

CUSTOM STUDY : A REPORT OF 2006 SURVEY ¹

MAIN FINDINGS

The process of import clearance in Indonesia is complex and non-transparent. Accordingly, it increases transaction costs in terms of money and time. Import clearance consists of three stages – ship/dock clearance, customs clearance and cargo clearance – involving at least 30 institutions from various agencies. However, the most difficult part is the unpredictability of customs clearance, since the customs agency has dominant authority in the process. Lack of predictability is expressed in multiple interpretations of existing procedures. This creates unnecessary delays, which in turn creates room for negotiation of unofficial payments to speed up the process.

There are also delays and informal payments arising from poor port infrastructure. One particular problem arises in relation to the infrastructure in the container yard (CY), such as limited space and lack of cranes and forklifts, particularly during peak periods, which creates an opportunity for the equipment operators to extort bribes to speed up the process.

Delays in import clearance occur at all stages, such as: the cargo manifest is not ready for submission, gentry cranes are limited, problems with the Electronic Data Interchange (EDI) system or computer errors, problems in submitting hardcopy of the import declaration form

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(PIB), problems with special goods (Skep or decrees regulating those specific goods), problems during transfer of container from the container yard (CY) to the inspection point, problems during checks after the issuance of the SPPB (permission to clear goods), limited infrastructure, congestion inside the port (Tanjung Priok), mismatches of container identification numbers, and problems on the roads outside the port.

Furthermore, it is common practice to make additional payments for the following *modus operandi*: ‘package’ (*borongan*) system, HS code negotiation, different interpretations of the HS code, late PIB (import notification) response, storing container in the container yard and *overbrenge*n issues, bypassing physical inspection, correction notes, and miscellaneous errors during physical inspection. From an economic standpoint, paying money for bribes to speed up the process may involve only pure transfer, but the opportunity cost created by time delays may constitute a deadweight loss for the Indonesian economy.

1. INTRODUCTION

One important factor in sustaining Indonesia’s economic competitiveness is to keep logistic costs low by maintaining the efficiency of import and export procedures at par with competitors. Besides factors that are internal to firms, the presence of efficient national import clearance is a prerequisite for competitiveness. The national customs office is perhaps the most important institution in the import clearance process. But there are also other institutions like port administration, police, shipping agency that also determine the length of import clearance. Accordingly, all hurdles in the import clearance in the port have to be evaluated and measured, from the time of ship arrival to when goods are released. This means time delays and unofficial payments in the process should be tractable - back to every institution involved in it. Respondents were asked about all of those issues. Distinction is also made for between green and red lanes. One important issue in the export and import procedures is custom clearance since Custom is perhaps the most dominant actor in the export and import flows.

The main goal of this study is to identify the process of import clearance including steps in port clearance from ships arrival to cargo clearance when goods released, related entities in import clearance, time and payment to every related entities that faced by the shipment service companies. The survey is expected to provide a set of indicators that can be used to monitor performance in import clearance process.

2. RESEARCH METHODS

2.1. Indicators

The indicators will cover important issues in import clearance process in a set of qualitative (perception) and quantitative indicators. The major indicators that will be discussed are as follows:

- a. The procedure of import clearance process. This procedure consists of three activities. First, port clearance — from ship arrival to ship berthing at docs, second, customs clearance — from submitting import notice (PIB) to issuing goods released permit (SPPB), third, cargo clearance — from obtaining released permit to gate out, including loading to truck which will transport to factory or warehouse.
- b. The institutions related on import clearance process. All institutions involved in this process will be identified not only at port but also at outside port.
- c. The time to clear import. This is similar with lead time which measures time required to berth at docks to release goods at gate out. In other word, time to measure each clearance process.
- d. The payment (official and unofficial payment) in import clearance. All payments paid to all institutions involved in import clearance will be counted as a percentage of import value and in absolute amount.

2.2. Fieldwork Survey

Survey Technique

The survey can be divided into two parts, which are: (i) in-depth interviews; and (ii) survey with a structured questionnaire. The in-depth interview series were conducted with limited number of respondents from all institutions related in import clearance and selected forwarder companies and importers. Detail list of respondents can be found in Technical Report.

The main objective of the interview is to clarify some confusion from findings in Round I Monitoring Investment Climate particularly regarding to entities responsible for delays and informal payment in import clearance. Furthermore, from in-depth interviews are expected (i) to learn how the import clearance process works; (ii) to identify the main current bottlenecks; and (iii) to propose indicators that can be used to monitor performance in import clearance. Hence, the result of the interview became a base of information to build a specific structured questionnaire for customs survey. The interviews were only conducted in Jakarta and were implemented by LPEM team.

The second part is to conduct a survey using structured questionnaire in perhaps the busiest port in Indonesia in five cities, Jakarta (Tanjung Priok), Surabaya (Tanjung

Perak), Semarang (Tanjung Mas), Makassar (Soekarno Hatta), and Medan (Belawan). Approximately 125 freight forwarders/customs brokers and 25 shipping companies/agents are interviewed to identify hurdles in import clearance process. Number of surveyors for the survey is varied according to number of respondents in each location. Distribution respondents and detail surveyors can be seen in Technical Report.

3. PROCEDURES OF IMPORT CLEARANCE

Import activities through seaport Indonesian basically comprises of 3 main stages:

1. Ship or Dock Clearance:
2. Customs Clearance:
3. Cargo Clearance or Trucking

Port clearance covers procedures from vessel arrival, anchorage, berthing, continued by unloading cargoes and stacking in the Container Yard. The list below provides some main activities during port clearance. Respondents were asked to verify them and afterward to write down some notes if they found it differed from what they usually face in the field.

Table 3.1
List of Activities under Ship Clearance

No.	Activities
A	Shipping agency reports ship arrival planning (consist of name of ship, origin of ship, amount of cargo, etc) to Customs at the latest 24 hours prior to ship arrival
B	Shipping agency submits PPKB (service request) to <i>Pelindo</i> and Harbor Master
C	Shipping agency receives berth allocation (or the result of berth meeting) from Terminal Operator (one day before the ship arrives)
D	Ship arrives at port limit
E	Ship makes contact with <i>Kepanduan</i> (Piloting Unit) while doing anchorage
F	Ship receives piloting and tug-boat arrangement to help the ship berthing
G	Ship berth with help from Pandu (Pilot) and tug boat
H	Ship is tied up at the dock (mooring)
I	Shipping agency submits Information of Arrival to Customs (at the latest 24 hours after ship arrival)
J	Terminal operator unloads the containers from the ship
K	Terminal operator bring the containers to the container yard
L	Ship receives pilot and tug-boat arrangement at PPSA (Integrated Servicing Area) to leave the dock

The second stage, custom clearance, starts from submitting import notification or PIB (*Pemberitahuan Impor Barang*) to issuing released goods approval or SPPB (*Surat Pemberitahuan Pengeluaran Barang*). This procedure is under the authority of Directorate General of

Customs and Excise, Ministry of Finance. Ideally, this procedure is conducted by importers when they import goods from other countries. However, since many steps are not so clear cut and require specific knowledge, most importers entrust it to forwarding company (PPJK – *Perusahaan Pengurusan Jasa Kepabeanan*)². PPJK was commenced as of 1996 by MOF Decree No 701/KMK.05/1996. PPJK is a business that provides service on customs clearance, on behalf of importers or exporters. Nonetheless, the services usually cover all necessary procedures for export import, from customs clearance until cargoes reach final destination, such as importer warehouse or factory.

In addition, since custom clearance required online system, or more popularly known as EDI (Electronic Data Interchange) which is rather expensive to subscribe, using PPJK service is more efficient for importers who have relatively small imports volume. Some importers with relatively large imports volume conducted customs clearance by themselves. They must have a very good reputation and meet the criteria to receive special treatment from DGCE at the process of import, or have the priority status.

Imported goods observed by this study are those coming under two main container schemes: FCL (the container consists of one type of goods with single ownership) and LCL (the container comprises many kinds of goods where each of them has its ownership), therefore customs clearance discussed here is also divided into the two categories: FCL and LCL (see **Table 3.2.**).

Interestingly, it appears that there has never been single document available to public that can help them understand import clearance easily. Illustrations of the whole process of import clearance are attached at the end of this Chapter. They are taken from JICA's Study completed by interpretation made by this study. The most difficult part is customs clearance. It is obvious that only experienced persons could follow complicated customs clearance procedure, so that forwarder is needed almost by all importers.

Regarding customs clearance there is no common practice on the field. Each PPJK experiences different customs procedure, e.g. following different (slightly or completely) procedure, meeting different number of Customs officers, and paying different additional payment. The situation reflects the in-transparency of the custom clearance which opens the possibility of multi-interpretation of the existing procedure. This creates unnecessary delays, which in turn opening a room for negotiation of unofficial payment to speed up the process.

² The existence of PPJK was commenced as of 1996 by MOF Decree No 701/KMK.05/1996. PPJK is a business that provides service on customs clearance, on behalf of importers or exporters. Nonetheless, the services usually cover all necessary procedures for export import, from customs clearance until cargoes reach final destination, such as importer warehouse or factory.

