

# The role of customs and excise agency



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The rapid pace of globalisation is inevitable. Such a rapid global trade is driven by technological changes on transportation and communication, the increasing of population, and multilateral trade agreements. In some aspects, global trade has brought many benefits. It opens up a whole range of job opportunities to the citizens, provides affordable goods and services, accelerates economic growth and offers prosperity to the country. Then, participating in the global trade is desirable.

Even though the gains from global trade are obvious, economist agree that ‘ the greatest gains go to the country that slashes its own barrier’ (World Trade Organizations, 2013). There are many forms of trade barrier such as tariffs, quotas, and antidumping duties that may impede market integrations. Thus, trade barriers have become a critical issue to be solved.

Reducing tariffs and non-tariffs barriers have become a way to overcome trade barrier issues. However, this prescription has not always led developing countries to achieve desirable gains from global trade. Wulf (2005) pointed out that there are some factors that lead to the failure of many developing countries to generate economic benefits such as poor trade logistics environment and high transaction costs including customs clearance costs.

Further, as the growth of global trade, the movement of people, goods, and services across around the globe has increased rapidly. It brings serious challenges in which demand some forms of revenue collection as well as border protection. In this point, Customs and Excise agency as one of key

border agencies should take in place. Customs and Excise agency are expected to perform properly to meet the global trade challenges.

Indonesia, the largest archipelago country in the world, has a strategic position across major sea lanes from Indian to Pacific Ocean. Its strategic position has led and fostered international trade. This country has become an attractive market because its large population, its economy size and its active membership in many regional trading arrangement (Salim, 2011).

On the other hand, Indonesia is not only an attractive market for traders but also it becomes a potential hotspot for transnational organised crime. These situations demand some forms of effective border protection as well as revenue collection. In this point, Customs and Excise service has responsibilities to deal with the goods crossing the borders of the country, including counter illegal cross-border activities and tackle the cross-borders threats. It is clear that Custom and Excise agency, as a border control authority, needs to overcome these new challenges.

Regarding to this issue, this paper will specifically discuss the role and responsibilities of Customs and Excise agency in Indonesia. To some extent this paper also discusses the challenges that Indonesian Customs and Excise agency will be faced as it moves toward 2020.

## **The Role of Indonesian Customs and Excise Administration**

In general, Indonesian Customs has its roles as trade facilitator, industrial assistance, revenue collector, and community protector (Bea dan Cukai, 2013). As changes in the international trade pattern and the world have become borderless, trade will flow toward efficient environment where

barriers in trade are eliminated. It seems that the global trade simultaneously requires an efficient and competitive market. As a consequence, many regional, bilateral, and multilateral trade initiatives are trying to reduce tariff and non-tariff barriers gradually.

As the tariffs liberalisations are already implemented, Love and Lattimore (2009) stated that there are other main barriers of trade in developing countries, such as customs and administrative technical and procedures. Since 1994, Indonesia has adjusted its tariff to be in line with World Trade Organization's commitment (WTO, 1998). However, Indonesia-European Community (2007) pointed out that Indonesian government consistently fail to generate optimal revenues as well as offer a fair treatment for investors because of its governance problems, particularly in the customs and tax administrations. Similarly, Wakamatsu and Iwakami (2005, p. 14) pointed out that 'in Indonesia, customs and clearance as one of the major issues to be improved in the business and investment environment'.

It is clear that international trade requires efficient and effective as well as simple and clear customs procedure. In response to this challenge, Indonesian government has enacted Law Number 10 Year 1995 on Customs which later it is amended with Law Number 17 Year 2006 on the Amendment of Customs Law (Bea dan Cukai, 2013). In general, these two laws have led Customs and Excise agency to accommodate the demand of international trade as the consequence of Indonesia's participation in the ratification of General Agreement on Tariffs and Trade (GATT), ASEAN Free Trade Area (AFTA), Asia-Pacific Economic Cooperation (APEC), and other trade agreements (Bea dan Cukai, 2013).

Customs agency plays a significant role as a trade facilitator. The WTO defined trade facilitation as ‘ simplification and harmonization of international trade procedures, including activities, practices, and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade’ (WTO, 2001). Thus, carrying out its roles and responsibilities as trade facilitator requires effectiveness on customs clearance processing. In international trade, lengthy time on customs clearance does really matter. The more complicated its procedures will increase time delays on clearance, and it will increase costs of doing businesses. As a result, Indonesia will be less competitive in the international trade.

Indonesian Customs has recognized this challenge. Reducing time delays on customs clearance as well as reducing the cost of doing business can be achieved by simplification and modernisation systems on customs clearance. Even though Indonesia has not signed The Revised Kyoto Convention yet, Indonesia has adopted some principles on Kyoto Convention, including simplification, harmonization and modernisation of Customs administrations.

In 1997, Customs has started to use Electronic Data Interchange (EDI) system in which it provides an alternative for the client in the procedure of lodging a customs declaration (Bea dan Cukai, 2013). Later, in 2010, Indonesia has started to implement Indonesia’s National Single Window (INSW) as part of Indonesia’s commitment to ASEAN. ‘ The development of the INSW was driven by Indonesia’s commitments to ASEAN under the Agreement to Establish and Implement the ASEAN Single Window’ that was

signed in 2006 (OECD 2012, p. 53). Through this single window, it would improve the flow of exports and imports.

