

**LAW OF THE REPUBLIC OF INDONESIA
NUMBER 25 OF 2007
ON
INVESTMENT**

BY THE GRACE OF GOD ALMIGHTY

PRESIDENT OF THE REPUBLIC OF INDONESIA,

Considering:

- a. that in order to realize a just and prosperous society based on the Pancasila (Five Principles) and the 1945 Constitution of the Republic of Indonesia, it is necessary to implement a sustainable national economic development based on economic democracy in pursuit of the state's goals;
- b. that in accordance with the mandate set forth in Decree of the People's Consultative Assembly of the Republic of Indonesia Number XVI/MPR/1998 on Politic of Economy Under the Framework of Economic Democracy, investment policy should at all-time underlay the people's economy that involves developments for micro, small and medium enterprises, and cooperatives;
- c. that to accelerate national economic development and realize the political and economic sovereignty of Indonesia, it is necessary to improve investments in order to turn economic potentials into a real economic strength by the use of capital deriving from both domestic and overseas;
- d. that in dealing with global economic changes and Indonesia's participation in various international cooperation, it is necessary to create an investment climate which is conducive, promotive, provide legal certainty, justice and efficiency with due regards to the interests of the national economy;
- e. that Law Number 1 of 1967 on Foreign Investment, as amended by Law Number 11 of 1970 on the Amendment and Supplement to Law Number 1 of 1967 on Foreign Investment, and Law Number 6 of 1968 on Domestic Investment, as amended by Law Number 12 of 1970 on the Amendment and Supplement to Law Number 6 of 1968 on Domestic investment need to be replaced as it no longer corresponds to the needs of acceleration of national economic development and the development of national law, most notably, in the investment sector.
- f. that based on the considerations as referred to in letter a, letter b, letter c, letter d, and letter e, it has been deemed necessary to establish the Law on Investment.

Observing:

Article 4 paragraph (1), Article 5, paragraph (1), Article 18 paragraph (1), paragraph (2), and paragraph (5), Article 20 and Article 33 of the 1945 Constitution of the Republic of Indonesia.

By the Mutual Consent of
THE HOUSE OF REPRESENTATIVE OF THE REPUBLIC OF INDONESIA
and
THE PRESIDENT OF THE REPUBLIC OF INDONESIA

HAS DECIDED:

To enact:

LAW ON INVESTMENT

CHAPTER I GENERAL PROVISION

Article 1

Under this Law, the following definitions are employed:

1. Investment is any form of investing activity, either by domestic investors or foreign investors to conduct business within the territory of the Republic of Indonesia.
2. Domestic Investments is an investing activity to conduct business within the territory of the Republic of Indonesia which is undertaken by domestic investors using domestic capital.
3. Foreign investment is an investing activity to do business within the territory of the Republic of Indonesia which is undertaken by foreign investors, either by fully using foreign capital or in the form of joint venture with domestic investors.
4. Investor is an individual or business entity conducting an Investment which can either be in the form of domestic investors or foreign investors.
5. Domestic Investor is an individual Indonesian citizen, Indonesian legal entity, the Republic of Indonesia, or any region conducting an investment within the territory of the Republic of Indonesia.
6. Foreign investor is a foreign individual, foreign corporation, and /or foreign government conducting investment within the territory of the Republic of Indonesia
7. Capital is an asset in the form of money or other forms that are not money owned by investors bearing economic value.
8. Foreign capital is capital owned by foreign countries, foreign individuals, foreign enterprises, foreign legal entities, and / or Indonesian legal entities whose capital are partially or wholly owned by a foreign party.
9. Domestic capital is capital owned by the Republic of Indonesia, individual Indonesian citizen or incorporated or unincorporated business entities.
10. The One-stop Integrated Services is the activity of administering the Licensing and Non-licensing through a delegation or transfer of authority from the institution or agency that has the Licensing and Non-licensing authority, in which the administration process starting from the application stage to the document issuance stage are conducted in one location.
11. Regional autonomy is a right, authority, and obligation of an autonomous region to administer and manage their government and local society affairs and interests in accordance with the provisions of laws and regulations.
12. Central government, from this point onward is referred to as Government, is the President of the Republic of Indonesia, who holds the power of government administration of the Republic of Indonesia as referred to in the 1945 Constitution of the Republic of Indonesia.
13. Regional Government is any governor, regent or mayor, and the regional government apparatus as an element of regional administration organizers.

Article 2

The provisions of this Law shall apply to investment in all sectors within the territory of the Republic of Indonesia.

CHAPTER II

PRINCIPLES AND OBJECTIVES

Article 3

- (1) Investments shall be conducted based on the principles of:
 - a. legal certainty;
 - b. transparency;
 - c. accountability;
 - d. equitable and non-discriminatory treatment against country of origin;
 - e. togetherness;
 - f. efficiency in justice;
 - g. sustainability;
 - h. environmentally-sound;
 - i. independence; and
 - j. balanced advancement and national economic unity.
- (2) The purpose of conducting investment, shall be among others:
 - a. to increase national economic growth;
 - b. to create jobs opportunities;
 - c. to improve sustainable economic development;
 - d. to improve the competing ability of the national business world;
 - e. to increase the capacity and capability of national technology;
 - f. to encourage the development of the people's economy;
 - g. to turn economic potentials into real economic strength using funds deriving from both domestic and overseas; and
 - h. to improve public welfare.

CHAPTER III

BASIC INVESTMENT POLICY

Article 4

- (1) The government shall set out the basic investment policy for:
 - a. encouraging the creation of conducive national business climate for investments in order to strengthen the competitiveness of national economy; and
 - b. accelerating the increase of investment.
- (2) In setting out the basic policy as referred to in paragraph (1), the Government shall:
 - a. grant equitable treatment to domestic investors and foreign investors with due regard to the national interests;

- b. ensure legal certainty, business certainty, and business safety for investors starting from the licensing process to the termination of investment activities in accordance with the provisions of laws and regulations; and
 - c. to open up opportunities for development and provide protection to micro, small, and medium enterprises, and cooperatives.
- (3) The basic policy as referred to in paragraph (1) and (2) shall be reflected in the form of a General Investment Plan.

