



PULSE STORIES

SETTING SAIL

A look inside the
import process
at Indonesian
ports



AIPEG

Australia Indonesia Partnership for
Economic Governance



Australian Government





608

608

610

NPCT

DANGER
HIGH VOLTAGE

WARNING
AUTOMATIC
PRESSURE
WATER

NYKU 498834 6
45G1

CAUTION
HIGH
TRAILER

MAGU 5486559
45G1

GROSS 21,000 KG
TARE 2,400 KG
NET 18,600 KG
CUBE 3.700 CBM

EITU 160360 9
45G1



EMCU 4008239
42U1

EVERGREEN

GROSS 30,480 KG
TARE 3,750 KG
NET 26,730 KG
CUBE 58.300 CBM

About the study

Improving the nation’s competitiveness and attractiveness for investment are key aspects to support Indonesia’s long-term development. Further, the nation’s shift towards an integrated regional economy has necessitated a certain degree of openness in terms of international trade.

Finding a delicate harmony to maintain a nation’s balance of trade requires rigorous planning and analysis of a variety of factors, and tackling issues concerning international connectivity performance increasingly plays a pivotal role in national development.

One prominent issue in the trade landscape is the import process, and addressing the difficulties inherent in it can greatly improve both the economic competitiveness and attractiveness of Indonesia as a destination for foreign investment.

Our attempt to understand the challenges and opportunities within the import landscape begins with a foray into the world of the various stakeholders involved in the process. Our human-centered approach enables us to understand their perspective on the process, the incentives they face, and the challenges involved in every step of the way, and with that, we identified a few key opportunity areas that can be addressed to benefit the overall system.

For this study, we aimed to understand the process involved in the Tanjung Priok port in Jakarta, the busiest port in all of Indonesia, and one that is targeted to become a trading hub for Southeast Asia.

Approach in numbers

The import process is notoriously riddled with technicalities, and the process starts with gaining a license to have goods transported out of the ports. However, we believe that insights can be gained not only from the technical process on paper, but from the experiences behind them. We have adopted a human-centered approach to collect and delve into real-life stories from those most involved in the process.

By providing snapshots of stakeholders’ stories, we expect to understand reality through their eyes and thus provide insights based on their needs. Additionally, in order to ensure a more representative outcome to the study, we applied a method of quantitative survey, aiming to gauge various importers’ perspectives on the import process.

30	Days
28	In-depth interviews
5	Types of stakeholders
320	Importers from varying industries across Indonesia

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THE CURRENT landscape

Indonesia places 63rd in World Bank's international Logistics Performance Index (LPI) ranking, scoring low in almost all key measures, including customs, infrastructure, logistics competence, and timeliness. A fact that has prompted outrage by President Joko Widodo to reduce the duration of cargo processing and unloading in ports, also known as *port dwelling time*.

Data from Jakarta International Container Terminal (JICT) indicates that Indonesian Dwelling Time has improved gradually from 6.2 days in 2012 to 3.47 days in 2016. It got deteriorated to 7.9 days between January-August 2013 and improved to 5.19 days in 2014. Between 2015-2016, it improved from 4.45 days to 3.47 days. However, this performance is slightly worse than Malaysia which amounts to 3 days and far behind from Singapore which only takes 1.5 day, whereas in Japan it is less than a day.



In September 2016, President Jokowi reiterated his urge to reduce the current average dwelling time from around 3.2 – 7 days to 2 days. It is expected that this change will bring about positive impact in the import process, enabling Indonesia to become more competitive in international trade, especially in regards to its regional counterparts.

Traditionally, port dwelling time consists of three overall processes: pre-clearance, which is the time required since container is unloaded from the ship up to the submission of the Import Declaration Form (PIB) to the Customs; customs clearance, the time required to check on import-required documents, from the receipt of the PIB until the issuance of the Goods Release Approval Letter (SPPB); and post-customs clearance, which is the time required by importer to release goods from the temporary hoarding area once SPPB is issued.

However, our initial observation suggests it worthy to take a step back and look at the bigger picture instead of isolating the issue to port dwelling times.

While ports are encouraged to reduce dwell

times, quite a few other factors can be deterrents to competitiveness in the import landscape. For one, the Indonesian Logistics Association (ALI) has cited that logistical cost has been increasing for the past 2 years, thereby negatively impacting the importers.

On the other hand, non-tariff measures that impact the import process include issues on the dwelling time during the pre-clearance process, imposing stricter regulations on the import of certain industries, such as steel, iron, food, and textiles. Regulations can be in the form of requiring special licenses for selected products, as well as pre-shipment inspection requirement on others.

The government has also been known to actively try to eradicate bribery, an issue that has been extremely prevalent when dealing with customs, and one that has built a permanent mark in the perceptions of businesses when dealing with trade.

These processes go well before, after, and beyond dwelling time, and involves the participation of a variety of users, including importers, customs, logistics services, terminals, and shipping lines.



The Players



Importers

Commonly regarded as the main users in the import process, policies and recommendations are often crafted around the needs of the importers, which include efficiency and reliability in the import process. We classified importers into a few different groups.

Priority importers: importers that have complied and fulfilled key requirements from the customs to receive logistical benefits. To gain priority classification, a business must import at a certain amount and frequency, and most importantly, maintain a good performance track record in regards to document submission. In return, their cargo can forego document and physical checking, allowing for a much faster overall process.