Table 3.2
List of Activities under FCL and LCL Scheme

No.	Activities	
A	PPJK (Forwarder) acquires documents from importer. The documents are: Surat Kuasa (power of attorney), B/L, Invoice, Packing List, insurance policy, APIT (Importer Registration Number), NPWP (Tax-payer identification number), etc	
B	Forwarder confirms ship arrival schedule to shipping agency	
C	Forwarder informs importer about the ship arrival schedule	
D	Forwarder prepares PIB (Import Notification) draft, if it is asked by importer, then gives it to the importer for checking	
E	Forwarder makes SSPCP (tax-payment slip) – after giving confirmation from the importer	
F	Forwarder pays import tariff and other taxes at bank with PIB and SSPCP enclosed	
G	Shipping agencies gives the Ship Manifest to Customs	
H	Ship berth (helped by Pilot and tug-boat) and after that, cargo unloading is done by terminal operator	
I	Forwarder submits Cargo Manifest to Customs	
J	Forwarder submits PIB through EDI	
K	Forwarder receives the response of PIB submission from Custom (via EDI)	
L	Forwarder sends back PIB data after correction (if there is any mistake), along with completing documents	
M	Forwarder receives response for goods-releasing decision (Red or Green Lane)	
N	Forwarder pays THC and Document Fee to shipping agency	
O	Green Lane: Forwarder prints out SPPB or Conditional SPPB, submits PIB and custom completing-documents (they are: deposit for PIB having temporary import-facility, master-list for PIB having tariff exemption or reduction, tariff and tax, tax-payment receipt, NPWP , APIT, <i>Surat Kuasa</i> (power of attorney) , <i>Surat Tugas Pabean</i> to officer who is distributing documents. PIB and document submission have to be done in 3 days after the goods are released	
P	Red Lane: Forwarder prints out SPJM (Red-Lane Notification Letter), submits hardcopy of PIB along with custom completing-documents (they are: <i>Deklarasi Nilai Pabean</i> or custom-value declaration, L/C, PO, payment receipt) to the officer checking import requirement	
Q	Red Lane	Forwarder pays container-movement fee to terminal operator if the container is to be inspected at inspection point. The payment is made after the goods are checked. The inspection point depends on type of goods.
		Forwarder ask the Custom about the inspection schedule while the container is moved to inspection point
		Custom do physical inspection (type and quantity) of the goods inside the container
		Forwarder submits other completing-documents to PFPD to be checked
R	Forwarder receives SPKPBM response and settles if there is deficit of tariff, excise or tax.	
S	Forwarder receives Notul (Correction Note) then prints it out and submits the payback request to Head of Custom Office.	
T	Forwarder receives SPPB response for Red-Lane PIB that has been completed and then prints out the SPPB for goods releasing.	
U	Forwarder pays storage-charge at Container Yard (CY) and "lift-on" charge	
V	EMKL (trucking company) receives <i>Surat Penyerahan Petikemas</i> (SP2)	
W	Trucking prepares the truck to move out the container from container yard	
X	Terminal Operator does container loading	
Y	Customs checks the container at CY gate	
Z	Trucking transports the container to importer's warehouse	
a1	Trucking sends back empty container to container depot (owned by shipping agency)	
b1	Trucking receives Equipment Interchange Receipt (EIR)	

Table 3.3
List of Activities Particularly for LCL Scheme

No.	Activities
A	Custom records each consignee (importer) or does "manifest-split"
B	After inspection by Custom at CY gate, container is moved out to CFS by Trucking through custom-area gate
C	Trucking move the goods out from CFS heading to importer's warehouse

Table 3.4
List of Activities under Cargo Clearance/Trucking

No.	Activities
A	Trucking pays THC, document fee, cleaning, container-deposit to shipping agency
B	Trucking receives SP2 (container hand-over letter) from terminal operator
C	Empty truck enters container yard bringing some relevant documents (SPPB, SP2, Master BL) and ready to be loaded with container
D	Terminal operator put container on the truck (container loading)
E	Truck bringing container passes CY gate, where the documents are to inspect by Custom
F	Trucking transports container to importer's warehouse
G	Trucking send-back empty container to container depot (usually owned by shipping agency)
H	Trucking pays container lift-off charge at container depot
I	Independent surveyor checks the container sent back by trucking
J	Trucking receives Equipment Interchange Receipt (EIR) from shipping agency
K	Trucking submit container-deposit collection to shipping agency
L	Trucking receives container-deposit from shipping agency

4. TIME ISSUES IN IMPORT CLEARANCE

The time measurement to clear import covers various stages in ship clearance, customs clearance, and cargo clearance, which is from ship arrival to returning empty containers in shipping's warehouse. Unlike JICA's study (2004), the LPEM study asks about the effective time of the import processes, not including waiting time. LPEM's methodology is to interview the players at each stage of the import process including shipping agents for ship clearance, PPJK or customs brokers for customs clearance, and EMKL or Expedition Companies for cargo clearance. The respondents count the effective time required for each activity, not including waiting time which includes non-working-hours, such as idle time and waiting for equipment availability, which amounts to 16 hours per day (24 hours minus 8 hours). The current report measures time in hours, thus if the respondent answers in minutes or days this will be translated into hours.

Import clearance starts with ship clearance where shipping agencies should follow certain procedures so that the ship can arrive at port, berth, unload (and normally reload) the containers, and leave the port. While ship clearance is progressing, the PPJK begins its role as a customs broker by compiling information needed to submit the import clearance document (PIB) through the EDI system. This is the beginning step of custom clearance. After PIB submission, customs clearance activities are continued until the container moves out of the customs area. However, before leaving the customs gate, container handling is taken over by the EMKL (trucking company) as the opening process of cargo clearance. It is the EMKL that prepares the truck (and all related documents) to bring the container out of customs area. Leaving the customs gate, the container will be transported to the importer's warehouse. The whole import clearance process ends when the empty container is given back to the container depot. Overlapping activities between ship clearance and customs clearance as well as between customs clearance and cargo clearance make it not possible to add up the effective times for import clearance to obtain total import clearance time.

4.1. Ship Clearance

On average, the time required for ship clearance – from **vessel arrival in port limit/basin to stacking the container in Container Yard (CY)** is about 7 hours and the longest time is about 11 hours (mean). However, if one counts the time required for activities from **vessel arrival** to **vessel leaving the port** then the mean is about 18 hours, with the longest time 29 hours.

In detail, there are four main activities in this stage: ship arrival at port limit, leading process to ship berthing, berthing to unloading the container from the ship, and unloading to stacking the container at container yard. The first three activities are not related to container movement. Although the last activity in ship clearance is unloading container from the ship to stacking at container yard, it is not called cargo movement since the movement is merely to the container yard, not to gate out, and is under the ship's responsibility. The effective time for each stage of ship clearance is presented in the table below:

Table 4.1
Average Effective Time of Ship Clearance

ACTIVITIES	MEAN	MEDIAN
Vessel arrives at port limit and/or anchorage	2.8	2.0
Leading process to vessel berthing	3.5	1.5
Berthing - unloading containers from the vessel	2.6	1.0
Unloading - stacking container to CY	2.6	0.4
TOTAL	11.5	4.9

In sum, total time of above activities in ship clearance is about 11 hours (mean). This is still in the range of the longest time required for ship clearance, as mentioned above. However, using the median, it only takes about 5 hours for activities of ship clearance. Since the activities depend on some conditions, such as traffic condition at port limit, the size of vessel, and the port facilities, the variation of respondent answers are quite large.

4. 2. Customs Clearance

In this section, we identify the time required for customs clearance. We classified the process by lanes, which are green and red lane, assuming that those lanes have certain different stage that impact on the time being spent. In addition, we also acknowledged the clearance process associated with some custom problems that required Correction Notes (*Nota Pembetulan* or *Notul*) with the consequence that longer time is needed for the process. The average effective time³ of customs clearance for Green and Red Lane, by assuming there is no problems which required correction notes is presented in the tables below:

Table 4.2
Average Effective Time of Customs Clearance (Green Lane)
Without Correction Notes (*Notul*)

GREEN LANE (WITHOUT NOTUL)	Mean		Median	
	Hours	working days	hours	working days
Unloading – PIB submission	11.4	1.4	2	0.25
PIB Submission – SPPB	12.2	1.5	2	0.25
SPPB – Gate Out	6.2	0.8	2	0.25
TOTAL	29.8	3.7	6	0.75

³ Effective time means working-hours per-day (8 hours)

Total time required for customs clearance in the green lane is only 6 hours, or 1 (one) day when using the median. Using the median, the finding is in accordance with Customs' claim that it only takes one (1) day to clear import in Green Lane. However, there is a large difference survey results between using the mean and the median. Total time required for customs clearance in the green lane, by using the mean is about 30 hours, or 4 working days. This finding is still lower than findings of study on Monitoring Investment Climate Round 2, as well as JICA study (2004), by about 6 days.

The findings show that for some type of questions, there are large differences between using the mean and the median. The difference is due to the large variation of respondent answers based on their experiences. For example, from the survey, the minimum time for the step of PIB submission to get SPPB is only 0.25 hour, or 15 minutes, while the maximum time is 96 hours, or 12 days.

There are some justifications for this condition: *firstly*, our respondents pointed up that the relationship with Customs Officials is the key why different respondents appear to receive different treatment. Maintaining good relationship with Customs Officials would lower the cost of clearance process, both in terms of time and money. Old and new players are expected to receive different treatment from by customs officials. This also become the source of problem for our survey, since some respondents are afraid that filling up the questionnaire would disrupt their relationship with the customs; *secondly*, type of import goods also contributed to the time spent in the activities; *thirdly*, when problems exist, the longer the time spent in the stage. Thus, the respondents' answers are varies, depend on the problems they have to cope with.

Table 4.3
Average Effective Time of Customs Clearance (Red Lane)
Without Correction Notes (*Notul*)

RED LANE (WITHOUT NOTUL)	Mean		Median	
	Hours	working days	hours	working days
Unloading – PIB submission	17.0	2.1	3.5	0.4
PIB Submission – Physical Inspection	24.5	3.1	4	0.5
Physical Inspection – SPPB	24.0	3.0	24	3.0
SPPB – Gate Out	7.8	1.0	2	0.3
TOTAL	73.3	9.2	33.5	4.2

In the red lane, among all stages in import clearance, the stage of physical inspection to SPPB takes the longest time. This figure is also consistent with the survey result that considered the physical inspection as one of the obstacles in customs clearance. Limited *behandel* space and the availability of Customs' cargo inspector contributed to the time spent in this stage.