CHAPTER IV

FORM OF BUSINESS ENTITY AND DOMICILE

Article 5

- (1) Domestic investment can be made in the form of a business entity in the form of an incorporated entity, unincorporated entity or sole proprietorship, in accordance with the provisions of the laws and regulations.
- (2) Foreign investment must be in the form of a limited liability company under Indonesian law and domiciled within the territory of the Republic of Indonesia, unless stipulated otherwise by the law.
- (3) Domestic and foreign investors who conduct investment in the form of a limited liability company shall:
 - a. subscribe for shares at the time of the incorporation of the limited liability company;
 - b. purchase shares; and
 - c. take another method in accordance with the provisions of the laws and regulations.

CHAPTER V

TREATMENT OF INVESTMENT

Article 6

- (1) The government shall grant equitable treatment to all investors of any country that conduct investment activities in Indonesia in accordance with the provisions of the laws and regulations.
- (2) The treatment as referred to in paragraph (1) shall not apply to investors of a country that has acquired privileges by virtue of a treaty with Indonesia.

Article 7

- (1) The Government shall take no measures of nationalization or acquisition against any proprietary rights of investors unless provided by law.
- (2) In the event that the Government takes measures of nationalization or acquisition against the proprietary rights as referred to in paragraph (1), the government shall provide a compensation in an amount that are determined based upon market value.
- (3) If both parties fail to reach consensus on the compensation or indemnity as referred to in paragraph (2), then the settlement shall be made through arbitration.

Article 8

- (1) Investors may transfer the assets they own to any party the investors desire in accordance with the

provisions of the laws and regulations.

- (2) The assets that does not constitute assets as referred to in paragraph (1) shall be assets defined by law as assets controlled by the state.
- (3) Investors shall be granted with the right to perform transfer and repatriation in foreign exchange toward, among others:
 - a. capital;
 - b. profits, bank interest, dividends, and other income;
 - c. funds required to:
 1. purchasing raw and auxiliary materials, half-finished goods or finished goods; or
 2. replacing capital goods in order to protect the viability of the investment;
 - d. additional funds required for investment financing;
 - e. funds for repayment of loans;
 - f. royalties or fees payable;
 - g. income of individual foreign citizens working in the investment company;
 - h. proceeds from the sales or liquidation of an investment;
 - i. compensation for losses;
 - j. compensation for acquisitions;
 - k. payments made in connection with technical assistance, fees payable for technical and management services, payments made under the project contract, and payment of intellectual property rights; and
 - l. proceeds of sales of assets as referred to in paragraph (1).
- (4) Right to transfer and repatriation as referred to in paragraph (3) shall be undertaken in accordance with the provisions of the laws and regulations
- (5) The provisions as referred to in paragraph (1) does not reduce:
 - a. Government's authority to enforce the provisions of the laws and regulations which requires the reporting of implementation of fund transfers;
 - b. Government's rights to impose tax and/or royalties and/or other government revenues from investments in accordance with the provisions of the laws and regulations;
 - c. enforcement of law protecting the rights of creditors; and
 - d. enforcement of the law in order to avoid losses to the state.

Article 9

- (1) In the event of any liability not yet resolved by the investors:
 - a. an investigator or the Minister of Finance may request the bank or other institution to suspend the right to transfer and or repatriation; and
 - b. the court shall have the jurisdiction to order suspension of the right to transfer and/or repatriation based on a lawsuit.
- (2) Bank or other institution shall execute the suspension order following a court order as referred to in paragraph (1) letter b until the completion of the entire responsibility of the investor.

CHAPTER VI

MANPOWER

Article 10

- (1) In fulfilling the need for manpower, investment companies shall prioritize manpower from Indonesian citizens.
- (2) Investment company reserves the right to employ foreign national experts for certain positions and expertise in accordance with the provisions of the legislation.
- (3) Investment companies must improve the competence of the Indonesian manpower through job training in accordance with the provisions of laws and regulations.
- (4) Investment companies that employ foreign workers must conduct training and transfer of technology to Indonesian workforce in accordance with the provisions of the laws and regulations.

Article 11

- (1) The settlement of industrial disputes shall be pursued to be settled amicably between the investment company and the workforce.
- (2) If no settlement as referred to in paragraph (1) is achieved, the settlement thereof must be made through a tripartite mechanism.
- (3) If no settlement as referred to in paragraph (2) is achieved, the investment company and the labors shall settle the dispute through an industrial relations court.

CHAPTER VII BUSINESS SECTORS

Article 12

- (1) All business sectors or types of business shall be open to investment activities, except for business sectors or types of business that are declared to be closed and open with conditions.
- (2) The business sectors that are closed to foreign investors are:
 - a. production of weapons, ammunition, explosive devices, and war equipment; and
 - b. business sectors that are explicitly declared to be closed by the law.
- (3) The Government pursuant to a Decree of the President shall establish business sectors closed for investments, both foreign and domestic, based on the criteria of health, morals, culture, environment, national defense and security, as well as other national interests.
- (4) Criteria and requirements of business sectors that are closed and open with conditions as well as the list of business sectors that are closed and open with conditions shall be regulated under a Regulation of the President.
- (5) The government shall establish business sectors that are open with conditions based on the criteria of national interest, namely the protection of natural resources, protection, development of micro, small, medium enterprises and cooperatives, supervision of production and distribution, increase of technological capacity, participation of domestic capital, and cooperation with Government-appointed business entity.