Green-lane importers: while not in the priority segment, importers in this category often receive a much easier time when dealing with import processes. This classification is determined based on the importers' compliance in the import process, and they often find little to no difficulty in the overall process. Current government regulations have also allowed for more importers to be classified into this segment, in an attempt to improve overall port efficiency.

Red-lane importers: dominated by new importers, high-risk product importers, temporary imported goods, import of petroleum operational goods, re-imported goods, and goods that are randomly subjected to checking. These importers find the hardest time in dealing with imports, as they often have to undertake a longer clearance process.

Customs

While a smooth import process may be most evidently beneficial to importers, taking into account the perspective of customs will not only complement the government's initiative to improve the internal performance of customs personnel, but it can also uncover opportunity areas that might have previously been looked over. Customs play a pivotal role not only in executing the process in the overall system, but also in building meaningful information flow between the stakeholders.

Logistics services (PPJK)

Also known as the extension of importers, logistics services' role is an interesting one to follow, as it shares similar business agenda as the importers, as well as the procedural know-hows of customs. Their experience can mediate between the possibly polarized stories from the perspectives of the importers and customs.

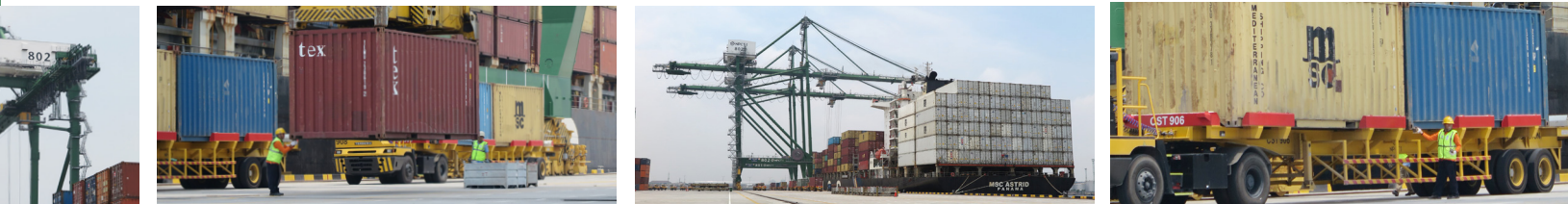
Terminals

There are a variety of terminals that operate within the ports boundaries. All are partially publicly-owned, and operate under the flag of PELINDO, the Indonesian Port Corporation. Terminals have an agenda to optimize the use of their space as efficiently as possible, relying on the efficiency and reliability of all stakeholders, as well as the city infrastructure.

Shipping lines

The go-to service provider for cargos, shipping lines are responsible for packing, loading and unloading of goods. Their main counterparts are the terminal and importers, and they do not often deal directly with customs.





Imports today: a positive outlook

What most respondents agree upon is one thing: changes are apparent. Experienced importers feel the changes the most, noted by two main indicators.

Improved Transparency

The presence of the online portal system Indonesia National Single Window (INSW) enables online submission of documents and progress tracking across the import process.

INSW aims to bypass a few problem areas when dealing with customs officials, minimizing the chances of bribery through the use of automation.

But a major pain point remains, involving a persistent dependence on human interaction. Our study found that most respondents view the presence of the portal is an indicator of the development of a more efficient import process in the future.

Bribery practices less rampant

“Let’s just say we’ve now escaped from the dark ages” - Agus, logistics provider

While issues of corruption are some of the most challenging to tackle, respondents almost unanimously cite that the condition today is much better than that of five to ten years ago. Whereas before, bribery is considered common practice, today it is barely out in the open.

Few importers still say that they practice bribery, and as officials face dire consequences if caught, reluctance to accept the bribes is more apparent. Further, improved transparency means that importers have less motivation to pay their way, when they can monitor and handle the process themselves.

There is a long way to go to eradicate bribery, but it is increasingly apparent that strong motivation exists among the importers and customs to suppress the practice.



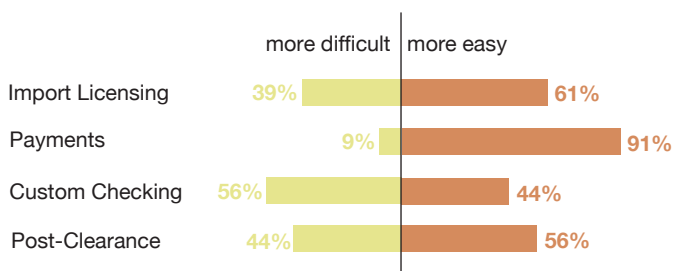
The Experience Gap

Despite undertaking similar processes in the import flow, there exists a clear gap between the experiences of the various kinds of importers. To provide a snapshot, we will outline the differences in experience amongst the various importers, with a particular focus to look at the two extremes: priority companies and red-channel companies. Our findings looked at the divided opinions that exist in regards to undergoing the various steps in the import process. In particular, we found there is a polarity of opinions between importers who—ideally—should have gone through the same process and difficulty level.

Survey respondents are shown as divided almost equally in almost all steps in the import process, except for payments—in which most find relatively easy. The other steps—gaining license, custom checking, and post-clearance—show an almost equal distribution in terms of difficulty in undertaking the process. A closer look into the trend reveals that different importers are susceptible to different processes and treatments, especially when comparing between priority companies and red-channel companies.