If there is no problem that required *Notul*, time spent in this stage is about 34 hours or about 4 working-days (median). Meanwhile, using the mean, average effective time for customs clearance in red lane is about 73 hours, or 9 about working-days. Using the median, this finding is lower than findings of study on Monitoring Investment Climate Round 2, as well as JICA study (2004), by about 7 days, but higher if we use the mean. From the survey, about 9% (mean) of import documents (PIB) required *Notul*. Below is the time required for customs clearance, assumed when there is problem that required Correction Notes (*Notul*).

Table 4.4
Average effective time of customs clearance (Green Lane)
when the Correction Notes (*Notul*) are required

GREEN LANE (WITH <i>NOTUL</i>)	Mean		Median	
	Hours	working days	hours	working days
Unloading – PIB submission	11.4	1.4	2	0.3
PIB Submission – SPPB	22.0	2.8	13.5	1.7
SPPB – Gate Out	6.2	0.8	2	0.3
TOTAL	39.6	5.0	17.5	2.3

In the green lane, the issuance of *Notul* will imply longer time for the process, in particular in the stage of PIB submission to SPPB. The effective time of customs clearance for the green lane is about 2 working-days (median) and 5 working-days (mean), which about one day longer than when there is no *Notul* required. The variation of respondent answers on time required in the stage of PIB submission to SPPB is also large, due to different underlying problems that obliged the *Notul*.

Table 4.5
Average effective time of customs clearance (Red Lane)
when the Correction Notes (*Notul*) are required

RED LANE (WITH <i>NOTUL</i>)	Mean		Median	
	Hours	working days	hours	working days
Unloading – PIB submission	17.0	2.1	3.5	0.4
PIB Submission – Physical Inspection	53.2	6.7	30	3.8
Physical Inspection – SPPB	48.9	6.1	48	6.0
SPPB – Gate Out	7.8	1.0	2	0.3
TOTAL	126.9	15.9	83.5	10.4

In the red lane, the *Notul* will affect the time spent in the stage of PIB submission to physical inspection and stage of Physical Inspection to SPPB. The problem of *Notul* usually comes out in the stage of either physical or document inspections that need

correction in the customs documents. Total time required in the red lane is about 10 days when using the median and about 16 days if using the mean. These conditions are 6 days longer than total time required in the red Lane when no Notul is required. More specifically, both stages of PIB submission-Physical Inspection and Physical Inspection-SPPB required 3 days longer than the normal procedure – when no problem exists – in the Red Lane.

4.3. Cargo Clearance

In cargo clearance, the activities are started from container loading to truck in CY to returning empty container in container depot. Below is the time required for cargo clearance:

Table 4.6
Average Effective Time of Cargo Clearance

Activities	Mean		Median	
	hours	working days	hours	Working days
Container loading to truck in CY to Gate Out	1.8	0.2	2	0.25
CY to Gate Out	0.6	0.1	0.5	0.06
Document Inspection in Gate Out	0.4	0.1	0.2	0.02
Returning container in container depot	2.7	0.3	1	0.13
TOTAL	5.4	0.7	3.7	0.46

In total, it merely required less than 1 day for cargo clearance, or about 4 hours (median) and 5 hours (mean). Among all activities in the cargo clearance, the largest variation of respondent answers is in the document inspection in the port exit gate and when returning container at the container depot. These variations are due to the possible problems arising during the process of document inspection, traffic condition and the distance of container depot to the port.

4. 4. Some Causes of Delay during Import Clearance

Opportunity cost concept gives us understanding on how important is to let the import clearance process runs as smooth as possible. Unfortunately, in Indonesia there is also a well known joke describing the performance of public services: “If it can be postponed why should it be done quickly?” With so many activities and so many institutions, import clearance becomes notoriously known for its delays it associated informal payment.

a. Delays During Ship Clearance

1. Cargo manifest is not ready for submitting

Cargo manifest is an important document that should be submitted to Customs. The unloading process could not be started unless Customs has already verified this document. The document that is considered incomplete would delay the processing and will cause longer custom clearance process. Unfortunately, incomplete cargo manifest sometimes happens, especially the absence of importer identification for each container. This condition often occurs because the exporter does not give correct information to shipping agency concerning detailed ownerships of the containers. Another possibility of incomplete cargo manifest is that the shipping agency does not follow standardized form of cargo manifest. Customs will then ask for correction which will delay the whole process.

2. Poor infrastructures at port

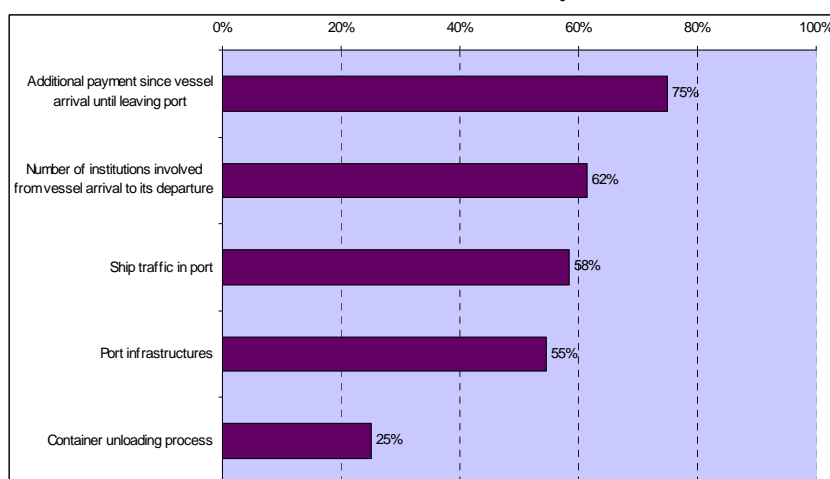
Unloading of the containers could also be hampered by the operation of terminal operator. Limited number of gentry-cranes sometimes causes longer unloading process. After being unload from the ship, the containers will be located at container yard which is also limited area. Anecdotal evidences suggest that informal payment may be solicited to speed up the queuing. This demonstrates the opportunity for petty corruption is always present when infrastructures are inadequate.

Furthermore, the respondents were also asked about their perception of obstacles in ship clearance (**Figure 1**). Additional payment is perceived as the biggest constraint at this stage. Although it is a very small fraction in the shipping cost structure, the respondents considered this an uncertain cost since it is hard to estimate. It consists of “grease money” and bribes paid to officials from several institutions. A detailed discussion of additional payments can be seen in section V. Ship traffic is considered the third biggest obstacle because the queuing system is not good, with a lack of break water and insufficient water depth which hinders ship maneuverability and creates long queues entering the port. In addition, unclear regulations from related institutions such as customs, the port administrator, the harbor master etc. may also contribute to delays in this process (**Table 4.7**).

Table 4.7
Percentage of Respondents Facing Unclear Regulations in Ship Clearance
by Institution Responsible for the Regulation

N a m e o f I n s t i t u t i o n	% o f R e s p o n d e n t s
Harbor Master	9 1
Port Administrator	8 2
Customs	8 0
Immigration	7 3
Quarantine	6 4

Figure 1
Percentage of the Firms Reporting Obstacles in Ship Clearance
to be Moderate, Severe, or Very Severe



b. Delays During Customs Clearance

1. Problem with EDI system: computer errors

Ideally, the existence of EDI system could accelerate the PIB submission. The customs broker could easily submit the PIB document through the computer and subsequently waiting for the response from Customs. Nevertheless, the Customs' computers often experienced glitches. Based on the survey, around 94% of 125 respondents have experienced this problem and 28% of the respondents said 'frequently'. Those errors could be caused by very high EDI traffic, hardware or software problems. However, the error reported by Customs frequently means "invitation" for custom broker to try for "personal approach" to Customs officer at EDI unit. By paying some money, the "traffic" could be released and the PIB submission to could be processed further. Experienced custom broker will know whether the "computer error" is real or not and knows who should be contacted when there is "artificial error."

Box No.1“Effectiveness of EDI”

Electronic Data-Interchange (EDI) is a computer online-system provided for submitting PIB. Besides submitted electronically, hardcopy of PIB and other supporting documents must be submitted to the Customs after get the PIB's response. EDI system is provided by PT EDI Indonesia, a company under PT (Persero) Pelabuhan Indonesia II. The company is established on 1995. EDI installment is considered quite expensive (as expensive as Rps90 million according to a respondent in Jakarta). Interestingly, our respondent in Surabaya says he only spends around Rps7 million since he is using 'the branch' of EDI that is 'Palapa Data Interchange'. While BC claims that EDI system has effectively helped simplifying Customs procedure, our respondents complained about frequent disruption in sending PIB via EDI. Often the disruption creates delays with costly consequences. Meanwhile, based on some respondents' experience, interruption during PIB sending process through EDI could means they should immediately contact BC officers dealing with EDI computer. It is common that while the relevant officer has been approached and some money is given, the problem could instantly be solved. Apparently inputting PIB into BC's computer could be done manually. At least this is reported for Tanjung Priok port in a place called "Konsul". A frequent request from the forwarders to get manual inputting process is when they want to move up their position in the EDI's queuing system.

2. Problem in submitting hardcopy of PIB

The submission of PIB and other documents is needed for both green and red lane. The problems arise in this PIB submission stage is when there is incomplete or incorrect data written in PIB or incomplete supporting documents. As consequence, the forwarders have to revise the PIB. Around 68% of 127 respondents considered this revising process as an obstacle in the custom clearance. This process could then create opportunity for both Customs officials and forwarders to interact and may end-up by paying the bribe to expedite the process.

