

PCA BULLETIN

ASEAN CUSTOMS

• Volume XI • May 2020



PCA COOPERATION FOR
SUSTAINABLE
DEVELOPMENT
GOALS

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From The Country's Coordinator's Desk



Dear ASEAN PCA colleagues,

I am very pleased to present this eleventh issue of our flagship publication, the ASEAN PCA Bulletin. Starting from this edition, we are emboldened to have a certain theme. It is *PCA Cooperation for Sustainable Development Goals*, corresponding the WCO's theme: *Customs Fostering Sustainability for People, Prosperity, and the Planet*. We believe that the AMS play important roles in achieving 17 Sustainable Development Goals in 2030, as the UN had setup the roadmap five years ago. We are pleased to note cooperation activities successfully organised among PCA units in ASEAN.

First, the PCA Regional Workshop in Jakarta, Indonesia, resulting in some national and regional recommendations. Second is the Technical Assistance on PCA in Cambodia. Third is the coverage on 26th and 27th Customs Compliance and Enforcement Working Group (CECWG) meetings in Medan, Indonesia, and Cebu, the Philippines, respectively. Finally, I gladly congratulate Lao PDR for her successful chairmanship of the ASEAN Directors-General of Customs Meeting.

Furthermore, as the Strategic Plan of Customs Development (SPCD) 8 on PCA cycle 2015 – 2020 has come to an end, on behalf of Indonesian Customs as the ASEAN PCA Country Coordinator, I would like to thank all AMS for dedication and hard work in achieving our mutual target. Now, we can face the next phase more confidently. That brings us much gratitude and pride as all AMS appointed us once again, as the country coordinator for the cycle 2021 – 2025.

We would like to also express our endless gratitude to all of you who unanimously are willing to step even further out of our shells in support of our new activity, *to promote Cooperation between Customs and Tax Administration*. This collaboration is inevitable in this industrial era of 4.0, where data automation, as well as information exchange, would define our work.

Considering the global issue, I invite all AMS to pay a great concern towards the COVID-19 pandemic. More importantly, as our daily routines are dealing with international stakeholders, let us keep ourselves healthy and safe. Lastly, we hope that this publication will be worthwhile, and your valuable feedbacks are greatly welcomed for our future improvement.

Best regards,

Kushari Suprianto,
Director of Customs and Excise Audit
Directorate General of Customs and Excise
Republic of Indonesia



From The Chair of ASEAN Directors - General of Customs's Desk

ASEAN Member States have entered the new phase of international trade, coupled with declining resources for some of the Customs administrations in ASEAN relative to the increase in volume of international trade and the need for trade facilitation to meet the twin targets of ASEAN which are **doubling intra-ASEAN trade** between 2017 and 2025 while reducing trade transaction costs by 10% by 2020. This twin targets of ASEAN have made the tasks of ASEAN Customs more challenging in striking the balance between trade facilitation and security this challenge has necessitated the adoption of risk management and audit-based controls for customs authorities to release the vast majority of shipments and retain only consignments matching the risk profiles. Non-selected cargo will be released immediately but may be subjected to Post Clearance Audit later which makes the work of PCA is the very critical control for customs as it enables them to apply a multi-layered customs control.

Taking this opportunity, as the Chairman of the 28th ASEAN Directors-General of Customs, I would like to commend the good work made by the Customs Enforcement and Compliance Working Group (CECWG) for publishing the Eleventh Volume of the PCA Bulletin. This achievement came under the great CECWG chairmanship of Malaysia and a hard working of Country Coordinator, Indonesia plus the valuable contributions by all ASEAN Member States in sharing cases encountered at their respective administrations to be included in the PCA Bulletin. I believe that the Eleventh Volume of PCA Bulletin would serve as useful reference for ASEAN Member States to learn from one another new experiences, practices and know how in order to improve the effectiveness of our administrations.

