create.

## Business licensing

After establishing an entity in Indonesia, foreign investors will need to obtain a business license. Government Regulation 5 of 2021 (GR 5/2021) provides the criteria on how business licenses are issued in the country.

Business licenses are issued based on the assessment of business risk level, determined by the scale of hazards a business can potentially create. To determine the risk level, the government will conduct a risk analysis of each application before deciding on issuing a business license. This will comprise of:

1. Identifying the relevant business activity;
2. Assessing the hazard level;
3. Assessing the potential occurrence of hazards;
4. Determining the risk level and business scale rating; and
5. Determining the type of business license.

Based on the aforementioned risk analysis, the businesses activities undertaken by the applicant company will be classified into one of the following types:

- Low-risk businesses;
- Medium-low risk businesses;
- Medium-high risk businesses; and
- High-risk businesses.

Through this risk-based approach, the lower the business risk, the simpler the business licensing requirements will be.

### What are the requirements to obtain a business license?

The requirements vary depending on the risk level of the business, with those in the high-risk categories requiring more permits and licenses.

The first stage of the process is obtaining an NIB through the OSS system. To register for an NIB, businesses will need to provide the following information:

- Taxpayer number (*Nomor Pokok Wajib Pajak*–NPWP);
- Business activity code according to the KBLI;
- Business profile;
- The capital structure of the business; and
- The proposed location of the business.

Furthermore, the OSS system will be linked to all relevant ministries, such as the Ministry of Finance, the Ministry of Home Affairs, and the Ministry of Law and Human Rights.

#### Low-risk business activities

Low-risk business activities are only required to obtain an NIB to commence their operations. In addition to serving as the formal identity of the business, the NIB also serves as a company's import identification number, as well as the number for registering with the national social insurance program.

#### Medium-low risk business activities

Business activities in this category must obtain an NIB and Certificate of Standards before beginning operations. A Certificate of Standards is a statement of the fulfillment of certain business or product standards, which must be filed in through the OSS system.



The NIB allows the business to conduct activities from 'preparation to the commercial stage'.

The preparation stage includes:

- The procurement of tools or facilities;
- Land acquisition;
- Recruitment of manpower;

- Feasibility studies; and
- Financing operations for the construction phase.

The commercial stage includes:

- The production of goods/services;
- Distribution of goods/services;
- Marketing of goods/services; and
- Other commercial activities.

### Medium-high risk business activities

For medium-high risk business activities, companies will need to obtain a NIB and Certificate of Standards. However, the certificate will need to be verified by the central or regional government.

A company with a NIB and an 'unverified' Certificate of Standards is only permitted to conduct activities deemed in the preparation stage of operations.

Once the central or regional government is satisfied the business has fulfilled the specific business standards, they will issue the 'verified' certificate and the company can begin the commercial stage of operations.

### High-risk business activities

High-risk business activities will require a NIB and a license to operate. The license will be issued once the business has fulfilled certain conditions and verifications set out by the central or regional government, which may include an environmental impact analysis.

The NIB, however, allows the business to conduct activities in the preparation stage of operations.

Depending on the products or services being provided, businesses may have to obtain other supporting licenses to conduct commercial activities regardless of what risk level their activities are classified as.

The corporate establishment and licensing process is part of government reforms aimed at improving Indonesia's investment climate.

## Indonesia's business reforms

Government Regulation in Lieu of Law No. 2 Year 2022 is Indonesia's biggest attempt at bureaucratic reforms since independence. The Law amends more than 75 current laws that aims to simplify the process to obtain business licenses and starting a business, formalizing special economic zones, and amending the country's strict labor laws.

Indonesia has liberalized emerging sectors of interest for foreign investors, such as construction, healthcare, and telecommunications, among others. Further, under the Law, Indonesia has liberalized over 245 business lines, including important sectors, such as transportation, energy, and telecommunications. The general principle under the positive investment list is that a business sector is open to 100 percent foreign investment unless it is subjected to a specific type of limitation.