CHAPTER VIII DEVELOPMENT OF INVESTMENT FOR MICRO, SMALL, MEDIUM ENTERPRISES, AND

COOPERATIVES

Article 13

- (1) The Government is obliged to establish business sectors that are reserved for micro, small, medium enterprises, and cooperatives as well as business sectors that are open to large businesses on condition that they should work together with micro, small, medium enterprises, and cooperatives.
- (2) The Government shall guide and develop micro, small, medium enterprises, and cooperatives through partnership programs, increase of competitiveness, encouragement of innovation and market expansion, as well as wide dissemination of information.

CHAPTER IX

RIGHTS, OBLIGATIONS, AND RESPONSIBILITIES OF INVESTORS

Article 14

Every investor shall be entitled to obtain:

- a. the certainty of rights, law, and protection;
- b. transparent information regarding business sectors it is engaged in;
- c. right to service; and
- d. various forms of convenience facilities in accordance with the provisions of laws and regulations.

Article 15

Every investor shall have the obligations to:

- a. apply the principles of good corporate governance;
- b. implement corporate social responsibility;
- c. generate a report on the investment activities and submit it to the Investment Coordinating Board;
- d. respect the cultural traditions of the communities around the location of the investment business activities; and
- e. comply with all the provisions of the laws and regulations.

Article 16

Every investor shall be responsible to:

- a. guarantee the availability of capital deriving from sources that do not contravene with the provisions of laws and regulations;
- b. assume and settle any obligations and losses in the event that the investors cease or leave or abandon its business activities unilaterally in accordance with the provisions of the laws and regulations;
- c. create fair competition business climate, prevent monopolistic practices, and other matters that are detrimental to the state;
- d. preserve environmental sustainability;
- e. to create workers' safety, health, amenity, and welfare; and

- f. comply with all the provisions of the laws and regulations

Article 17

Investors engaged in non-renewable natural resources must gradually allocate funds for the location recovery that comply with the standard of environmental feasibility, and which the implementation shall be regulated in accordance with the provisions of the laws and regulations.

CHAPTER X INVESTMENT FACILITIES

Article 18

- (1) The Government shall provide facilities to investors who make investments.
- (2) Investment facilities as referred to in paragraph (1) may be granted to investment:
 - a. that expands its business; or
 - b. that makes a new investment.
- (3) Investors receiving facilities as referred to in paragraph (2) shall be an investment that meets at least one of the following criteria:
 - a. absorbs many manpower;
 - b. falls under high priority scale;
 - c. falls under infrastructure development;
 - d. perform transfer of technology;
 - e. engaged in a pioneer industry;
 - f. located in a remote area, underdeveloped area, border area, or other areas deemed necessary;
 - g. preserve environmental sustainability;
 - h. conducts research, development and innovation activities;
 - i. in partnership with micro, small, medium enterprises or cooperatives; or
 - j. an industry which uses domestically-produced capital goods or machinery or equipment.
- (4) Facilities to be granted to the investment as referred to in paragraph (2) and (3) can be in the form of:
 - a. income tax through a reduction of net income up to the certain level toward total investments made within a certain period;
 - b. exemptions or relief on import duty of capital goods, machinery, or equipment for production purposes that are not yet produced domestically;
 - c. exemption or relief on import duty of raw materials or components for production purposes for specific periods and specific requirements;
 - d. exemption or deferment of Value-Added Tax on the import of capital goods or machinery or equipment for production purposes that are not yet produced domestically for a certain period;
 - e. accelerated depreciation and amortization; and
 - f. land and building tax relief, particularly for certain business sectors, in a specific territory or region or area.
- (5) Exemption or reduction of corporate income tax in a specific amount and period may only be granted

to new investors engaged in a pioneer industry, namely an industry that has wide connection, gives added-value and high externality, introduces new technologies, as well as having strategic value for the national economy,

- (6) For ongoing investments that are replacing machinery or other capital goods, they may be granted with facilities in the form of import duty relief or exemption.
- (7) Further provisions on the granting of fiscal facilities as referred to in paragraph (4) to paragraph (6) shall be regulated under a Regulation of the Minister of Finance.

Article 19

Facilities as referred to in Article 18 paragraph (4) and paragraph (5) shall be granted based on the national industrial policy adopted by the Government.

Article 20

Facilities as referred to in Article 18 shall not apply to foreign investments not in the form of a limited liability company.

Article 21

In addition to the facilities as referred to in Article 18, the Government shall provide ease of servicing and/or licensing to investment companies to acquire:

- a. land titles;
- b. immigration service facilities; and
- c. import licensing facilities.

Article 22

- (1) The ease of servicing and/or licensing of land titles as referred to in Article 21 letter a may be granted and extended all at once in advance and may be renewed at the request of the investors, namely:
 - a. the Right to Cultivate, that may be granted for a total period of 95 (ninety five) years by being granted and extended all at once in advance for 60 (sixty) years, and can be renewed for a period of 35 (thirty-five) years;
 - b. the Right to Build, that may be granted for a total period of 80 (eighty) years by being granted and extended all at once in advance for 50 (fifty) years and can be renewed for a period of 30 (thirty) years; and
 - c. the Right to Use, that may be granted for a total of period of 70 (seventy) years by being granted and extended all at once in advance for 45 (forty five) years and can be renewed for a period of 25 (twenty-five) years;
- (2) The land titles as referred to in paragraph (1) may be granted and extended all at once in advance for investment activities, under the following conditions:
 - a. an investment made for a long-term and related to changes in the structure of the Indonesian economy aimed at improving competitiveness;
 - b. an investment with investment risk level that requires a long-term return on capital based on the types of investment activities being carried out;
 - c. investments that do not require a large area;
 - d. investment using state land title; and

- e. investments that do not undermine a sense of public justice and does not harm the public interest.
- (3) A land title is renewable upon evaluation that the land remains in good use and cultivation in accordance with the condition, nature, and purpose of the title granting.
- (4) The granting and extension of land titles that are given all at once in advance and renewable as referred to in paragraph (1) and (2) may be terminated or canceled by the Government if the investment company abandons the land, harm the public interest, use or exploit the land that are inconsistent with the objectives and purposes of granting the land title, as well as violates the provisions of laws and regulations in the land sector.