Thank you,

Phoukhaokham VANNAVONGXAY,
Director General
Lao Customs Department

From The Chairman's Desk



It is my pleasure to present the ASEAN Customs Post Clearance Audit Bulletin – Volume XI published by the Directorate General of Customs and Excise (DGCE) of Indonesia in conjunction with the Customs Enforcement and Compliance Working Group (CECWG).

Post-clearance audit (PCA) is a means to measure and improve compliance of the traders by assuring that Customs declarations have been completed in compliance with Customs legal requirements. Besides verifying that the value, origin and classification of goods is declared correctly, PCA also intends to facilitate international trade movements of the compliant traders. This can build a good relationship of trust between the Customs and the traders which enables risk levels to be easily assessed and reviewed.

In line with that, The Directorate General of Customs and Excise (DGCE) of Indonesia had successfully hosted a workshop on “Increasing the Effectiveness of Post Clearance Audit (PCA) through Customs and Tax Cooperation” at the DGCE's Education and Training Centre in Jakarta, October last year. The workshop aimed to enhance the technical and professional capability of ASEAN Customs officers on the implementation of PCA by elaborating on the World Customs Organization's Guidelines on Strengthening Cooperation and Exchange of Information between Customs – Tax Authorities at National Level.

I am positive with the skills acquired through the workshop, we will witness some extraordinary PCA cases in this edition, particularly in the aspects on implementation of risk management; accelerating modernisation of customs processes; and enhancing cooperation with the respective tax authorities for having more effective PCA implementation.

In this publication, the CECWG has worked together in compiling interesting PCA cases which enables all ASEAN Member States to learn through best practices from each other. With that, I would like to grab this chance to congratulate the Editorial Team and to those who have contributed to this impressive edition.

Lastly, I hope that the ASEAN Member States will continue to support the Editorial Team and keep up the good work. The more extensive our knowledge of what have been done, the greater will be our power of knowing what to do.

With warm regards,

Mr Sazali Mohamad,

Chairman

ASEAN Customs Enforcement and Compliance Working Group



⌘ PCA CASES



BRUNEI DARUSSALAM

CASE I

Facts of the Case:

1. In July 2019, PCA Unit conducted assessment on heavy machineries importation.
2. These machineries were imported by GR Pte. Ltd. as one of the companies being assessed by PCA Unit.

Findings:

1. Initial assessment of the importation documents collected, PCA Unit discovered that the declared value of the goods and transportation costs were lower than the actual payment made to the vendor.
2. Upon assessment of the importation documents, PCA Unit found that the amount in the payment voucher through telegraphic transfer did not match with the amount in the declaration.

Modus Operandi:

1. GR Pte. Ltd. did not declare for the following items which requires to be included under Customs (Valuation on Imported Goods) Rules 2001:
 - i. *Shipping Charges (USD2,500)*
 - **Rule 12(1)(e), Adjustment Of Price Actually Paid Or Payable** – The costs of transportation including the loading, unloading and handling charges and other incidental charges and expenses associated with the transport of the imported goods to the port or place of importation, and the costs of insurance of the imported goods.
 - ii. *Setting-up, Installation, Testing & Commissioning of Machineries (USD42,000)*
 - **Rule 12(1)(a)(ii), Adjustment Of Price Actually Paid Or Payable** – the costs and charges by the buyer in respect of packing of the goods, whether for labour or materials, including the cost of cartons, cases, containers and coverings that are treated as being one for customs purposes with the goods in question and all other packaging expenses incidental to placing the goods in the condition in which they are shipped to Brunei Darussalam;

Decision:

1. The shortage amount of duties of \$3,106 (USD 2,250@1.38) was paid.
2. GR Pte. Ltd. was reminded to include those charges on next importation of machineries.
3. PCA Unit will do a follow-up audit on GR Pte. Ltd. imports declarations in the next six months.