DIVIDED OPINION INDICATES EXPERIENCE GAP

Difficulty in undertaking the process



Priority companies also benefit from having formed an association of priority importers (APJP), providing them with a forum consisting of similarly-sized businesses. Through APJP, priority importers are able to work closely with the customs and at times, even lobby government institutions to ease a few of their regulations to facilitate import and to the benefit of the companies.

“We once had difficulties importing due to the long processing time to gain a license from BPOM and because of quarantine. So we joined forces with customs to lobby the BPOM to shorten the processes, and they did”

– RENNY, PRIORITY IMPORTER.

Priority companies are impacted by the benefits gained from the nature of their businesses. There are a number of requirements that must be fulfilled in order to apply to become a priority company, including the amount and frequency of goods, and the more controllable requirement of fulfilling a pristine track record of correct document submissions.

These companies have to not only possess a pristine track record of compliance with the customs process, but also to undertake a rigorous audit every two years. Despite having to undertake this process, however, we see a clear expression of support from these companies to undergo any requirements needed so that they acquire these benefits.

While additional requirements are imposed upon to priority importers, they receive clear benefits for complying with the requirements. This incentive system is something that can be replicated for red-channel importers, by providing information on the benefits

they can receive when they comply, as well as empowering them through network-building.

There exists a cycle of trust built from forming a relationship with the customs and other similar businesses, that eventually impacts on their attitudes toward the import process. This relationship is not only rewarded with procedural benefits, but also with ease of access to information as a result of the close-knit relationship between the importers, their logistics service provider (if any) and customs officers. The relationship comes full circle when the clear and open information stream results in impeccable compliance with document submission.

At the other end of the spectrum, there are the red-channel companies. The red channel is a channel determined by the customs' automated system based on a number of factors, including the type of commodity and industry, their compliance track record, and whether they are a new or existing importer.

For instance, a business that has only recently started importing will most definitely be classified into the red lane, as well as businesses that operate in industries protected by the government.

Not only do red-channel companies have a longer dwelling time than others, they also have to undergo a more rigorous process, including documentation and physical checking of goods.

This has resulted in an almost unanimously negative perception of customs from the red-channel companies, most of which are based on assumptions.

“It doesn’t matter if we get the documents right or not, [customs] are still going to say it’s wrong!”

– RED CHANNEL COMPANY

The trust that seemingly exists between the priority companies and the customs is clearly not apparent in the attitudes of the red-channel companies. There is instead a cycle of distrust that fuels the companies' contempt for compliance and the likelihood of pursuing illegal activities—especially bribery. In contrast to the priority companies, red-channel companies have cited that they are unaware of the correct procedures needed to comply with regulations, as they have yet to build a close relationship with the main sources of information.

SNAPSHOT #1: CONSTRUCTION COMPANY

A company that has been importing goods for a relatively long period of time, and is also a distributor for construction materials.

“For us, the green channel does not exist. **It’s always the red channel, even though we are a high-frequency importer.** The channels aren’t enforced, usually you start out red, then they ask for money to move up to yellow. **We don’t want to pay bribes, but otherwise our business wouldn’t run.** I don’t know why these things happen to us, it might be because of the protectionist regulation.

Most of the time, physical checks happen to our goods, and this is frustrating because we don’t know how long it will take. When we ask them, they always say they don’t know. The main problem is the unpredictability, and the fact that it snowballs into other aspects of our business because it also affects delivery time to our clients”

How might we enable all importers to get access to networks and form relationships that can improve the import experience?



People Reliance

Building on the level of trust gained by various types of importers, we observed a particular trend in perceptions that is found in almost all stakeholders that we interacted with– that their commentary of experience relies almost solely on the people with which they interact.

Building on the level of trust gained by various types of importers, we observed a particular trend in perceptions that is found in almost all stakeholders that we interacted with– that their commentary of experience relies almost solely on the people with which they interact.

In many of the cases, testimonies of positive/negative experiences were linked to the quality of the people behind the process, instead of the broader system of information, regulations and processes. Development initiatives have been delivered and the effects are quite apparent in the improvement of the people (i.e. customs) handling the process, but there is little trust in the system– be it reliance on the on-line portal or the necessary steps taken when dealing with imports. In reality, people rely more on interaction with the 'right' people than on the system.

“Everything depends on the importer. If they’re lazy, then the documents will be incorrect”

- CUSTOMS

There is a clear difference of opinion over the same process. For instance, businesses who typically deal with higher-level officials, i.e. big businesses or priority importers, often report better experience as they deal with those that have a deeper understanding of the system. On the other hand, businesses who deal more with frontline officials tend to report a more negative experience, as most frontline officials work in silos, might not have a holistic view of the system, and thus are not able to provide more comprehensive solutions to the issues of importers.





SNAPSHOT #2: LOGISTICS PROVIDER

A large-scale logistics service provider, handling both priority-channel and red-channel companies.

“Today the process is so much easier than before, because customs officials are not as corrupt anymore. Before, it used to be the case that you should leave bags of money in their office before they take care of the process. Now, no one does that anymore, if we find one that accepts bribes we can report them to the officials. The government initiative to clean up customs is working.

But I do feel like it’s still important to know the right people in customs. For one, it’s easier to receive updated information if you’re close to the right people.”