3. Problems with “SKep” goods

Many imported goods are considered special goods that are regulated by certain “*Surat Keputusan*” (“SKep” or decree). Submitting PIB for those kinds of goods should be accompanied by permissions or recommendations from relevant institutions. Permission from *Badan Pengawasan Obat dan Makanan* (Badan POM or Drugs and Food Monitoring Board) needed when importing fresh food is an illustration. Document regarding SKep goods is examined at Analyzing Point (AP). After inspection at Analyzing Point, the goods will be directed to either red or green Lane. Around 91 percent of 128 respondents perceived that obtaining SKep was very difficult and 24 percent of them said they ‘frequently’ experienced this problem. Getting the permission and/or signature of authorized officer is not always a simple process. Additional payment is often needed as well. A typical situation is “long queue” to get the permission and/or signature at related institutions. As usual, there is a “fast track” with the help of insiders. It is not rare that PPJK representatives should follow the authorized officers going to remote regions outside Jakarta simply to ask for their signatures. Frequent changes upon SKep regulation makes things more difficult for PPJK. They have to be well informed regarding those regulation, otherwise difficulties will occur since they have not prepared for the newly regulated documents. Unfortunately, SKep regulation is made at the ministerial level or even lower. It has been very common in Indonesia that new ministers will have their own version of what imported goods are supposed to be regulated.

4. Problem during transferring container from CY to inspection point

Physical inspection of container is made at inspection point better known as “*behandel*” (see Glossary). The inspection area is an open area not very far from container yard (CY). A crane will transfer a container from CY to inspection point. Alike unloading the containers from the ship, there is also problem of limited crane availability. More time needed if the container to be inspected is located at “difficult

position” in CY. “Difficult position” could mean being at relatively remote area in CY and/or being at the lowest position of a container vertical formation. It has been ordinary that the crane operator asks for additional payment using that “difficult position” or “high traffic” argument. About 89 percent of 126 respondents reported this problem.

5. Problems during physical inspection

Physical inspection is a compulsory for red lane. It is probably the most critical point of the whole customs clearance process. From the survey, 81% of 124 respondents said that cargo and document inspection of the Red Lane as obstacle in the customs clearance. At this point, PPJK are facing so many possibilities of being accused of “breaking the regulations” with the consequences of long delay and/or paying high amount of fines. Certain rule breakings implies the issuance of “Nota Pembetulan” (“Notul” or Correction Note) that should be completed by PPJK and then verified by Customs officer. The most common reasons for the issuance of Notul is: price of goods written on PIB is different from Customs’ record or standard and mistyping on PIB documents. Usually, the process takes a couple of days to be completed. Mismatch details inside the document and the imported goods is an example of situation where Notul will be made. However, it is quite frequently that PPJKs are accused of making mistakes that are based on debatable or even inconsistent argument. A very common situation is different interpretation regarding HS (Harmonized System). More detail discussion concerning HS and additional payment is available below this part. Other possible debatable mistakes are goods considered as used ones, thus classified as prohibited goods; unusual packaging, etc. Dispute during physical inspection certainly means delaying the customs clearance process. From the survey, 89 percent of 126 respondents experienced the HS misinterpretation and 100 percent of them said that customs officials were not well versed in the HS codes for chemicals. Other “technical” causes of delay during physical inspection are limited *behandel* area and the unavailability of labor to help unload (and reload) the goods from the containers. Around 84% of 124 respondents considered these problems as obstructions in red lane clearance. It seems that there is more “informal system” coordinating labor services at this point. PPJK will not get the needed labors unless it deals with “an informal labor leader” first. This situation particularly occurs in Tanjung Priok. Longer dealing process will delay the inspection point. An extreme case is when PPJK is “boycotted” by the labors because of not following “the normal procedure”, which means does not pay the usual amount of asked informal payment.

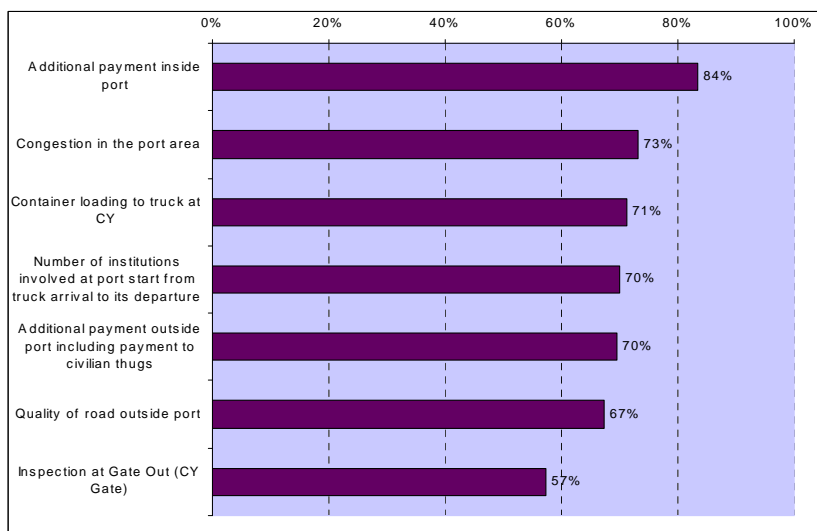
6. “Checking” after the issuance of SPPB

Even though SPPB has been issued, there is always possibility that Customs officer holding up the container for many reasons. Whatever the reasons are (sensible ones or artificial ones), delays cannot be avoided. About 76% of 126 respondents perceived that this checking is an obstacle. It is important for PPJKs to make themselves “respectable” (a status that implies good relationship with Customs officers, see Box No.2) among Customs officers to prevent these harassment.

c. Delays during Cargo Clearance/Trucking

The first step of cargo clearance is taking the containers out from the container yard to the importer’s warehouse. Prior to this activity, all payments to the shipping company related to the imported goods should be completed, such as THC, document fee, cleaning, and container guarantee. The survey asked respondents about the severity of seven business constraints (**Figure 2**). Overall, according to firms’ perception, the biggest constraint is additional cost at port (84 percent). This includes grease money to speed up the queuing to CY or to gate out, security payments and tips to labor during the unloading-loading container process. Further discussion of such additional payment can be found in section V.

Figure 2
Percentage of the Firms Reporting Obstacles in Cargo Clearance
to be Moderate, Severe, or Very Severe



1. Number of Institutions involved

Before taking the containers out from CY, PPJK/EMKL should also have the documents from various institutions, such as SPPB from Customs, Master BL (Bill of Lading) from shipping agents and SP2 from Terminal Operator. Around 70% of 97 respondents consider this step as an obstacle.

2. Limited infrastructure

PPJK or EMKL should deal with terminal operator for loading the containers to the truck. Problems arise in this stage are related to the infrastructure in CY, such as limited space and lack of crane and forklift, in particular in the peak time. Bribing the operators to speed up the process is also common in this stage.

3. Congestion inside Tanjung Priok port

Moving out the container from the custom area to other areas in the port sometimes becomes very hard. There are peak times that should be calculated if EMLK/trucking company want to have the container goes out smoothly from Customs area. Inadequate space and infrastructure are the main problems. About 73% of 97 respondents considered congestion in the port area as obstacle in cargo clearance.

4. Mismatch of container identification number

After being loaded, the truck must pass the Gate-Out for inspection by the Customs before leaving the port area. Both documents and containers will be checked in the Gate. Any discrepancy between container identification-number written on the document with the real container number will cause the container-truck asked to go back to Customs area, and a delay will follow. One common explanation for the situation is that shipping agency does not inform PPJK regarding the change of container where the imported goods are stored. About 57% of 96 respondents consider the process of inspection in gate-out as an obstacle.

5. Problems on the road outside the port

Transporting the container from port to importer's warehouse is frequently facing congestion and terrible road condition. Longer time is needed for container trucks to move through high-traffic area and at peak hours. Bad condition of roads in the port area considered as obstacle for about 67% of 98 respondents.

5. ADDITIONAL PAYMENT IN IMPORT CLEARANCE

“Additional payment” refers to money given by shipping agencies, PPJK or EMKL to people who have authority during import clearance. The forms of payment could be “grease money”, “illegal payments” or “bribes.” An example of grease money is money given by PPJK to customs officers when hardcopy documents accompanying the PIB are submitted even though there are no mistakes on the documents. The money is only a “friendship sign” whose message is “please process them at least at normal speed”. Grease money could be transformed into cigarettes or other commodities. This is a common practice during ship-inspection by authorities.

“Illegal payments” are usually given when “a mistake” is identified by the import-clearance officer. It is not necessarily a real mistake, but it has the consequences of delaying the process. As an example, a PPJK could be accused of using the wrong HS code for certain imported goods. Choosing not to have the process postponed by challenging the accusation, PPJK will give some money to let the process continue.

Meanwhile, a “bribe” is typically given whenever rule-breaking activity is made. When physical inspection finds that commodities inside a container are different from the PIB, actually PPJK should report it to the consignee (importer) and request the necessary steps (including paying the necessary tariff plus some penalties). Nevertheless, it is possible to negotiate a bribe to let the container move forward without following the regulations. An extreme case of bribery is a scheme commonly known as “*borongan* (package) system” where some commodities are intentionally imported without obeying Customs regulations. The compensation for this scheme is to pay a bribe to the Customs officers.

Given the fact that there are many *modus operandi* of additional payment in every step of import clearance and these payments are based on different units of measurement (for example, payment per ship, payment per container, payment per document or activity) it is not possible to add together the additional payments. Instead, we provide the calculation of additional payment in each of three main processes of import clearance: ship clearance, customs clearance and cargo clearance (trucking) based on main scaling-unit.

5.1. Magnitude of Additional Payment

Normally, shipping, PPJK and EMKL agencies are able to estimate the range of additional payment at each point of import clearance. If their field-representatives are asked for money beyond the estimated range then they will report the request to the headquarters. Senior officer will then resolve the problem by contacting the related officer. Some findings below shows range of additional payment.