Article 23

- (1) The ease of servicing and/or licensing for immigration facilities as referred to in Article 21 letter b may be granted to:
 - a. investments that require foreign workers in the realization of the investment;
 - b. investments that require employing foreign workers temporarily in order to repair machinery, other production supporting tools and after-sales service; and
 - c. prospective investors who are exploring possibilities for investment.
- (2) The ease of servicing and/or licensing for immigration facilities to investors as referred to in paragraph (1) letter a and b shall be granted after investors received a recommendation from the Investment Coordinating Board.
- (3) Foreign investors shall be granted following facilities:
 - a. the granting of a temporary residence permit to foreign investors for a period of two (2) years;
 - b. the granting of a change in the status of a temporary residence permit for an investor into permanent residence permit after the investor has resided in Indonesia for a period of two (2) consecutive years;
 - c. the granting of multiple re-entry permits for holders of temporary residence permit with a validity period of 1 (one) year that are granted for a maximum period of 12 (twelve) months starting from the temporary residence permit is granted;
 - d. the granting of multiple re-entry permits for holders of temporary residence permit with a validity period of 2 (two) years that are granted for a maximum period of 24 (twenty-four) months starting from the temporary residence permit is granted; and
 - e. the granting of a multiple re-entry permits for holders of permanent residence permit for a maximum period of 24 (twenty-four) months starting from the permanent residence permit is granted.
- (4) The granting of temporary residence permit for foreign investors as referred to in paragraph (3) letter a and letter b shall be performed by the Directorate General of Immigration upon a recommendation from the Investment Coordinating Board.

Article 24

The ease of servicing and/or licensing on import licensing facilities as referred to in Article 21 letter c may be granted for the import of:

- a. goods to the extent that it does not contravene with the provisions of the laws and regulations that govern goods trading;
- b. goods that have no negative impact on safety, security, health, environmental, and morals of the nation;

- c. goods for the purpose of factory relocation from overseas to Indonesia; and
- d. capital goods or raw materials for their own production needs.

CHAPTER XI COMPANY VALIDATION AND LICENSING

Article 25

- (1) Investors investing in Indonesia must comply with the provisions of Article 5 of this Law.
- (2) Validation of establishment of a domestic investment business entity in the form of incorporated entity or unincorporated entity shall be made in accordance with the provisions of the laws and regulations.
- (3) Validation of the establishment of foreign investment business entity in the form of a limited liability company shall be made in accordance with the provisions of laws and regulations.
- (4) An investment company intending to carry out business activities must obtain a license/permit in accordance with provisions of laws and regulations from an authorized institution, unless stipulated otherwise under the law.
- (5) The license as referred to in paragraph (4) shall be obtained through one-stop integrated services.

Article 26

- (1) The one-stop integrated services are aimed at assisting investors in obtaining ease of servicing, fiscal facilities, and information on the investment.
- (2) The one-stop integrated services shall be carried out by an investment institution or agency responsible for the investment sector that already receive a delegation or assignment of authority from the institution or agency authorized in licensing and non-licensing at the central level, or from an institution or agency authorized to issue a licensing or non-licensing in provinces or districts/cities.
- (3) Provisions concerning procedures and implementation of one-stop integrated services as referred to in paragraph (2) shall be regulated under a Regulation of the President.

CHAPTER XII COORDINATION AND IMPLEMENTATION OF INVESTMENT POLICIES

Article 27

- (1) The Government shall coordinate investment policies, be it between Government institutions, between government institutions and Bank Indonesia, between Government institutions and regional governments, and between regional governments.
- (2) Coordination of the implementation of investment policies as referred to in paragraph (1) shall be made by the Investment Coordinating Board.
- (3) The Investment Coordinating Board as referred to in paragraph (2) shall be led by a head and shall be directly responsible to the President.
- (4) The Head of the Investment Coordinating Board as referred to in paragraph (3) shall be appointed and dismissed by the President.

Article 28

- (1) In the event of coordinating the implementation of investment policies and servicing, the Investment Coordinating Board shall have the following duties and functions:
 - a. to perform duties and coordinate the implementation of investment policies;
 - b. to study and propose investment service policies;
 - c. to establish values, standards, and procedures for the implementation of investment activities and services;
 - d. to develop investment opportunities and potentials in regions by empowering business entities;
 - e. to create Indonesian investment map;
 - f. to promote investment;
 - g. to develop investment business sectors through investment guidance by way of, among others, increasing partnership, increasing competitiveness, creating fair business competition, and disseminating as widely as possible information on the conduct of investment activities;
 - h. to assist in settlement of various obstacles and give consultation on problems faced by investors in conducting investment
 - i. to coordinate domestic investors that conduct their investment activities outside the territory of Indonesia; and
 - j. to coordinate and implement the one-stop integrated services.
- (2) In addition to the coordination task as referred to in Article 27 paragraph (2), the Investment Coordinating Board shall have a duty to perform investment servicing based on the provisions of laws and regulations.

Article 29

In carrying out its duties and functions as well as the one-stop integrated service, the Investment Coordinating Board must directly involve the representatives from every relevant sector and region together with the competent and authorized officials.

CHAPTER XIII ADMINISTRATION OF INVESTMENT AFFAIRS

Article 30

- (1) The Government and/or regional governments shall guarantee business certainty and security in the conduct of investments.
- (2) Regional governments shall administer investment affairs under its authority, except for in the administration of investment affairs that become the Government's affairs.
- (3) Implementation of government affairs in the sector of investment which is obligatory functions of the regional governments shall based on the criteria of externality, accountability, and efficiency in carrying out investment activities.
- (4) Implementation of investment having an inter-provincial coverage shall become the government's affairs.
- (5) Implementation of investments having an inter-regency/city coverage shall become the provincial government's affairs.
- (6) Implementation of investment having a coverage of within one regency/city shall become the regency/city government's affairs.