How might we increase trust in the system and provide a fair experience to importers no matter the size of the enterprise or level of influence?

How might we focus our efforts more in capacity-building for the people instead of only on systems and processes?



[illegible]

Sticky Knowledge

Many of the decisions made by importers that have affected the import process surrounds information dissemination or the lack thereof.

First, most cite that they use the services of logistics providers because they are not aware of the requirements that are needed to undergo the process. On the other hand, customs officials have expressed that it would be quicker if importers dealt with their imports directly, as they have more product knowledge.

While logistics providers have a more detailed knowledge on the procedures of importing goods, importers have a more detailed knowledge on the products they are importing. There exists a disconnect between those with procedural know-how and those with product knowledge.

“Once, a process was delayed because the importer sent out a representative to deal with handling their imported goods, and the rep didn’t know anything about the goods. It made it necessary for us to hold the goods back until we received full product knowledge”

- CUSTOMS

Another issue lies on the fact that while some importers had enough information on regulations, suppliers in the origin country did not- thus making it difficult for them to comply with the regulations.

“We want to comply, but suppliers weren’t aware of all these regulations. Rather than having our shipment delayed, we ended up bribing the customs to ensure our goods can come in despite not complying with the rules”

- IMPORTER

Furthermore, importers and customs have contradictory expectations on how the information



flow should take place. While importers expect a proactive dissemination of information, customs expect a proactive search for information by the importers.

Due to the lack of information and signaling mechanisms surrounding regulatory changes, many businesses weren't able to comply to the new regulations due to factors such as time constraints and unpredictability. As a result, they are forced to purchase their goods through a distributor, whereas in reality, this would cost them so much more than if they imported the goods themselves. It is therefore beneficial to provide these signaling mechanisms in order to give confidence to would-be importers.

“I’m glad that I decided to import my goods, because if I went through a distributor, it would have cost me twice as much!”

- WULAN, IMPORTER



How might we bridge the gap between procedural knowledge and product knowledge for logistics services and importers?

How might we enhance the information stream to include suppliers in communications initiatives related to imports?

SNAPSHOT #3: HOMEWARE COMPANY

A medium-sized importer that has been importing goods for more than 15 years.

“Because of the regulation changes, we recently have had to make significant changes to our business. Ever since there was a split between the Ministry of Industry and Trade, we’ve had to import all our finished goods through a third-party importer, which adds another step to the process.

This has impacted us severely. We’ve had cases in which customers shifted from our brand to a competitor’s because of the uncertainty.

Another new regulation involves the changes in SMI rules. **The rules are very complicated to follow, and it cost us a whole business unit.** We had to stop importing that particular item due to the regulation.

There’s been a lot of regulation drops in this [government’s] era. **But at the same time, new regulations keep on popping up.** So it’s basically the same!”

Rethinking the issue

The public initiative is the push towards reducing the dwelling time in ports. However, we have found that focusing on this particular indicator does not necessarily address the challenges faced by the stakeholders involved in the import process. The noble attempt to achieve reduced dwelling times has created new challenges without improving the overall performance of the system.

“Because of the short dwelling time rule, the goods are moved to external storage outside of the official customs area if they haven’t been cleared”

– Dito, shipping line manager

“Moving to external storage is bad, because it incurs more cost. It is more expensive than storing them in the customs storage”

– Felix, importer

Pressure from above has produced a few cases in which goods are moved to external storage. A few importers, especially those who use logistics services as a third party, cited that **the short dwelling time does not impact them at all as they still need to pay for extra cost involved with placing their goods in a warehouse that is external to the customs area.**

Another loophole is connected to the implementation of stricter import regulations and difficulties in obtaining certain import licenses. As a result, **some businesses resort to buying from other importers, which will in turn incur more cost.**

“It’s easier for us to hire a third-party to import some of our goods, rather than having to go through the whole process and costs”

– Dhika, importer

Furthermore, most cite that the main problem they have is not in regard to the customs process, but in

complying with the regulations as a whole.

“Regulations always change but importers are always given short notice to comply, so we won’t have time to amend our licenses before the rules are enforced”

– Chris, importer

“We’ve had to make a major overhaul to our business because it wasn’t economical to cover the cost of the things we needed to do to comply with the regulation change”

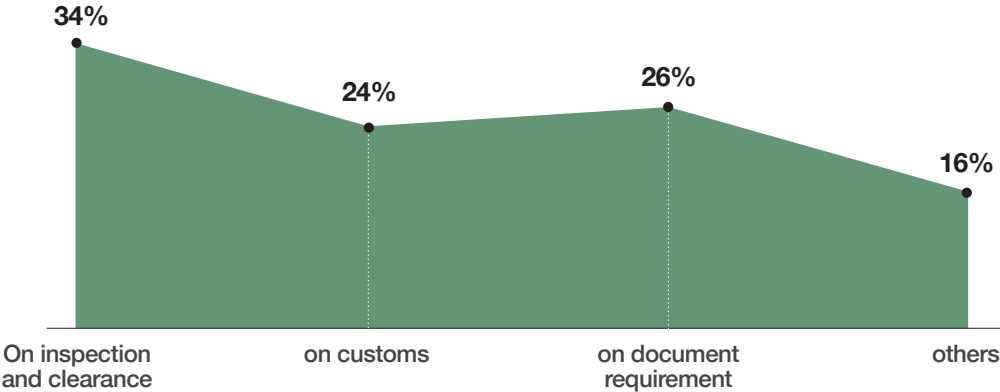
– Chandra, importer

The ever-changing regulations have impacted importers greatly, preventing them from attaining the **one aspect that they value the most in the whole import process: reliability. While most are understanding when it comes to protectionist measures, they also cite that customs and government institutions are not proactive in their attempt to disseminate information.**