Additional payment is considered as “not significant” or more commonly known in the Indonesia term as “uang rokok” (“cigarette money”) during ship clearance. Respondents claimed that only during customs clearance informal payment to customs officers becomes significant impeding factor. On average (mean), we obtained Rp1,117,458 per ship as additional payment for ship clearance, Rp1,239,032 for green lane and Rp1,577,986 for red lane per consignee in customs clearance, and Rp223,028 per container for cargo clearance. Hence, these findings also confirm the finding in the Monitoring Investment Climate survey that the biggest share of additional payment goes to customs officers.

a. Ship Clearance

The additional costs of Ship Clearance are presented in the table below:

Table 5.1
Additional Costs of Ship Clearance (*Rupiah*) per Ship

Cost	Mean	Median
One Roof Service (PPSA) Incentive	132,143	100,000
Pilotage Incentive	152,500	175,000
Pilotage Vehicle	27,778	20,000
Tug Boat	37,778	40,000
PFSO (Port Facility Security Officer)	16,667	-
Sailing License	96,000	80,000
Vessel Arrival Schedule (RKSP)	16,000	10,000
Cargo Manifest Incentive	40,357	25,000
Vessel Services	55,000	25,000
Loading/unloading Process	90,000	50,000
Marine Security	29,000	20,000
Immigration	95,625	90,000
Quarantine	52,500	50,000
Harbor Master	166,111	100,000
Entertainment Cost	90,000	40,000
Other Cost	20,000	20,000
TOTAL	1,117,458	845,000

In total, the additional cost for ship clearance is about Rp845,000 (median) and Rp1,117,458 (mean). This cost is required for each vessel that carries imported goods and will be borne by the responsible shipping company. In addition, shipping company will also bear high cost including insurance for security on the port, container yard and even sea coast while entering Indonesia. More than 80% respondents experienced these problems.

b. Customs Clearance

By law, there is no official payment for basic procedure in customs clearance. However, some stages are critical for negotiation between importer and customs officials. There are still opportunities for both importers and customs officials to negotiate and make collusion. The utilization of EDI system and self assessment system for importers still could not make customs clearance free from face-to-face interaction. Meanwhile, activities in customs clearance that obliged for face-to-face meeting, provides a room for additional payment, to speed up the process. From the survey, there is no significant difference between the informal payment for container 40 feet and 20 feet. Here, we merely presented the costs to clear import for 20 feet container. Our questionnaire asks about the existence of problems during customs clearance and we differentiate the additional payments when problems exist and when it does not.

No problem exists

For normal or regular procedure in customs clearance means no problem exists in both green and red lane to clear its goods. The average costs of Customs Clearance for Green Lane (mean and median) if no problems exist are presented in the table below:

Table 5.2
Additional Costs to Customs Clearance for Green Lane
Without Problems (*Rupiah*) per consignee

No	ACTIVITIES	Mean	Median
1	Submission of PIB and other customs documents	59,867	20,000
2	Determining HS code	667,583	10,000
3	Determining Green or Red Lane	51,204	20,000
4	Document Inspection of Green Lane	39,906	10,000
5	Inspection in Gate-Out	14,768	10,000
	TOTAL	833,328	70,000

It's worth noting that there is a large gap between the average costs using the mean and the median. Our survey showed, when no problems exist, using the median the average total costs for customs clearance is merely Rp70,000. On the contrary, it costs Rp833,328 by using the mean. It shows there is a variety of respondent's answer on costs spent to clear import. As explained earlier, the relationships between the officials and PPJKs would affect time and cost spent for import clearance. Old PPJKs' players usually have better relationships with the officials, thus may pay lower

bribes than the new players. As the green lane, the average costs of customs clearance for the red lane when no problems exist are showed in the table below:

Table 5.3
Additional Costs of Customs Clearance for Red Lane
Without Problems (*Rupiah*) per consignee

No	ACTIVITIES	Mean	Median
1	Submission of PIB and other customs documents	59,867	20,000
2	Determining HS code	667,583	10,000
3	Determining Green or Red Lane	51,204	20,000
4	Document and physical inspection of Red Lane	378,860	212,500
5	Inspection in Gate-Out	14,768	10,000
	TOTAL	1,172,282	272,500

When no problems exist, using median, the costs spent in Red Lane reached almost four times of costs in Green Lane. In Red Lane, the costs averaged at Rp272,500 (median) while it costs only Rp70,000 in the Green lane. As the Green Lane, there is large difference between the average cost using the mean and the median. By the mean, the average costs of Red Lane reached Rp1,172,282.

Problem exists

It is very rare to find PPJK not experiencing problems in the customs clearance process. The problems range from submitting or revising the PIB, determining the HS Code and Lane, carrying out physical inspection in the red lane, document inspection in the green lane, obtaining an SPKPBM (letter of insufficient duty payment), requiring correction notes and checking at Gate Out. The percentage of respondents facing these problems can be seen in the table below:

Table 5.4
Percentage of Respondents who Reported Problems in Customs Clearance

No	ACTIVITIES	Mean	Median
1	Submission of PIB and other customs documents	59,867	20,000
2	Determining HS code	667,583	10,000
3	Determining Green or Red Lane	51,204	20,000
4	Document and physical inspection of Red Lane	378,860	212,500
5	Inspection in Gate-Out	14,768	10,000
	TOTAL	1,172,282	272,500

In practice, it is very common for PPJKs to make additional payments to get things done. However, most of additional payments must be made to solve the following problems:

Table 5.5
Additional Costs of Customs Clearance
if a Problem Exists (*Rupiah*)

No	per Consignee Problems	% respondents
1	Submitting PIB	73
2	Revising PIB	85
3	Determining HS Code	83
4	Determining Green or Red Lane	72
5	Document Inspection of Green Lane	56
6	Physical Inspection of Red Lane	81
7	Obtaining SPKPBM and payment	64
8	Requiring Correction Notes	76
9	Inspection at Gate Out	87

Hence, we could add up additional payment for regular green lane and regular red lane with additional payments if a problems exists. From the above tables, we conclude that an average (mean) additional payment per consignee for custom clearance is Rp1,239,032 for green lane and Rp1,577,986 for red lane. As described in the previous section, some stages of customs clearance are potential for informal payment such as documents hardcopy submission, the requirement of making Correction Notes and complete the payment of import duty. Another condition is when the container has to be moved from one KIn (*Kantor Inspeksi*, Inspection Office) to another KIn. The movement of container from one KIn to another KIn presents when the container will be transferred to the next destination/port. Those all conditions could create face-to-face meeting and informal payments to expedite the process. The survey result also shows that that informal payment in general is about one percent of the PIB value. Since the PIB value stated the import value, it would imply that the informal payment is about one percent of import value.

c. Cargo Clearance

This procedure is usually conducted by expedition company (EMKL) or forwarding company that also provides this service. Basically, the activities is ranged from taking the container contains imported goods from the port (CY) to importer warehouse, to complete the process of returning the empty container to shipping company.

Table 5.6
Additional Costs of Cargo Clearance (*Rupiah*) per Container

No	ACTIVITIES	Mean	Median
1	Revising process when there is a mistake in PIB document	43,220	25,000
2	Correction Notes Requirement	19,231	10,000
3	Receiving SPKPBM and complete the payment	17,927	10,000
4	Container movement among KINs	325,326	112,500
	TOTAL	405,704	157,500

In total, the additional cost for cargo clearance is about Rp65,000 (median) and Rp220,000 (mean). There are some institutions involved in the cargo clearance activities, for instance customs, terminal operator, shipping company, independent container surveyor, and civilian – who ask for bribe during the trip from the port to the importer's warehouse.

5.2. Some Modus Operandi of Additional Payment in Customs Clearance

Additional payment in custom clearance has a wide range of cases. Here are some common and important practices reported:

1. “Borongan” (“Package”) system

Among importer and forwarder, there is a well known system called the “*Borongan*” (“Package”) System”. Under the system, imported good is not taxed based on appropriate tariff. Rather, importer (often facilitated by forwarder) pays certain amount of money that has been negotiated previously with Customs officer. The term “additional payment” is probably not appropriate since the payment is not “additional” to the official one. Rather it is a completely different payment scheme. Dealing process for the Borongan system usually has been done even long before the import clearance process. It is reported that there is “mafia” (involving importer, forwarder, Customs officer, and so on) that could facilitate the system. The whole customs clearance after the deal has been reached will be done using “special procedure” that is not based on the existing regulations. Cellular phones or electronic appliances are often imported using this scheme so that importers can enjoy quite high profit margin. Under this system, it is very common that the real importer does not have official import document since his main concern is receiving the imported goods at his warehouses on an agreed schedule.

2. HS code negotiation

The Harmonized System (HS) code is very important in the customs clearance procedure. The tariff that should be paid by importer depends on the HS code of imported goods. There are regulations that specify the HS code and the relevant tariff for each imported goods. Like the “Borongan System,” the HS code negotiation is also done long before import clearance process actually takes place. Importer who wants to take the risk of breaking the laws usually negotiates the HS code with certain Customs officers at their office in order to get HS with lower tariff. As an example, truck to be used in the forestry will be charged by 0% import tariff, while truck for public-use has 5% import tariff. After negotiation and giving the money to the Customs officers, the truck will not be questioned during physical inspection or even will not be inspected.

3. Different interpretation on HS code

Harmonized System code is a stipulate for thousand imported goods and it is updated every year. So, different interpretation between forwarder and Customs officers are quite normal. The problem is there is no effective and efficient way in settling down different interpretation. Also, there is a tendency of moral hazard among Customs officers that are enjoying their excessive authority. For example, it is reported that HS code interpretation for identical good is different between Customs officers in Medan and Jakarta. Once considered as claiming a wrong HS code, forwarder usually has two options. First, try to argue with delaying Custom clearance as consequence and second, doing negotiation with Customs officer for additional payment. Apparently, second option is more sensible for PPJK so that it becomes more institutionalized, even involving Customs officers.