- (7) The governing affairs that become the power of the Government in the investment sector shall be:
 - a. investments related to non-renewable natural resources with a level of high environmental damage risk;
 - b. investment in the industrial sector with national high priority scale;
 - c. investments related to the unifying and connecting function between regions or their coverage encompass inter-provincial region;
 - d. investment associated with the implementation of national defense and security strategy;
 - e. foreign investments and investors using foreign capital, deriving from the government of another country, based on the treaty entered into by Government and the government of another country; and
 - f. other investment sectors that become the Government's affairs according to the law.
- (8) With regards to the government affairs in the investment sector that become the authority of the Government as referred to in the paragraph (7), the Government shall perform it by itself, delegate it to governors are the representative of the Government, or assign them to the regency /city government.
- (9) Provisions on the distribution of government affairs in the investment sector shall be further regulated under a Regulation of the Government.

CHAPTER XIV SPECIAL ECONOMIC ZONES

Article 31

- (1) To accelerate economic development in certain areas that are strategic for the development of the national economy and to maintain a balance of advancement of a region, a special economic zone may be established and developed.
- (2) The Government are authorized to establish separate investment policies at special economic zones.
- (3) The provisions on special economic zones as referred to in paragraph (1) shall be regulated under a law.

CHAPTER XV DISPUTE RESOLUTIONS

Article 32

- (1) In the event of a dispute in the investment sector between the Government and investors occurred, the parties shall firstly resolve the dispute through deliberation to reach consensus.
- (2) In case of dispute resolution as referred to in paragraph (1) is not reached, then the said dispute resolution can be made through arbitration or alternative dispute resolution or a court in accordance with the provisions of the laws and regulations.
- (3) In the event of a dispute in the investment sector between the Government and domestic investors occurred, then such parties may resolve the dispute through arbitration based on an agreement between the parties, and if a dispute resolution through arbitration is not agreed upon, then the dispute resolution shall be made in a court.
- (4) In the event of a dispute in the investment sector between the Government and foreign investors occurred, the parties shall resolve the dispute through international arbitration that must be agreed

upon by the parties.

CHAPTER XVI SANCTIONS

Article 33

- (1) Domestic investors and foreign investors investing in the form of a limited liability company are prohibited from entering into an agreement and/or making a statement asserting that the ownership of shares in a limited liability is for and on behalf of another person.
- (2) In the event that domestic investors and foreign investors enter into an agreement and/or make a statement as referred to in paragraph (1), such agreement and/or shall be declared as null and void.
- (3) In the event that the investor who carries out business activities by virtue of an agreement or a cooperation contract with the Government has committed corporate crimes in the forms of criminal tax offense, recovery cost markup, and other forms of cost markup which diminish profits resulting in losses to the state upon findings or audits by authorized officials, and which has obtained a final and binding court decision, the Government shall terminate the agreement or the cooperation contract with the investor concerned.

Article 34

- (1) Business entities or sole proprietorships as referred to in Article 5, that fails to fulfill the obligations as set out in Article 15 may be subject to administrative sanctions in the form of:
 - a. written warning;
 - b. restrictions of business activities;
 - c. suspension of business and / or investment facility; or
 - d. revocation of business activities and / or investment facility.
- (2) The administrative sanctions as referred to in paragraph (1) shall be imposed by an authorized agency or institution in accordance with the provisions of the laws and regulations.
- (3) In addition to administrative sanction, the business entities or individuals may be subject to other sanctions in accordance with the provisions of the laws and regulations.

CHAPTER XVII TRANSITIONAL PROVISIONS

Article 35

International agreements on Investments, whether bilateral, regional or multilateral, that has been signed by the Indonesian government prior to this law coming into force, shall remain valid until the expiry of the said agreement.

Article 36

Draft of international agreements on investments, whether bilateral, regional or multilateral that has not been signed by the Government of Indonesia at the time of this Law coming into force must be adjusted to the provisions of this Law.

Article 37

- (1) At the time that this Law comes into force, all provisions of the laws and regulations that constitute implementing regulations of Law Number 1 of 1967 on Foreign Investment, as amended by Law Number 11 of 1970 on the Amendment and Supplement to Law Number 1 1967 on Foreign Investment and Law Number 6 of 1968 on Domestic Investment, as amended by Law Number 12 of 1970 on the Amendment and Supplement to Law Number 6 of 1968 on Domestic Investment are declared to remain valid to the extent that it does not contravene with and not yet regulated by new implementing regulations under this Law.
- (2) Investment approvals and implementation license that are already granted by the Government pursuant to Law Number 1 of 1967 on Foreign Investment, as amended by Law Number 11 of 1970 on the Amendment and Supplement to Law Number 1 of 1967 on Foreign Investment and Law Number 6 of 1968 on Domestic investment, as amended by Law Number 12 of 1970 on the Amendment and Supplement to Law Number 6 of 1968 on Domestic Investment are declared to remain valid until the investment agreement, and the implementation license in question expires.
- (3) Applications for investment and other applications in relation to the investments that have been submitted to the authorized agencies, and at the date of enactment of this Law have not yet obtained a Government approval, must be adjusted to the provisions of this Law.
- (4) Investment companies which have been granted with a business permit by the Government pursuant to Law Number 1 of 1967 on Foreign Investment, as amended by Law Number 11 of 1970 on the Amendment and Supplement to Law Number 1 of 1967 on Foreign Investment and Law Number 6 of 1968 on Domestic Investment, as amended by Law Number 12 of 1970 on the Amendment and Supplement to Law Number 6 of 1968 on Domestic Investment, and, if the permanent business license has expired, can be extended under this Law.