“We have to always be on the customs’ tail, otherwise we’ll get left behind on all the necessary info. We have to be proactive in looking for more information”

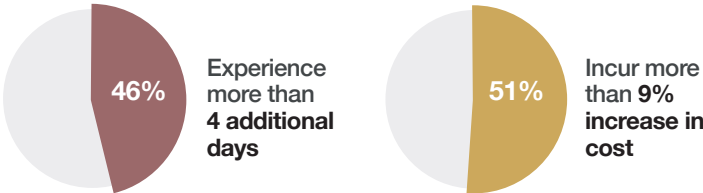
– Tedjo, logistics provider

Within last year, **70%** respondents are exposed to a new import regulation



Out of the 70% of importers who were impacted by regulatory changes, 51% of them mentioned more than 9% increase in cost, and 46% experienced at least 4 additional days of delay in the overall process. The introduction of new regulations posed some form of negative impact on the businesses of the importers, and opportunities thus exist in finding ways to ease the implementation of regulation for the importers in order to minimize their losses.

The impact:



What contributes to dwelling time is not the same with what contributes to experience

contribution of each phase to the dwelling time*

* World Bank 2015



the most difficult step, according to respondents*

* 6.3% of the respondents listed lack of facilities/infrastructure as the most burdensome part of the process




Additionally, longer dwelling time does not necessarily translate to difficulty in the eyes of the importer. Whereas the customs clearance process only takes up 11% of the time, 34.7% of respondents actually find this step the most challenging. On the other hand, while post-clearance takes up 34% of the time, only 16.3% of respondents find this step to be the most challenging. There seems to be a disconnect on the priorities of the government and the importers. While dwelling time might seem as the obvious issue, importers seem to find difficulties in other components of the import process, one that not only affects the total time taken to undertake the process, but also on cost, reliability and clarity of regulations.

From challenges





to opportunities



Empower smaller and new businesses to have leverage

One of the reasons why priority importers have so much leverage in the process is due to the fact that they are part of an existing network that gathers together their common interests, and enables them to use that power to lobby as well as form relationships with other stakeholders.

An opportunity thus exists to group together new and small importers in dealing with the import process. While individually, these importers might not have much leverage to influence regulatory changes, they exist in far greater numbers than priority importers, and forming a network can empower them to wield a similar level of influence to that of priority importers.

Additionally, priority status is given only to a limited number of importers in Indonesia, making up 16% of total goods handled at the port. Another opportunity exists by encouraging businesses to join the priority group by having transparent and achievable criteria for them to join.

Enabling multi-stakeholder participation

Our findings have shown that there are benefits to engage with unlikely stakeholders in ensuring a smoother import process. For instance, the private sector, especially shipping lines, has undertaken initiatives to ease the import process for new importers. One shipping line has even built a knowledge base that compiles all the necessary information from government bodies into one single platform.

Further, importers often cite that the reason they cannot comply with regulations is because there is a disconnect between the understanding of importers and the suppliers on the requirements, and mistakes often come from the suppliers' side.

Additionally, although customs and government prefer for the importers to deal with the import process without using a third-party, third-party logistics services can actually act as a bridge to better communicate government initiatives to the importers.

We recognize that stakeholders such as the private sector, logistics services, and suppliers have a strong stake in the overall process. By connecting them with importers and governments alike, we can tap into the possible benefits that they can bring to information flow and procedural ease.

Dubai Trade, for instance, helped position Dubai as the best practice country in import procedures by bringing together synergistic relations through partnerships between government entities, companies and individuals, thereby inspiring collaboration, improved processes, and healthy competition.



A focus on the system

While there is an existing online platform for tracking imported goods, the INSW (Indonesia National Single Window) does not allow users to submit information required by several agencies in a single entry, using a single sign-on. Users will have to access different platforms when attempting to gain license from different government bodies, as well as for payments.

Improving the online system to consist of a single platform for all steps in the import process, from knowledge building to payments, can reduce face-to-face transactions and increase reliance on the system, instead of on the people.

Reducing administrative process

In addition to improving the existing infrastructure of the INSW platform, an opportunity exists to reduce the administrative burden in order to reduce reliance on people-driven process.

For instance, there is a high number of documents that importers need to obtain before importing a product, from the Importer Identification Number (API) to the Registered Importer (IT) document, as well as a number of additional supporting documents before the Customs Clearance Approval document (SPPB) is obtained.

The abundance of documents needed to be obtained by importers can have the most impact on creating a higher possibility for importers to opt for the 'shortcut' and provides a chance for customs to delay or prolong document issuance process. An opportunity therefore exists to reduce the administrative burden by shortening the process of by reducing documentation requirements.

Speak in their language

The focus on shortening port dwelling time has revealed that it creates a few unintended consequences, and it also neglects to cater to the needs of the importers. What the importers value is certainty over the whole process, which will ease planning and managing the expectations of clients.

In reality, the port dwelling time is only a small component in the overall process, and there are hurdles present that might not necessarily be directly related to the dwelling time.