4. Late PIB response

In the previous part there is explanation regarding “artificial computer-errors” during PIB submission process through EDI. Experienced PPJK will understand that if there is no response after certain normal waiting time, they should immediately call or even meet the Custom officer in order to know “what is going on”. The reason given is often not a real one (from server problem to long queue), since the delay is a signal of “asking for additional payment”

5. Storing container at CY: *Overbringen* issue

Significant cost will be charged for containers exceeding maximum allowed storing-time at CY. Passing the allowed time, the container will be transferred to special

warehouses. The transfer process is better known as “*overbringen*” (OB). As an example, if the container has been removed as OB, the importers should pay up to Rp8,000,000 per container in two weeks. This tariff is set by warehouse’s owner progressively. About 58% of 12 respondents acknowledge this problem. Sometimes terminal operator and warehouses’ owners (*PBM – Perusahaan Bongkar Muat*) collude to ‘force’ the containers moved out from CY to warehouses (even though they have not exceed the maximum storing-time) so that they could extort money from PPJK. Before moving the containers, there is usually warning given to PPJK. A common reason behind the warning is that CY does not have space anymore for the containers. Then again, PPJK normally react by doing negotiation.

6. Bypassing physical inspection

Inappropriate imported goods could escape from physical inspection by giving under-table money to the inspectors. The amount of money could vary depends on the goods and also the relationship between importer/forwarder and Customs officer. This is a much lighter form of “Borongan-system”.

7. Nota Pembetulan (“Notul” or Correction Note)

According to Customs Law No 10 of 1995, the payment for import duty is based on self assessment system of the importers. Nonetheless, Customs Officials still have authority to assess and determine the tariff of imported goods stated in PIB. Thus, there is a possibility of misinterpreting in HS code determination, prices or weight of imported goods, etc between importers and customs officials that implied on different amount of import duty should be paid by the importers ⁴. When there is a mistake written in PIB that causes changes in the amount of import duty, it is required for importers to make the Notul. If the mistake implied less payment on import duty, then the importers must re-pay the remaining sum along with the fine as administrative sanction. The fine is quite high, ranged from 100% to 500% of the unpaid import duty ⁵. On the contrary, if the mistake implied excess payment of import duty, the Customs must return the difference. This stage is considered as one of critical point in customs clearance, since there is a room for negotiation between the customs official and the importers. The importers are willing to pay less thus there is a temptation to bribe customs officials. From the interview it is also evident that the customs officials who first initiated negotiation with the importers about the payment. Our survey showed, albeit the case of Notul requirement is merely

⁴ There is also possibility that the different perception of HS code is due to importer manipulation to avoid pay high import duty.

⁵ Article 16, Customs Law No 10 of 2005

about 9% of import clearance arrangement, more than 68% of 123 respondents considered the Notul as an obstacle in the custom clearance. This is due to unclear in setting fine, difficulties to meet customs officials' authority and complicated procedure. Besides, around 56% of 125 respondents also considered the process in receiving notification letter for payment the import duty (*Surat Pemberitahuan Kekurangan Pembayaran Bea Masuk*, SPKPBM) and completing the payment as an obstacle.

8. Miscellaneous error during physical inspection

Often inspectors pointing out some errors that could hardly be challenged: mismatch between data on the document and the imported goods, inappropriate HS code, un-standardized packaging, etc. Common *modus operandi* in asking for under-table money is by showing *Laporan Hasil Pemeriksaan* (inspection report) in handwriting to PPJK representative, asking whether the report should be inputted to the computer as it is. Not accepting the judgment made by the inspectors will have the consequence of delaying the inspection process so that many PPJK choose to negotiate for additional payment.

6. NUMBER OF OFFICIALS INVOLVED IN IMPORT CLEARANCE

Face-to-face interaction in import clearance is evident in port, customs and cargo clearance. Albeit the customs claimed that the introduction of EDI system could make the clearance free from face-to-face interaction, our survey found that the respondents still meet customs officials in customs clearance, even in green lane. More than 66% of 117 respondents considered activities that required face-to-face meeting with customs officials to deal with problems as an obstacle in customs clearance.

6.1. Ship Clearance

In ship clearance, there are at least 12 institutions involved during the clearance time. It includes harbormaster, pilotage, marine and coastal security, KPLP, Customs, Immigration, Quarantine, KP3, DJ, Pilotage Radio Station, and POLRI (police). Some of them are under the authority of Pelindo, such as harbormaster, pilotage, KPLP, KP3, and Pilotage Radio Station). In total, there are at least 30 officials (median) should be met during the clearance, from vessel arrival to leaving the port.

Table 6.1
Number of Officials of Institutions met in Ship Clearance

INSTITUTIONS	MEAN	MEDIAN
Harbormaster	7	6
Pilotage	4	3
Marine and Coastal Security	4	2
KPLP (<i>Kesatuan Penjaga Laut dan Pantai</i>): sea and coast guardian-unit	4	3
Customs	4	2
Immigration	3	2
Quarantine (Ministry of Health, Ministry of Agriculture, and others)	3	2
Terminal Operator (including stevedoring company)	5	4
KP3 (<i>Kesatuan Pelaksana Pengamanan Pelabuhan</i>): port security-unit	1	1
LALA (Sea Traffic)	1	1
Pilotage Radio Station	2	2
POLRI (Police)	2	2
TOTAL	37	30

6.2. Customs Clearance

In Customs Clearance, there are still customs officials to be met. For the green lane and assuming there is no problem, at least 7 customs officials should be met during the Customs Clearance. Meanwhile, at least 9 customs officials should be met in the red lane.

Table 6.2
Number of Customs Officials met in the Green Lane
Customs Clearance (no problems exist)

ACTIVITIES	Mean	Median
PIB submission and other supporting documents	3	2
HS code determination	1	1
Chanelling decision	2	1
Document Inspection	2	2
Gate Out	2	1
TOTAL (GREEN LANE)	9	7

Table 6.3
Number of Customs Officials met in Red Lane
Customs Clearance (no problems exist)

ACTIVITIES	Mean	Median
PIB submission and other supporting documents	3	2
HS code determination	1	1
Chanelling decision	2	1
Document and Physical Inspection	5	4
Gate Out	2	1
TOTAL (RED LANE)	12	9

If there are problems during the customs clearance, such as revising PIB, Notul requirement, SPKPBM, and container movement among KINs, at least 1 (one) customs official should be met to deal with the problem.

Table 6.4
Number of Customs Officials met in Customs Clearance
(if there is problem)

ACTIVITIES	Mean	Median
Revising process when there is a mistake in PIB document	2	2
Correction Notes Requirement	2	1
Receiving SPKPBM and complete the payment	2	1
Container movement among KINs	3	3
TOTAL	9	7

6.3. Cargo Clearance

In the cargo clearance, there are also at least 11 institutions involved during the clearance, such as Pelindo, Customs, Shipping Company, Container Depot, DLLAJ, Police, Stevedoring Company, OKP, civilian, and Independent Survey Company.

Box No.2“Keeping good relationship with Customs officers”

Although Customs claims that physical contact with their officers has been very small, the common practices show the opposite. Both in-depth interview and the survey reveal that physical contact is usually involving significant number of Customs officer. It is quite sensible then that forwarders response the situation by creating “special relationship” with Customs officers. It could be concluded from in-depth interviews and also admitted by many respondents that having “special relationship” with Customs officers has been very common among forwarders. Facing no common Customs procedure and high probability of delays, this is a quite rational choice for them. Duration of existence in the business will affect the quality of the relationship. One of our respondents even has cellular phone numbers of all physical inspectors in Tanjung Priok port, something that should not be revealed to PPJK. Then, “entertaining” the inspectors is very important for PPJK to make sure smooth process of physical inspection. The level of “relationship” could vary from “making sure that the forwarder will not be facing difficulties” up to “facilitating importer by-passing the regulation with the help of Customs officers”.

7. CONCLUSION

The process of import clearance in Indonesia is still far from transparent. It seems that there has never been a single document made available to the public that can help importers easily understand the import clearance procedures. The most difficult part of the process is a lack of predictability during customs clearance, since Customs has dominant authority during import clearance. Given the lack of transparency, it is not surprising that only experienced individuals can follow the complicated customs clearance procedures. From the survey, 88 percent of 117 respondents perceived these procedures as complicated. This provides an opportunity for the proliferation of import forwarding businesses.

However, entry into the import forwarding business is tightly controlled. Licenses are required whose issuance is strictly controlled by Customs through the requirement to attend and pass special courses conducted and supervised by Customs as well as submission of a formal application for a license. The economic impact of this artificial barrier is clear cut – it increases the cost of transactions in terms of money and time. From the economic standpoint, paying money for bribes to speed up the process may involve only a pure transfer, but the opportunity cost of a delay may also constitute a deadweight loss for the Indonesian economy.

Regarding customs clearance there is no common practice in the field. Each importing party may experience different customs procedures, e.g. following different (slightly or completely) procedures, meeting different numbers of Customs officers, and paying different informal payments. This situation reflects the non-transparency of custom clearance which opens the possibility of multiple interpretations of existing procedures. This creates unnecessary delays, which in turn open room for negotiation of unofficial payments to speed up the process. Paradoxically, this situation is what is needed by “bad” importers. The so-called “*Borongan* (‘Package’) System” is well-known. Under this system, bad importers are not taxed based on the correct tariff. Cellular phones and other electronic appliances are often imported using this scheme so that importers can enjoy quite high profit margins. These smuggled goods will certainly have an unfair advantage over domestically produced goods that pay legitimate taxes and tariffs both for their outputs and inputs.

There are also problems with delays and informal payments arising from poor port infrastructure. One particular problem arises related to the infrastructure in the container yard, such as limited space and lack of crane and forklift, particularly in the peak time, which creates an opportunity for the equipment operators to extort bribes to speed up the process. Moving out the container from the custom area to other areas in the port is often sometimes. There are peak times that must be taken into account. From the survey, about 73% of 97 respondents considered congestion in the port area as obstacle in cargo clearance.