CHAPTER XVIII**CLOSING PROVISION****Article 38**

With the enforcement of this Law:

- a. Law Number 1 of 1967 on Foreign Investment (State Gazette of the Republic of Indonesia of 1967 Number 1, Supplement to the State Gazette of the Republic of Indonesia Number 2818), as amended by Law Number 11 of 1970 on the Amendment and Supplement to Law Number 1 of 1967 on Foreign Investment (State Gazette of the Republic of Indonesia of 1970 Number 46, Supplement to State Gazette of the Republic of Indonesia Number 2943); and
- b. Law Number 6 of 1968 on Domestic Investment (State Gazette of the Republic of Indonesia of 1968 Number 33, Supplement to the State Gazette of the Republic of Indonesia Number 2853), as amended by Law Number Number 12 of 1970 on the Amendment and Supplement to Law Number 6 1968 on Domestic Investment (State Gazette of the Republic of Indonesia of 1970 Number 47, Supplement to State Gazette of the Republic of Indonesia Number: 2944);

are repealed and declared invalid.

Article 39

All the provisions of regulations relating directly to investment must be founded by and adjusts their stipulations to this Law.

Article 40

This Law comes into force from the date of its promulgation.

For the purpose of public cognizance, it is hereby ordered that this Law be promulgated in the State Gazette of the Republic of Indonesia.

Enacted in Jakarta,

On 26 April 2007

PRESIDENT OF THE REPUBLIC OF INDONESIA,

Signed.

DR. H. SUSILO BAMBANG YUDHOYONO

Promulgated in Jakarta,

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MINISTER OF LAW AND HUMAN RIGHTS OF THE REPUBLIC OF INDONESIA,

Signed.

HAMID AWALUDIN

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2007 NUMBER 67

**ELUCIDATION OF
LAW OF THE REPUBLIC OF INDONESIA
NUMBER 25 OF 2007
ON
INVESTMENT**

I. GENERAL

One of the goals of establishing state administration is to promote public welfare. This mandate are, among others, set out in Article 33 of the 1945 Constitution of the Republic of Indonesia and is a constitutional mandate that underlies the formation of the entire laws and regulations in economy sector. The constitution has mandated that national economic development must be founded on the democratic principle that is capable of realizing economic sovereignty of Indonesia. A link between economic development and people's economic actors has been reaffirmed by the Decree of the People's Consultative Assembly of the Republic of Number XVI/MPR/1998 on Politic of Economy under the Framework of Economic Democracy as a source of substantive law. Thus, the development of investment for micro, small, medium enterprises and cooperatives shall be part of the fundamental policies of investment.,

In connection with said matters, investments must be made a part of the organization of national economy and be positioned in an effort to boost national economic growth, to create job opportunities, to promote sustainable economic development, to improve the capacity and capability of national technology, encourage the people's economic development, as well as to realize public welfare within a competitive economic system.

The purposes of organizing investments can only be achieved if the supporting factors that hinder investment climate can be handled through, among others, improved coordination between central and regional governments, the creation of efficient bureaucracy, legal certainty in the investment sector, highly competitive economic costs, as well as conducive business climate in the sector of manpower and business security. With the improvement of such various supporting factors, it is hoped that realization of investments will be better-situated in a significant manner

The spiritual atmosphere in the establishment of Law on Investment are based upon the spirit for creating conducive investment climate, and therefore the Law concerning Investments regulates matters deemed as important, such as those related to the coverage of the law, fundamental investment policies, forms of business entity, treatment of investments, business sectors, as well as a link between economic development and people's economic actors that are to be realized in the regulation on the development of investments in micro, small and medium enterprises, and cooperatives, investor's rights, obligations, and responsibilities as well as investment facilities, validation and permission, coordination and implementation of investment policies containing stipulations on institutions, organization of investment affairs, and provisions regulating dispute settlements.

This Law covers all direct investment activities in all sectors. This law also guarantees equal treatment in the framework of investment. Moreover, this law orders the Government to improve coordination between Government institutions, between Government institutions and Bank Indonesia, and between the Government and regional governments. Coordination with regional governments must be in line with the spirit of regional autonomy. The regional governments together with private and Government agencies or institutions must be further empowered both in the development of potential investment opportunities within regions and coordination of investment promotion and services. Regional governments implements as extensive autonomy as possible in order to organize and administer themselves the conduct of investment affairs based on the principle of regional autonomy and co-administration (tugas pembantuan) or deconcentration. Therefore, the increase of institutional coordination must be measurable through the speed of the granting of licensing and investment facilities at a competitive cost. In order to meet the principle of economic democracy, this Law also orders the preparation of laws and regulations concerning business sectors that are closed and open

with condition, including business sectors that must be in partnership or be reserved for micro, small and medium enterprises and cooperatives.

The main problem faced by investors in starting a business in Indonesia are taken into account by this Law, thus, there are arrangement on validation and licensing which contains arrangement on one-stop integrated services. With this system, it is expected that the integrated services at the central and in regional level can create the simplification in licensing and speedy administration. In addition to investment services within regions, the Investment Coordinating Board is assigned to coordinate the implementation of investment policies. The Investment Coordinating Board is led by a head that is responsible directly to the President. Detailed primary duties and functions of the Investment Coordinating Board are basically to strengthen the board's roles to overcome obstacles on investments, to improve the certainty of granting facilities to investors, and to reinforce the investors' roles. The improvement of said investors' roles must remain within the corridor of the national development policies that are planned by stages, namely, by having due regard to the macroeconomic stability and economic balance among regions, sectors, business practitioners, and community groups; by supporting the roles of national business; as well as by addressing the code of principles of good corporate governance.