An opportunity that can be tapped into includes a shift in communicating existing government initiatives to directly address the issues that importers value the most, namely procedural certainty and cost, and finding ways to socialize any new initiatives or regulations to business-people.



Ensure predictability

Most respondents cite unpredictability as one of the main hurdles in the process, including unpredictability of regulatory changes as well as in the length of time needed for document/license requests.

More definite signaling and indications of regulatory change can help ease this issue, for instance, to set up a time each year in which all regulations come into effect, providing ample time for each importer to anticipate the necessary operational changes and to comply.

Additionally, an opportunity that might benefit importers is to provide a time constraint and deadline from the Ministry and other government bodies to issue particular documents during the pre-clearance procedure. Once the deadline has passed, importers can automatically consider the request granted. This way, it creates an incentive for both the government bodies as well as for the importers to comply to the regulations, as well as prevent bribes that often result from the need for predictability.

Next steps.

Our study indicates that the various challenges detailed above can be turned into opportunities.

Taking these opportunities forward, it is worthwhile to consider a few key initiatives. This includes empowering smaller businesses to strive to enjoy the same benefits as priority companies have, both by providing a platform for them to convene as well as by providing clear and achievable criteria to join the priority status. Further, creating a multi-stakeholder network to include various players in the process can ease information-sharing and create a healthier competition in the trade ecosystem. A multi-stakeholder network will also enable the creation of mechanisms that can communicate directly to their needs, such as a system of new regulatory changes and operational procedures upon complying with them. Finally, improving the administrative process, including introducing time constraints and reducing document requirements can prove to be an efficient and effective way to ease importers in undergoing the process, as well as in creating a higher reliance on the system.

Goals for improving the import process can vary from improving importers' experiences, to making the industry more competitive, or providing a more efficient process overall. In order to better set parameters beyond port dwelling, it is increasingly important to define these goals and address each problem area accordingly.

Our study aims to serve a purpose beyond research-- findings and insights were gathered and translated into actionable items, as outlined in the Policy Memo (see Appendix 1). While the report showcases broad-set recommendations, we feel it imperative to position these findings in a more policy-centric approach, hence providing clear and specific guidelines for further action be taken.

POLICY MEMO ON FACTORS AFFECTING INDONESIA'S PRE-CUSTOMS CLEARANCE PROCESS AND DWELLING TIME



A. Background

Dwelling Time is defined as the time required from the time containers (imported cargo) are placed in the Temporary Hoarding Area (TPS) at the port - after being unloaded from a cargo ship - to the time containers are released from the TPS. Dwelling Time is often used as an indicator to measure trade efficiency (export/import) as shorter Dwelling Times may in turn lead to quicker cargo movement and bring down logistics/transport costs. Shorter Dwelling Times would also be expected to trigger increased productivity and State revenue as they would allow more ships to discharge and load at the ports over any given period of time.

Data from Jakarta International Container Terminal (JICT) indicates some improvements in Dwelling Times in Indonesia. In 2012, average Dwelling Time was 6.2 days but deteriorated to 7.9 days in 2013 (Jan – Aug). In 2015 and 2016, Dwelling Time fell back to 4.5 days and 3.5 days, respectively. Despite these improvements, Dwelling Time today is still longer than in Malaysia (3 days) and Singapore (1.5 days).

Moreover, not all recent change is positive in direction. In survey work commissioned by AIPEG (see further details below), importers claimed that new regulations

issued over the last 12 months have increased the costs and time to import their goods. For example, 32% of survey respondents claimed that new regulations introduced over the last 12 months have added 6 additional days to the whole importation process. A further 28% of respondents stated that 2-4 days were added and a further 27% stated 1-2 days were added. Similarly, 34% of the respondents stated that the introduction of new import regulations over the last 12 months increased total import costs by 10%, with a further 33% of respondents claiming that total import costs rose by 6-10%. The final third stated the changes increased import costs by 2-5%.

This relatively poor performance in Dwelling Time vis-à-vis other ASEAN countries and the worrying impact of recent changes introduced to the import regime is a major cause of concern for the President Jokowi's administration. The President has stated he wants this issue to be seriously addressed and for Indonesia's average Dwelling Time to be brought down to under 2 days.

Dwelling Time is generally divided into 3 (three) main components: Pre-Customs Clearance, Customs Clearance and Post-Customs Clearance. Pre-Customs Clearance refers to the period containers are placed in

Of these three phases of Dwelling Time, Pre-Customs Clearance is the longest. A study by the World Bank (2012) showed that 55% of the total Dwelling Time in Indonesia in 2012 was due to Pre-Customs Clearance. Data of JITC indicates a similar result for 2015 showing that the Pre-Customs Clearance's contribution to total Dwelling Time in that year was more than 55%, while Customs Clearance and Post-Customs Clearance contributed 11% and 34% respectively. It is clear then that identifying the factors that affect the process of Pre-Customs Clearance is critical

To identify the factors contributing to lengthy Pre-Customs Clearance, AIPEG conducted an online survey of the users (i.e., importers) of Indonesia's National Single Window (INSW) over 7 - 14 April 2017 (see Appendix 1 for detailed survey questions). The survey collected information about users' experiences using the INSW. The survey successfully collected 320 responses. In addition to the online survey, an FGD organized in cooperation with the Ministry of Trade was held on 29 March 2017 and attended by relevant stakeholders. Finally, in-depth interviews with 29 importers and freight forward companies were conducted over the months of March and April, 2017.