Bayhaqi (2011) pointed out that Indonesia has achieved significant reductions in customs clearance time and technical control for both, imports and exports. For imports, the time taken to customs clearance decreased from seven days in 2006 to four days in 2010, while for exports, it decreased from two days in 2006 to one day in 2010 (Bayhaqi, 2011). However, due to its limitation on information technology systems and legal issues related to information transfer among government agencies and private sectors, the paperless trading through the INSW is only available for a relatively small group of about a hundred traders, which have advanced and qualified technology systems for post clearance audit facilities (OECD, 2012). In the future, Indonesia needs to accommodate and facilitate other traders to use INSW as well as establish cross-border paperless connection within ASEAN countries.

Conservatively, the role of Customs agency is as a gate keeper to collect revenues. However, as the vast expansion in people and goods movement, the role of customs agency is not only to collect revenue but also to facilitate trade and protect the community. The needs of Customs agency can be varied among the countries, but in an archipelago country like Indonesia, Customs plays a critical role as the first line of defence against transnational crimes, smuggling, drugs trafficking, terrorisms, illegal fishing, illegal logging, and other illegal activities.

As a timber producer, Indonesia has struggled with issues related to illegal logging. Luttrell et. al (2011) calculated that the government was losing US\$600 million to US\$ 8. 7 billion per year because of illegally harvested timber activities. Scheyvens and Casero (2010) pointed out that there are many forms of illegal logging activities that against customs law such as exporting timber without a licence or proper documents, undervaluing export prices and volumes and misclassification or misdeclaration of wood products, re-routing and trans-shipment fraud of cargo, attempted bribery, and so on.

Goncalves et al. (2012, p. 12) stated that ‘ Customs officials play an important role in detecting illegal logging because they are in a position to prevent the movement of unauthorized shipments across borders with false documentation’. On the other hand, Scheyvens and Casero (2010, p. vi) pointed out that ‘ Customs administrations have only a little or no external support or background information to assist them, except for customs declarations and accompanying documents’.

In another point of view, Scheyvens and Casero (2010) stated even though exporting countries have clear procedures for wood export permit and verification, its requirements for the clearance of wood product consignments are not well known by Customs agencies in importing countries. To some extent, Customs in the importing countries may not have powers to prosecute imports of illegal timber (Scheyvens and Casero, 2010).

In order to overcome this issue, one of the approaches is to prevent the flow of illegal timber entering the importing countries. It can be achieved through Customs agencies co-operation and collaboration between exporters and

importers countries. Thus, information sharing among Customs agencies is crucial.

Indonesia itself has engaged in many regional Customs networks, and initiatives to combat illegal logging. Through World Customs Organization (WCO), APEC, Asia-Europe Meeting (ASEM) and Association of Southeast Asian Nation (ASEAN) for example, illegal timber trade issues has been raised (Scheyvens and Casero, 2010). In bilateral level, Indonesia has arranged and signed a number of Memorandum of Understanding (MoU), such as United of Kingdom-Indonesia MoU and United of States-Indonesia MoU and to tackle illegal timber trade including various forms of Customs collaboration (Scheyvens and Casero, 2010).

Cantham House in Goncalves et al. (2012) reported that in 2008, illegal logging has declined, but it still contributed around 40 to 55 per cent of all logging in Indonesia. Amacher et. al (2012) stated that the major obstacle in combating illegal logging is bribery and corruption of government officials. Further, Nelleman (2012) described that illegal logging syndicates might pay export fees on the timber, but they pay little tax from the actual logging through 'initial under-reporting'. Transparency International (2011, p. 3) pointed out that often 'corruption and fraud have been used to falsify valuable permits from the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)'.

Combating corruption across government agencies might become a big task. However, there is one small step to curb corruption: building the capacity of Customs. Transparency International (2011) pointed out that the



improvement of Customs capacity will assist Customs officials to deal with any complex forms of fraud and corruption in the timber trade. Scheyvens and Casero (2010) stated that strengthening Customs integrity is necessary to combat corruption within Customs administrations. In general, there are ten elements of Customs integrity program under The Revised of Arusha Declaration, including transparency, automation, reform and modernization, audit and investigation, and relationship with the private sectors (McLinden, 2005). The implementation of these ten elements would be beneficial to curb corruption.

## **Conclusion**

The role of Customs agency might be varied within countries. As the world is becoming borderless, the role of Customs agency in Indonesia has become more complex from revenue collector to trade facilitator and community protector. Carrying out its role as trade facilitator, Indonesian Customs has simplified, harmonized, and modernized its systems and procedures on customs clearance for both, exports and imports. The implementation of INSW aims to accelerate the customs clearance, reduce transaction costs and enhance national competitiveness. However, in the future, INSW needs to be improved to accommodate much more traders.

Indonesian Customs has simultaneously made some efforts to combat the existence of illegal activities, particularly illegal logging. In response to this issue, Indonesia Customs has engaged in a number of international organizations as well as bilateral and multilateral agreement. As a result, the number of illegal logging has fallen, but it still has become an issue to be solved. One of the challenges is corruption issue within government

agencies, including Customs agency. Thus, strengthening Customs integrity is becoming a crucial task as it is moving toward to 2020.