Investment facilities are granted by taking into account the economic competitiveness level and the state's financial condition and should be more promoting in comparison with facilities provided by other countries. The importance of certainty of these investment facilities has encouraged more specific regulation on the forms of fiscal facility, land title facility, immigration facility, and import licensing facility. In addition, the granting of these investment facilities is also made in an effort to bolster manpower absorption, a link of economic development and people's economic actors, export orientation and more beneficial incentives to investors that use domestic production capital goods or machines or equipment, as well as facilities associated with locations of investments in less developed areas and in limited-infrastructure areas to be regulated more thoroughly by provisions of laws and regulations.

With due regard to the said matter, this Law also gives space to the Government to adopt policies in order to anticipate the various international agreements that already occurred and to encourage international cooperation in order to broaden the opportunities of the regional and international market for Indonesian goods and services. Economic development policies in certain areas are placed as part of attracting the potential of international markets and as the impetus to increase the attractiveness of the growth in special economic zone or area that is strategic for national economic developments. In addition, this Law also regulate the rights to transfer assets and the rights to transfer and repatriate assets with due regard to legal responsibilities, fiscal obligations, and social obligations that should be settled by investors. The possibility of a dispute between an investor and the Government occurring is also anticipated by this Law through the arrangement on dispute settlements.

Rights, obligations, and responsibilities of investors are specifically regulated in order to provide legal certainty, reinforce investor's obligations towards the implementation of the principles of sound corporate governance, giving respect to the cultural traditions of the community, and implement corporate social responsibility. Regulation on responsibilities of investors is necessary in order to encourage fair business competition climate, to broaden responsibility for the environment, and to address the rights and obligations of manpower, as well as to make an effort to encourage investor's adherence against the laws and regulations.

The world economy is characterized by tight competition between nations, thus pushing investment policies to create competitiveness of the national economy in order to encourage the integration of Indonesian economy into the global economy. The world economy is also characterized by the presence of a block trade, common market, free trade agreements based on the synergy of interests between the parties or countries of the agreement. This was also the case with Indonesia's involvement in various international cooperation related to investment, whether bilateral, regional and multilateral (World Trade Organization / WTO), that also lead to consequences to be faced and adhered to.

With the above various considerations and bearing in mind the investment law that has been in effect for more than 40 (forty) years, the need of a Law on Investment as a replacement of Law Number 1 of 1967 on Foreign Investment, as amended by Law Number 11 of 1970 on the Amendment and

Supplement to Law Number 1 of 1967 on Foreign Investment and Law Number 6 of 1968 on Domestic Investment, as amended by Law Number 12 of 1970 on the Amendment and Supplement to Law Number 6 of 1968 on Domestic Investment, which until the present has been the legal basis for investment activities in Indonesia but is no longer keeping pace with the challenges and needs to expedite national economic development through construction of the national law development in the investment sector in order to be competitive and to side with the national interests.

II. ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

"investment in all sectors within the territory of the Republic of Indonesia" is a direct investment and does not include indirect or portfolio investment.

Article 3

Paragraph (1)

letter a

"the principle of legal certainty" is a principle in a state based on law (negara hukum) which place the law and provisions of laws and regulations as the foundation of any investment policy and measure.

letter b

"the principle of transparency" is a principle that open to the public's right to obtain accurate, fair and non-discriminatory information on investment activities.

letter c

"the principle of accountability" is a principle stipulating that each of activity and outcome of the implementation of investment must be accounted for to the public or people as holders of the supreme sovereignty in accordance with the provisions of laws and regulations.

letter d

"the principle of equitable and non-discriminatory treatment against country of origin" is the principle of a non-discriminatory service treatment between domestic investors and foreign investors, or between investors of one foreign country and investors of another foreign country based on provisions of laws and regulations.

letter e

"the principle of togetherness" is a principle that encourages the entire investors to take on their business roles together for the realization of public welfare.

letter f

"the principle of efficiency in justice" is a principle that underlies the implementation of investment by promoting the efficiency of justice in an effort to create a just, conducive and competitive business climate.

letter g

"the principle of sustainability" is a principle that is planned to seek passage of the development

process through investments in order to ensure the welfare and progress in all aspects of life, both in the present and the future.

letter h

"the principle of environmentally-sound" is the principle of which an investment is made by taking into account and giving priority to the protection and preservation of the environment.

letter i

"the principle of independence" is a principle of which an investment is made by promoting the potential of the nation and the state by not being unreceptive to the inflows of the foreign capital to realize economic growth.

letter j

"the principle of balanced advancement and national economic unity " is a principle that seeks to maintain the balance of regional economic advancement within the national economic unity.

Paragraph (2)

Self-explanatory

Article 4

Paragraph (1)

Self-explanatory

Paragraph (2)

letter a

"Equitable treatment" is that the Government does not differentiate the against investors already investing in Indonesia unless otherwise specified by the provisions of the laws and regulations.

letter b

Self-explanatory

letter c

Self-explanatory

Paragraph (3)

Self-explanatory

Article 5

Self-explanatory

Article 6

Paragraph (1)

Self-explanatory

Paragraph (2)

"Privilege" are, among others, a privilege related to the customs unity, free trade zone, common market, monetary unity, institutions of a similar kind, and bilateral, regional, or multilateral agreements between the Government of Indonesia and the government of a foreign country concerning particular privileges in the conduct of investments.

Article 7

Paragraph (1)

Self-explanatory

Paragraph (2)

"Market value" means the value that is established in accordance with the internationally-accepted methods adopted by an independent appraiser appointed by the parties.

Paragraph (3)

"arbitration" is a method of solving a civil dispute out of court based on a written agreement by the parties to the dispute.

Article 8

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Paragraph (5)

letter a

Self-explanatory

letter b

Self-explanatory

letter c

Self-explanatory

letter d

In the event of the occurrence of a loss to the state, the government may take legal action, which includes warnings, suspension, revocation of business licenses, compensation lawsuit, and other sanctions in accordance with the provisions of the laws and regulations.