[illegible]

B. Factors affecting Pre-Customs Clearance in Indonesia

The survey results from 320 respondents confirmed the findings from in-depth interviews and other recent studies that the Pre-Customs Clearance process is the largest contributor to the longer Dwelling Time in Indonesia. It also identified several specific constraints faced by importers. These results and other main findings are described below:

- **Pre-Customs Clearance is considered to be the most difficult import process in Indonesia, closely followed by the Custom-Clearance process.** The survey result shows that 24% of the respondents say the Pre-Customs Clearance process is the most difficult stage of importing through the ports. Though this is lower than the percentage of respondents who listed the Customs Clearance process as the most difficult (28%), the number increases to 43% when the responses in the “others” category are taken into account. Looking closely at the “others” category, we find that this includes aspects related to Lartas and Quarantine documents, two aspects that indeed take place during the Pre-Customs Clearance stage. The high negative response on Customs Clearance, also needs to be considered in efforts to reduce overall Dwelling Time.
- **Obtaining required documents to get import approval is considered the most burdensome stage in the Pre-Customs Clearance process.** About 55% of the respondents stated that the most burdensome stage in Pre-Customs Clearance is the handling of required documents for import approval. Another 41% of respondents said that the most burdensome stage is the handling of import license documents (Lartas-API documents, import approval, and surveyor reports).
- **The process of getting import approval, a surveyor report and other required documents**



are considered to be difficult. More than 70% of respondents claimed the process was very difficult (16%), difficult (23%) or somewhat difficult (32%). The next most difficult process is getting pre-requisite documents for import approval. Here, 67% of respondents claimed the process was very difficult to somewhat difficult. The process of obtaining a surveyor report was reported as less difficult. 52% of respondents in total claimed the process was very easy to somewhat easy.

- **The Quarantine process is considered a constraint to the import process in Indonesia and a contributor to increased Dwelling Time.** Despite being excluded from the focus of the survey, the quarantine process is considered to be a serious constraint in the import process. Quarantine is also one of the prohibitive and restrictive requirements applied to ‘certain products’, such as plants and wood products. This is partly because the entire quarantine process must be undertaken after ships arrive at the port².
- **Another constraint that importers face is the quality of infrastructure at the ports (facilities).** The respondents said that importers often deal with several constraints related to the facilities provided at ports, such as: the lack of trucks, an unreliable online system and cranes that often failed to operate.

² The current quarantine regulation from April 2015 specifies the following process: (1) importer applies for an approval letter to conduct quarantine (KT2 for plant or KT9 for animal) before ship arrives; (2) Once the KT2/KT9 application is lodged, the importer/custom service consultant company (PPJK) reports to another quarantine agency unit to obtain the name of the quarantine official (maximum 2 days) who will conduct the quarantine (during this time, the container has to be placed in the quarantine area); (3) After sample is taken and examined the quarantine agency will issue a quarantine certificate (KT9 or KT2); (4) the KT9 number is then uploaded to INSW as part of the import declaration document (PIB document).

C. Policy Recommendations

Based on the above online survey results and the FGD discussion, we provide several recommendations to reduce Dwelling Time and improve the Pre-Customs Clearance process:

1. Simplify the license administration services process. The process is dispersed across several ministries and increases costs for importers. License administration can be simplified by reinforcing the role of INSW and integrating the various processes for obtaining different licenses from different Ministries and agencies. Ideally, the system would enable importers to sign into the INSW system and process all required documentation for import simultaneously (single sign on). One example comes from South Korea's UNI-PASS single window system. This was developed in 2006 and now connects 38 regulatory agencies to service 55 different documents as a one-stop service. This system has been named best-practice by WB in the 'trading across borders' EODB indicator and is now used in other countries (e.g., Ecuador, Uzbekistan).

2. Remove requirements to obtain import approvals and surveyor reports for selected imports. Based on the survey results and in depth interviews, the most burdensome procedures during the Pre-Customs Clearance process are obtaining import approvals and surveyor reports. Obtaining import approval is seen by 77% of the respondents as very difficult, difficult or somewhat difficult because importers are required to submit many preliminary documents (pre-requisites). To streamline this process and shorten Dwelling Times, the GOI could remove the requirement to survey products that are imported from OECD countries (or a selected number of developed countries) where these products have met all standards and have been deemed safe and approved for use. For example, products that have Federal Drug Administration (FDA) approval from the USA or similar EU certification.

3. Conduct offshore quarantine process and/or strengthen the process. Offshore quarantine inspections (in the country of origin) could be considered in certain cases. For example, the Plant Protection and Quarantine (PPQ) program of the USA permits certain agricultural products to undergo anti-pest treatments and inspections in their country of origin. Once quarantine is passed, imports can be fast-tracked into the USA and avoid the lengthier process of clearance at the U.S. ports of entry. Japan has a similar program managed under its Ministry of Agriculture. In Indonesia, the process could be strengthened by, for example, not including the quarantine certificate (KT9 for plant or KT12 for animal) as a pre-requisite in the list of required pre-clearance documents.