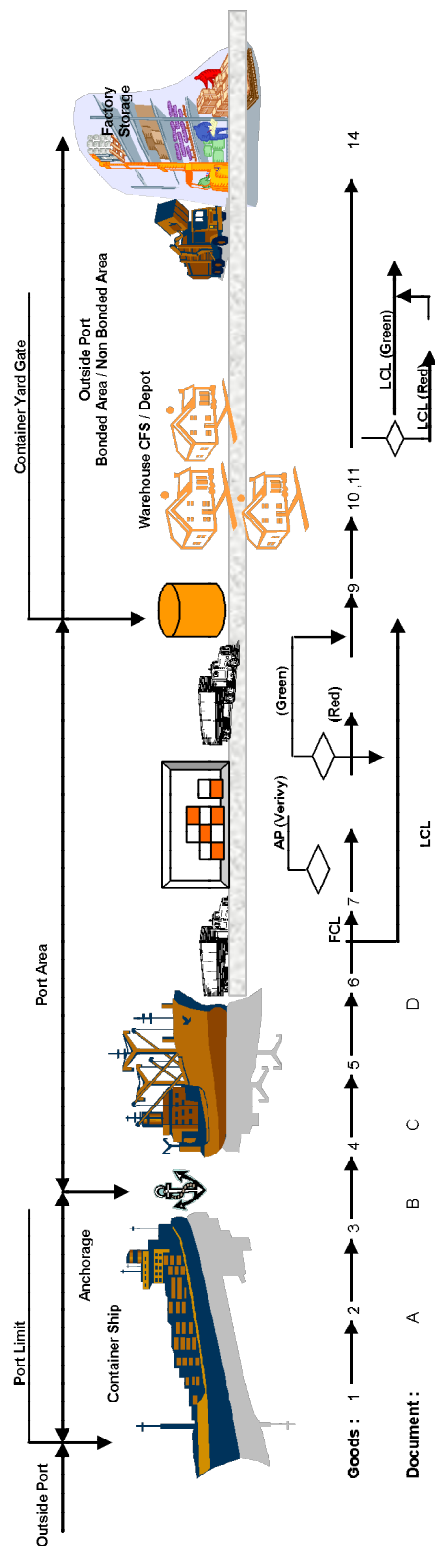
The rent seeking activities at the national custom has been well-entrenched. The Indonesian government has long sought the way to induce behavior changes in the service, but so far is only with limited success. The most extreme measure was in April 1985 with the introduction of pre-shipment inspection (PSI) of imports by a private Swiss company (Societe Generale du Surveillance or SGS). In the next 10 years the corrupt custom service was forced to sit at the backseat. The result was encouraging: import flows and collection of duties improved dramatically, while non-oil exports began to boom. But in the end there was argument that what the country needed is an efficient and relatively corruption free custom - PSI was only temporary measure. The return of the national custom service and the introduction of electronic data interchange (EDI) have yet to bring the desired result in terms of curtailing rent-seeking activities. Face to face activities beyond the normal level that requires by the clearance process is still present and become the source of corruption.

The solution to this problem is a complex one. The reintroduction of PSI is perhaps the most extreme short-cut and probably the most effective one at least in the short term, but certainly it will have to face a tough sell in the national legislative (DPR)

particularly from its members who adopt more nationalistic fervor. The middle of the road approach is to introduce some type of market contestability in the business of import clearance – allowing importers to choose between using the service of the national custom or opting for pre-shipping inspection with the cost borne by importers. In this way the national custom will have to face competition and may have to lower its rent-seeking temptation. Anti corruption from the commission of corruption eradication (KPK) could be more focused on corruption in government agencies that manages license issuance, permits as well as clearance like provided by Customs. Proving the case could be more difficult than the case of corruption involving the case of misusing public fund. The bribing parties may be reluctant to reveal the bribed officials fearing for retaliation on their future businesses. But as in other countries, the government could always conduct sting operations to catch the culprits.

The introduction of national (or ASEAN) single window will have the potential to improve the efficiency of import clearance by imposing uniform standard throughout the country's jurisdiction. But without proper enforcement and forced compensation for misbehaving and failing to meet the standard, it may meet the same fate as EDI – good on paper but circumvented and compromised by the bureaucrats who are supposed to oversee the working of the system.

APPENDIX 1:
Import Cargo Clearance Flow (Goods and Documents) Sea Freight



Major Point of Cargo Flow (Import)	
1)	Arrival at Port Limit
2)	Anchor Start
3)	Anchor End
4)	Enter Port
5)	Docking
6)	Loading Start / End
7)	Stacking in Container Yard
8)	Submission of Necessary Document
9)	Preparation of Physical Inspection
10)	Loading to Lorry
11)	Gate Out
12)	Arrival at CFS
13)	Deveining
14)	Arrival at Destination

Major Point of Document Flow	
A	Ship
B	Ship
C	FCL
C	LCL
D	FCL
D	LCL
E	FCL
E	LCL
F	FCL
F	LCL

APPENDIX 2:

IMPORT CLEARANCE ACTIVITIES

(Combination of illustration in JICA study and LPEM's list of activities)

General Activities		Ship Clearance (table 3.1)	Customs Clearance (table 3.2)		Cargo Clearance/Trucking (table 3.4)
1.Ship is transporting imported goods to port of destination		-a (ship arrival planning) -b (PPKB/service request) -c	FCL and LCL: -a (power of attorney, B/L, Invoice, Packing List, insurance policy, APIT, NPWP, etc) -b,c,d, -e (SSPCP) -f (SSPCP) -g		-a -b (SP2) -c (SPPB, SP2, Master BL)
2.Ship is entering the port		-d,e, f			
3.Ship is berthing		-g,h, -i (information of arrival)	FCL and LCL: -h -i (cargo manifest)		
4.Containers are being unload and located at CY	5.Ship is leaving the port	j,k,l			
6.Submission of PIB (via EDI)			FCL and LCL -j (PIB via EDI) -k (PIB response via EDI) -l,m,n		
7.FCL: -submission of PIB (hardcopy) and completing document -Analyzing Point (particularly for SKep goods) -Physical inspection (for Red lane) and getting SPPB			FCL Green Lane: -o (SPPB, PIB hardcopy + completing documents)	FCL Red Lane: -p (SPJM , PIB hardcopy + completing documents) -q -t (SPPB)	
8.LCL: -Transporting container from CY to CFS (outside the port) -Forwarder pays storage-charge at CY and "lift-on" charge -Customs check at port gate -Devanning ("Pecah Pos")			LCL -submission of PIB (hardcopy) and completing document -Analyzing Point (particularly for SKep goods)		
9.LCL at CFS -Physical inspection (for Red lane) and getting SPPB			LCL Green Lane: -SPPB, PIB hardcopy + completing documents	LCL Red Lane: -SPJM, PIB hardcopy + completing documents -SPPB	
10.Correcting mistakes			FCL and LCL: -r (SPKPBm) -s (Notul)		
11.Moving out container from Customs area (inside the port for FCL, at CFS for LCL)			FCL: u, y	LCL (payment to CY and Customs check at port gate have been done)	d,e,f
12.Container transported back to container depot					-g,h,i,j (EIR)
13.Trucking company receives container deposit from shipping company					-k,l

Note:

1. letters (a,b,c and so on) in Port/Customs/Cargo Clearance column refer to related list of activities discussed at the beginning of this chapter
2. inside the bracket behind the letter is document needed

APPENDIX 3 :

LIST OF INSTITUTIONS INVOLVED IN IMPORT CLEARANCE

No.	Main Institution	Branch Institution	Authority/Task
1	<i>Perusahaan Pelayaran</i> (Shipping Company)		Transporting imported goods to destination port
		<i>Agen Perusahaan Pelayaran</i> (Shipping Agency)	Representing shipper in dealing with port authorities, importer and freight forwarder
		<i>Depo Petikemas</i> (Container Depot)	Taking care of containers belong to shipper (including charging the cost during delivery process by trucking company)
2	<i>Administrator Pelabuhan</i> (Port Administration) – under Ministry of Transportation		Administering port activities
		<i>Syahbandar</i> (Harbor Master)	organizing traffic at seaport
		KPLP – <i>Kesatuan Penjaga Laut dan Pantai</i> (Sea-and-Coast Guard)	Maintaining security on sea and coast
		PFSO (Port Facility Security Officer) from Recognized Security Organization (RSO). Tanjung Priok has 14 RSOs	Conducting port facility security assessment
3	PPK (<i>Petugas Pemeriksa Kepelabuhanan</i>) or PSCO (Port State Control Officer)		Ensuring that every ship entering harbor is in good condition and is meeting the international standard
4	<i>Pelindo</i> (Indonesia Port Corporation) – SOE under Ministry of Transportation		Organizing operational activities of export and import at seaport
		<i>Kepanduan</i> (Pilotage)	Guiding ship to berth
		<i>Kapal Tunda</i> (Tug Boat)	Pulling ship following guidance from pilot (in berthing process)
		<i>Tambat</i> (Mooring)	fastening ship at dock
5	<i>Terminal Petikemas</i> (Container Terminal) – private company cooperating with Pelindo	Tanjung Priok has 4 container terminals: -Koja Container Terminal -Jakarta International Container Terminal (JICT) 1 and 2 -Multi Terminal Indonesia (MTI)	Taking care of containers
6	<i>Operator Terminal</i> (Terminal Operator) – private company cooperating with Pelindo	Tanjung Priok has 14 Terminal Operators	Moving container for certain purposes
		Stevedoring (Loading-Unloading Company)	Unloading containers and bring them to container yard
7	PT EDI (Electronic Data Interchange)		Interchanging import data between Customs and their clients
8	Bank		Receiving payment (tariff, tax, fine, etc) from importers (or freight forwarders)
9	<i>Aparat Keamanan</i> (Security Officer)		Maintaining security
		<i>Polairud</i> or <i>Polisi Air dan Udara</i> (Police Unit for Sea and Air) - <i>Direktorat Polairud</i> is under <i>Mabes Polri</i> or National Headquarter at national level - <i>Satpol Airud</i> is under <i>Polda</i> or Regional Headquarter at regional level	Maintaining security on sea and air
		<i>Satuan Pengawal</i> (Guardian Unit) under Kodam or Regional Military Headquarter	Maintaining security inside the port and sometimes outside the port (during delivery to importer's warehouse)
		KP3 – <i>Kesatuan Pelaksana Pengamanan Pelabuhan</i> (Port Security)	Maintaining security inside the port
10	<i>Direktorat Jenderal Bea Cukai</i> (Custom) – under Ministry of Finance		Ensuring that imported goods have followed the custom procedures and regulations
		<i>Kantor Inspeksi</i> (Kin) <i>Bea Cukai</i> (Custom Inspection-Office)	Ensuring that imported goods have followed the regulation at

continued...