Article 9

Self-explanatory

Article 10

Self-explanatory

Article 11

Self-explanatory

Article 12

Paragraph (1)

Business sectors or types of businesses that are closed and open with conditions are stipulated through a Regulation of the President that are formulated in a list based on the standard for classification of business sectors or business types applicable in Indonesia, namely the classification based on Indonesian Standard Industrial Classification (Klasifikasi Baku Lapangan Usaha Indonesia - KBLI) and/or the International Standard for Industrial Classification (ISIC)

Paragraph (2)

"Explosive devices" are devices used for the purpose of defense and security.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Paragraph (5)

Self-explanatory

Article 13

Paragraph (1)

"Business sectors that are reserved" are business sectors that are specifically reserved for micro, small and medium enterprises and cooperatives in order to be capable and equitable to other economic actors.

Paragraph (2)

Self-explanatory

Article 14

letter a

"Certainty of rights" is a Government guarantee for investors to acquire rights so long as investors already fulfill the stipulated obligations.

"certainty of law" is a Government guarantee to place law and provisions of laws and regulations as the primary foundation in every measure and policy for investors.

"certainty of protection" is a Government guarantee for investors to acquire protection in carrying out investment activities.

letter b

Self-explanatory

letter c

Self-explanatory

letter d

Self-explanatory

Article 15

letter a

Self-explanatory

letter b

"Corporate social responsibility" is the responsibility inherent in each investment company to keep creating a harmonious, balanced, and suitable relationship with the environment, values, norms, and culture of the local community.

letter c

Report on the investment activities containing the development of investment and obstacles faced by the investors shall be submitted periodically to the Investment Coordinating Board and the regional government responsible for the investment sector.

letter d

Self-explanatory

letter e

Self-explanatory

Article 16

Self-explanatory

Article 17

This provision is intended to anticipate the environmental damage caused by investment activities.

Article 18

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

letter a

Self-explanatory

letter b

Self-explanatory

letter c

Self-explanatory

letter d

Self-explanatory

letter e

"Pioneer Industry" is an industry that has wide connection, gives added values and high

externality, introduces new technology, as well as having strategic values for the national economy.

letter f

Self-explanatory

letter g

Self-explanatory

letter h

Self-explanatory

letter i

Self-explanatory

letter j

Self-explanatory

Paragraph (4)

Self-explanatory

Paragraph (5)

Self-explanatory

Paragraph (6)

Self-explanatory

Paragraph (7)

Self-explanatory



Article 19

Self-explanatory

Article 20

Self-explanatory

Article 21

Self-explanatory

Article 22

Paragraph (1)

letter a

Right to cultivate (Hak Guna Usaha - HGU) is obtained by being granted and extended all at once in advance for 60 (sixty) years, and can be renewed for a period of 35 (thirty-five) years.

letter b

Right to Build (Hak Guna Bangunan - HGB) is obtained by being granted and extended all at once in advance for 50 (fifty) years, and can be renewed for a period of 30 (thirty) years.

letter c

Right to Use (Hak Pakai - HP) is obtained by granting and extended all at once in advance for 45 (forty-five) years, and can be renewed for a period of 25 (twenty-five) years.

Paragraph (2)

letter a

Self-explanatory

letter b

Self-explanatory

letter c

"Large area" is a land size that is needed for investment activities by taking population densities, business sectors, or business types set out under laws and regulations into account.

letter d

Self-explanatory

letter e

Self-explanatory

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory



Article 23

Paragraph (1)

Self-explanatory

Paragraph (2)

Recommendations are granted after the investment meets the conditions of use of foreign workers in accordance with the provisions of manpower laws and regulations.

Paragraph (3)

Self-explanatory

Paragraph (4)

Self-explanatory

Article 24

Self-explanatory

Article 25

Self-explanatory

Article 26

Self-explanatory

Article 27

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

directly responsible to the President is that the Investment Coordinating Board in performing its duties, carrying out its functions and submits its accountability directly to the President.

Article 28

Paragraph (1)

letter a

Self-explanatory

letter b

Self-explanatory

letter c

For the purpose of establishment of values, standards, and procedures, the Investment Coordinating Board shall coordinate with the relevant departments/institutions.

letter d

Self-explanatory

letter e

Self-explanatory

letter f

Self-explanatory

letter g

Self-explanatory

letter h

Self-explanatory

letter i

Self-explanatory

letter j

Self-explanatory

Paragraph (2)

Self-explanatory

Article 29

Self-explanatory

Article 30

Self-explanatory

Article 31

Self-explanatory

Article 32

Self-explanatory

Article 33

Paragraph (1)

The purpose of the arrangement of this paragraph is to prevent the occurrence of a company that is formally owned by a person, but in actuality or in substance, the owner of said company is someone else.

Paragraph (2)

Self-explanatory

Paragraph (3)

"Criminal tax offense" is false information regarding reports relating to tax collection by submitting tax returns whose content is incorrect or incomplete, or enclosing false statements that may lead to the state's loss and other crimes set out under the taxation law.

"Recovery cost markup" is any expense incurred in advance by an investor, whose amount is unreasonable and is subsequently calculated as expenditure for investment activities at the time of determining profit sharing with the Government

"Findings by authorized officials" are findings with indications of criminal elements based upon results of an examination made by the BPK (Finance Auditor Body/Badan Pemeriksa Keuangan) or other having the authority to audit, which will then be followed-up in accordance with laws and regulations.

Article 34

Self-explanatory

Article 35

Self-explanatory

Article 36

Self-explanatory

Article 37

Self-explanatory

Article 38

Self-explanatory

Article 39

Self-explanatory

Article 40

Self-explanatory

SUPPLEMENT TO STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 4724

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