Based on interviews and FGD that we conducted, we also recommend that the GOI:

4. Increases the predictability in the regulatory regime. If Indonesia applies a mechanism for changing export-import regulations in a structured time frame, such as once every 2 – 3 years, then importers or business participants would be able to anticipate these changes and adjust their business activities accordingly. By the same token, the GOI could consider introducing changes relating to import-export procedures at the same time every year. In Vietnam, for example, new changes are introduced every year in February in one "resolution". Finally, in introducing changes to the import regime, the GOI could also consider applying a 'lead-in' in period to allow businesses to adjust to the new regulatory regime in a timely fashion (as opposed to introducing changes with immediate affect).

APPENDIX 2
ONLINE DWELLING TIME SURVEY

1. According to your experience, which stage among these following stages is the most difficult one to do in import activity?		
Answer Options	Response Percent	Response Count
Pre-clearance process (since container is unloaded of ship to PIB submission by importer to Customs and Excise)	24.1%	77
Custom clearance (since PIB is received to the issuance of <i>Surat Persetujuan Pengeluaran Barang</i> (SPPB)/Approval Certificate for Cargo Release by the Customs and Excise)	28.4%	91
Post-clearance (SPPB process to the release of imported cargo of the temporary hoarding area)	16.3%	52
Others (please describe)	31.3%	100
<i>answered question</i>		320
<i>skipped question</i>		0

2. Based on your experience, which documentation process most hampers the import pre-clearance process (mark all applicable answers)		
Answer Options	Response Percent	Response Count
Handling customs-related documents (bill of lading, cargo release order, commercial invoice, insurance documentation, packaging list)	24.7%	79
Handling licenses document (API-P or API-U, import approval, surveyor report)	40.6%	130
Handling requirements of obtaining API-P or API-U	13.8%	44
Handling requirements of obtaining import approval	55.3%	177
Handling requirements of obtaining surveyor report	25.6%	82
Fill in and submit imported goods notification	6.3%	20
Others (please describe)	23.8%	76
<i>answered question</i>		320
<i>skipped question</i>		0

3. Select the scale that best fits your assessment in obtaining these following documents								
Answer Options	Very difficult	Difficult	Somewhat difficult	Somewhat easy	Easy	Very easy	Rating Average	Response Count
API-P or API-U	11	37	77	91	87	17	3.80	320
Import approval	51	72	103	47	42	5	2.91	320
Surveyor report	16	38	99	80	74	13	3.62	320
Bill of lading	1	1	24	91	158	45	4.68	320
Cargo release order	0	17	49	108	127	19	4.26	320
Commercial invoice	1	3	9	65	184	58	4.88	320
Packaging list	0	2	6	66	187	59	4.92	320
Required documents for API-P or API-U	9	25	86	92	90	18	3.88	320
Required documents for	32	69	113	60	40	6	3.08	320

import approval								
Required documents for surveyor report	14	38	95	86	71	16	3.66	320
<i>answered question</i>								320
<i>skipped question</i>								0

4. Select the scale that best fits your assessment in undertaking these following processes								
Answer Options	Very long	Long	Tend to be long	Tend to be quick	Quick	Very quick	Rating Average	Response Count
Import duty, PPH (Income Tax) payment, or other payment processes	3	8	18	97	147	47	4.62	320
Cargo or imported goods checking by Customs and Excise	27	30	123	80	50	10	3.39	320
Process of imported cargo release	16	33	92	98	74	7	3.63	320
Others (please describe)								37
answered question								320
skipped question								0

5. Within one last year, have been other regulations which you think contribute to the length of Dwelling time in Indonesia?		
Answer Options	Response Percent	Response Count
Yes	66.6%	213
No	33.4%	107
<i>answered question</i>		320
<i>skipped question</i>		0

6. If the answer is "Yes", did the regulation affect these following processes?		
Answer Options	Response Percent	Response Count
Inspection and imported goods clearance	34.4%	65
Handling process in port and at Customs and Excise	23.8%	45
Import documentation preparation	25.9%	49
Others (please describe)	15.9%	30
<i>answered question</i>		189
<i>skipped question</i>		131

7. Has the regulation been enforced?		
Answer Options	Response Percent	Response Count

Yes	88.4%	167
No, it has not been enforced	11.6%	22
<i>answered question</i>		189
<i>skipped question</i>		131

8. In what stage the regulation enforcement affects time and cost? (Mark all applicable answers)

Answer Options	Response Percent	Response Count
Inspection and imported goods clearance	62.4%	118
Handling process in port and at Customs and Excise	59.8%	113
Import documentation preparation	49.2%	93
Others (please describe)	14.3%	27
<i>answered question</i>		189
<i>skipped question</i>		131

9. How many additional day needed due to the regulation enforcement?

Answer Options	Response Percent	Response Count
1-2 days	26.5%	50
2-4 days	28.0%	53
4-6 days	13.8%	26
> 6 days	31.7%	60
<i>answered question</i>		189
<i>skipped question</i>		131

10. How much additional costs incurred due to the regulation enforcement?

Answer Options	Response Percent	Response Count
2-5% of total cost	32.8%	62
6-8% of total cost	16.4%	31
9-10% of total cost	16.9%	32
> 10% of total cost	33.9%	64
<i>answered question</i>		189
<i>skipped question</i>		131

11. Please provide input/recommendation for the improvement of dwelling time in Indonesia

Answer Options	Response Count
	293
<i>answered question</i>	293
<i>skipped question</i>	27



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