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INDONESIA: Rubber growers protest new tax on commodities

The national alliance of rubber producers has rejected the imposition of a 10 % value-added tax (VAT), following on the heels of agricultural business groups. The Indonesian Rubber Producers Association (Gapkindo) says the tax, when put in place, would disrupt its production and exports.

The measure may affect growers' cash flow for working capital, as part of it would be allotted for tax payments and less would be spent on production, according to Gapkindo chairman Daud Husni Bastari.

"The measure comes at the wrong time when farmers are struggling against deceleration in the rubber market, shrinking income due to falling prices and the emergence of new players," Daud said.

That could reduce exports this year to between 2.5 million tons and 2.6 million tons, from 2.7 million tons projected earlier, and the situation could worsen whenever rubber prices gained as farmers would have to pay a higher tax, he explained.

Recently, to comply with a Supreme Court ruling, the finance minister passed a regulation that applied the 10 percent VAT to 14 agricultural products, including palm oil, rubber, cocoa, coffee, tea, cloves and tobacco. The regulation has drawn strong opposition from commodity growers' associations, such as the Indonesian Coffee Association (AEKI) and the Tea Traders Association.

In return for the enforcement of the VAT, growers can be reimbursed the amount of tax they pay from purchasing items needed to support production — such as fertilizers and tools, known as "input tax" — from the sales tax, or "output tax". Therefore, they only need to pay the remaining sales tax after the input-tax cut.

Some business groups have accused such an arrangement of benefitting big players with integrated plantations and processing facilities, while putting an added burden on smallholders.

Smallholders represent around 85 % of rubber growers in Indonesia, which is the world's second-biggest natural rubber producer.

At present, farmers with a turnover of less than Rp 4.8 billion (USD 413,258) each year are not considered subject to tax, thereby cannot benefit from the new rule.

But their direct buyers, such as crumb rubber firms, may pass on the additional costs to farmers by bargaining for lower purchase prices.

Despite the possibility of claiming back the input tax from the government, farmers with higher income and who are subject to tax may face a lengthy and complicated process.

According to Daud, Gapkindo has filed a review of the tax with three parties — President Susilo Bambang Yudhoyono, the Indonesian Chamber of Commerce and Industry (Kadin) and the Supreme Court.

Indonesia's unprocessed rubber exports have tumbled significantly on an annual basis — from USD 11.77 billion in 2011 to around half of that amount at USD 6.91 billion last year, according to Trade Ministry statistics.

Government officials have expressed dissenting views regarding the issue. Deputy Trade Minister Bayu Krisnamurthi last week voices his concern that the new tax might disadvantage a huge number of growers of strategic commodities.

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(Syed Rashid Ali, Karachi, Pakistan)

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