11	Institutions with have the authorities to give permission regarding "SKEP criteria"	-Ministry of Trade (for used goods or to get special facilities to export) -Pertamina (e.g. lubricant) -Ministry of Industrial (e.g. material for printing money) -Telkom (e.g. telecommunication equipment)	Giving permissions regarding "SKEP criteria"
12	<i>Imigrasi</i> (Immigration) – under Ministry of Law		Checking immigration documents
13	<i>Karantina</i> (Quarantine)		Quarantining certain imported goods according to the related regulation
		<i>Dinas Kesehatan</i> (Health Unit) – under Ministry of Health	Checking health condition (of imported goods or ship's crew)
		<i>Dinas Pertanian</i> (Agriculture Unit) – under Ministry of Agriculture	Monitoring imported goods under their authorities
14	Port Health Center – private company		Providing medical check for ship's crews
15	<i>PBM</i> (<i>Perusahaan Bongkar Muat</i>) – private company		Storing containers that have been moved out from container yard (get "overbringen" status)
16	<i>TKBM</i> (<i>Tenaga Kerja Bongkar Muat</i>) – private company		Helping unloading process and physical inspection process
17	<i>PPJK</i> (Freight Forwarder) – private company		Representing consignee in dealing with custom clearance
18	<i>EMKL</i> (Trucking) – private company		Delivering container to consignee's warehouse
19	Importer – private company	<i>Importir Produsen</i> (Producer Importer), <i>Importir Umum</i> (General Importer), <i>Importir Terbatas</i> (Limited Importer)	Importing goods

APPENDIX 4:

GLOSSARY

Abbreviation Explanation or Terminology

Adpel	:	(<i>Administrator Pelabuhan</i> = Port Administrator): an institution under Ministry of Transportation which duty is to organize ship traffic at the port
APIT	:	(<i>Angka Pengenal Importir Terbatas</i> = Limited-Importer Registration Number): importer status issued by Ministry of Trade, allowing import activities only for certain goods
APIU	:	(<i>Angka Pengenal Importir Umum</i> = General-Importer Registration Number): importer status allowing import activities for any kinds of unprohibited goods
B/L	:	(Bill of Lading): a document shows authority for shipper to transport imported goods
BC	:	(<i>Bea Cukai</i> = Customs): popular term for Directorate General of Customs and Excise – Ministry of Finance
BC 2.3	:	Status of a company that gives it special facility in carrying out Customs clearance
Behandle	:	An open area in the port where physical inspection of imported goods is completed
CFS	:	(Container Freight Station): an area outside the port where main customs procedure (document verification, physical inspection, etc.) for imported goods under LCL scheme is completed
CY	:	(Container Yard); storage location for containers after being unloaded from the ship. Further customs procedure will start from this point.
Cargo	:	A list consisting of containers (that have been associated to their manifest importers) transported by a ship. This document should be submitted to Customs after berthing.
Co-load	:	A scheme where a PPJK puts its small amount of imported goods in an cargo LCL container taken care by another PPJK's
Direct	:	A scheme where a PPJK receives a small amount of imported goods from consol another PPJK to be put in an LCL container. This scheme is commonly known as “consolidation”
EDI	:	(Electronic Data-Interchange): a computer system specially designed for Customs data interchange

EIR	:	(Equipment Interchange Receipt): document received by EMKL from shipping company after sending back empty container to depot
EMKL	:	(<i>Ekspedisi Muatan Kapal Laut</i> = Vessel's Cargo Expedition): trucking company that helps transporting container from a port to importer's warehouse.
Fiat	:	A stamp and signature confirming that a document has been verified
FCL	:	(Full Container Load): container only consists of a type of goods and owned by one importer
Green Lane	:	An importing lane where there is no physical inspection (only document verification is needed) of imported goods. It is usually given to importer with particular status, e.g. "Importir Produsen". Randomly, green lane will be treated as red lane to make sure that there is no law breaking.
HS	:	(Harmonized System): a code-number given to each imported goods. The code will determines tariff should be paid for importing the goods.
<i>Importir Produsen</i>	:	Importer that imports goods mainly as raw materials for producing exported goods.
JICA	:	Japan International Cooperate Agency
KIN	:	(<i>Kantor Inspeksi Bea Cukai</i> = Customs Inspection Office): a Customs unit that performs and coordinates Customs procedure in a port. Tanjung Priok has three KIN and each of them has the same authority.
KP3	:	(<i>Kesatuan Pelaksana Pengamanan Pelabuhan</i>): port security-unit
KPLP	:	(<i>Kesatuan Penjaga Laut dan Pantai</i>): sea and cost guardian-unit
L/C	:	(Letter of Credit)
LCL	:	(Less Container Load), container consist of more than one type of imported goods, each of which is owned by an importer
LHP	:	(<i>Laporan Hasil Pemeriksaan</i> = Report of Inspection Result), a document consist of the results of physical inspection carried out by Customs officer
Lift off	:	Taking off the container from the truck
Lift on	:	Putting the container on the truck
MOF	:	Ministry of Finance
NPWP	:	(<i>Nomer Pokok Wajib Pajak</i> = Tax-payer Identification Number)

Notul	:	(<i>Nota Pembetulan</i> = Correction Note) correction made for mistakes made upon filling up customs document. It should be completed by PPJK and then verified by Customs officer.
OB	:	" <i>Overbringen</i> ": transferring container that has exceeded maximum storing-time at CY to special warehouses appointed by terminal operator
P2	:	(<i>Pencegahan dan Penyidikan</i> = Prevention and Investigation): a Customs unit that carries out monitoring duty
PBM	:	(<i>Perusahaan Bongkar Muat</i> = Loading and Unloading Company): a company that help unloading containers from the ship
PFPD	:	(<i>Pejabat Fungsional Pemeriksa Dokumen</i> = Functional Officer of Document's Examiner): a Customs officer whose duty is carrying out physical inspection of imported goods
PFSO	:	(Port Facility Security Officer) : institution conducting port facility security assessment
PIB	:	(<i>Pemberitahuan Impor Barang</i> = Import Notification): a document consists of relevant information concerning imported good. It is previously submitted to Customs computer through EDI system. If there are mistakes, it should be corrected immediately. Afterward, the hardcopy should be submitted along with various completing documents.
PMA	:	(<i>Penanaman Modal Asing</i> = Foreign Direct Investment)
PMDN	:	(<i>Penanaman Modal Dalam Negeri</i> = Local Direct Investment)
PO	:	(Purchase Order)
PPJK	:	(<i>Perusahaan Pengurus Jasa Kepabeanan</i>): Customs broker or forwarder
PPK	:	(<i>Petugas Pemeriksa Kepelabuhanan</i>) = PSCO
PPKB	:	(<i>Permintaan Pelayanan Kapal dan Barang</i>): service request for ship and cargo
PPSA	:	(<i>Pusat Pelayanan Satu Atap</i>): Integrated Servicing Centre
PSCO	:	(Port State Control Officer) institution whose duty is making sure port safety during ship activities inside the port.
<i>Pandu</i>	:	An officer that helps the ship berths by giving direction to tug boat in pulling out the ship so that it could reach the reserved dock.
<i>Pecab Pos</i>	:	Categorizing import documents (under LCL scheme) according to their ownership

<i>Pelindo</i>	:	(<i>PT Pelabuhan Indonesia</i>): an SOE under Ministry of Transportation, that has authorities in port management
RKSP	:	(<i>Rencana Kedatangan Sarana Pengangkut</i>): Ship-arrival schedule
Red Lane	:	An importing lane where there are document verification and physical inspection.
SIB	:	(<i>Surat Izin Berlayar</i> : Sailing Permit)
SIUJPT	:	(<i>Surat Izin Usaha Jasa Pengurusan Transportasi</i>): permit given to the forwarding companies, allowing them to do the customs-broker service
SPJM	:	(<i>Surat Pemberitahuan Jalur Merah</i>): a response letter given by Customs informing that the goods reported in PIB should follow the Red Lane.
SPKPB	:	(<i>Surat Pemberitahuan Kekurangan Pembayaran Bea Masuk</i>): a letter given by Customs to forwarder, informing the insufficient payment of excise
SP2	:	(<i>Surat Penyerahan Petikemas</i>): container-handing-over letter
SPPB	:	(<i>Surat Pemberitahuan Pengeluaran Barang</i>): permit to clear good
SSPCP	:	Tax Payment Slip
SKep	:	(<i>Surat Keputusan</i> = decree)
<i>Surat Kuasa</i>	:	Power of Attorney
THC	:	(<i>Terminal Handling Charge</i>), cost paid by importer to shipping agency regarding container handling cost that has been pay biaya yang dibayarkan oleh importir kepada perusahaan pelayaran sehubungan dengan penanganan petikemas yang dikeluarkan dari kapal
TKBM	:	(<i>Tenaga Kerja Bongkar Muat</i>): labors usually help unload and reload goods from container for physical inspection)
Tila	:	Commonly used term for SP2
Tug boat	:	Special-purpose ship which duty is to help the ship berthing
UTC	:	Unit Terminal Container

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