CASE II

Facts of the Case:

1. In July 2018, PCA Unit have assessment on heavy machineries importation.
2. These machineries were imported by EE Pte. Ltd. as one of the companies being assessed by PCA Unit.

Findings:

1. Initial assessment on the importation documents with the details of items were suspected to be wrongly classified.
2. PCA Unit decided to assess the importation of EE Pte. Ltd. from January 2018.

Modus Operandi:

1. The forwarding agent was responsible for all of their declarations and the HS Codes declared were based on the commercial invoices given by the supplier.
2. The items arrived using a number of declarations and were declared as parts for the HP and LP compressors such as turbines, rotors and gears with its HS codes as follows:
 - I. 8406.90.00.00 – *Parts (Steam turbines and other vapour turbines)* ≈ 0%
Should be 8414.90.91.00 – For electrically operated machines of other pumps or compressors ≈ 5%
 - ii. 8411.99.00.00 – *Parts (Turbo-jets, turbo-propellers and other gas turbines)* ≈ 0%
Should be 8483.40.90.00 – Other (Gears and gearing, other than toothed wheels, chain sprockets and other transmission elements presented separately; balls or roller screws; gear boxes and other speed changers, including torque converters) ≈ 5%
3. These HS Codes were verified by Valuation, Classification and Tariff Unit with all the details based on descriptions of goods and photos provided by the company.

Decision:

1. The shortage amount of import duties of \$42,910 (USD 32,263@1.33) was paid.
2. EE Pte. Ltd. and its forwarding agent were reminded to use the actual HS Codes on next importation.



CAMBODIA

CASE I

Preferential fraud through wrong HS classification (imported electrical cable)

Facts of the Case:

Company A is one of other suppliers of electrical and construction materials to the National Power Utility Enterprise, officially known as E. Implementing the contract signed by company A and enterprise E, Company A imported some products and declared HS codes of those imported products to enjoy preferential tariff rate as much as possible and as applicable by the agreement, when Cambodia implemented free trade agreements – FTA. For this case, it is related to the fact the company A imported Electrical Cable from various countries in ASEAN and China to supply to Enterprise E.

Electrical cable goods from ASEAN Countries was applied zero tariff rate of ATIGA form D. Electric Cable goods from China if less than 66 kv can enjoy ASEAN China Free Trade Agreement (ACFTA) Form E but if higher than 66 kv cannot enjoy ACFTA Form E.

Findings:

From 2017 to 2018, Company A imported 113 containers of electrical cable, but Company A wrongfully declared those electrical cable with HS Code of 7312.10.10 as non electrical conductor, and HS code of 7614.10.19 as non electrical cable. Actually the Company A imported electrical cable from China to supply to enterprise E as

contracted which means that company A actually not imported non electrical conductor and non electrical cable. Company A declared those HS codes is to exploit the preferential ACFTA form E of zero duty rate.

Those contractual imported electrical cable falls under the HS Code of 8544.60.39. Based on the signed contract between Company A and enterprise E, Company A can only import electrical cable of higher than 66 kv to supply to enterprise E. This leads to the finding that, those cable are higher than 66 kv. Based on these 2 points of finding, the contractual imported electrical cable from China by Company A shall be imposed of 7% duty rate or total 7%+0%+10%, not 0%+0%+10%.

Modus Operandi:

This case is preferential fraud, the company A attempts to exploit the ACFTA preferential scheme and evade MFN treatment by way of wrongfully declaring the HS code (false HS classification).

Decision:

The PCA Department decided to file the case for submitting to Director General of Cambodia Customs for final settlement. The Company A was charged to pay additional duty and tax, and penalty according to the law on customs.

INDONESIA



CASE I

Royalti

Facts of the Case:

Company B is an importer engaged with lubricant oil and had been audited by Indonesia Customs three times.

Findings:

It was found that there were expenses that must be added to the actual price (royalty and freight). Besides, there were excess amount of goods that haven't been declared. Company B already used Voluntary Declaration (VD) facilities during their importation.

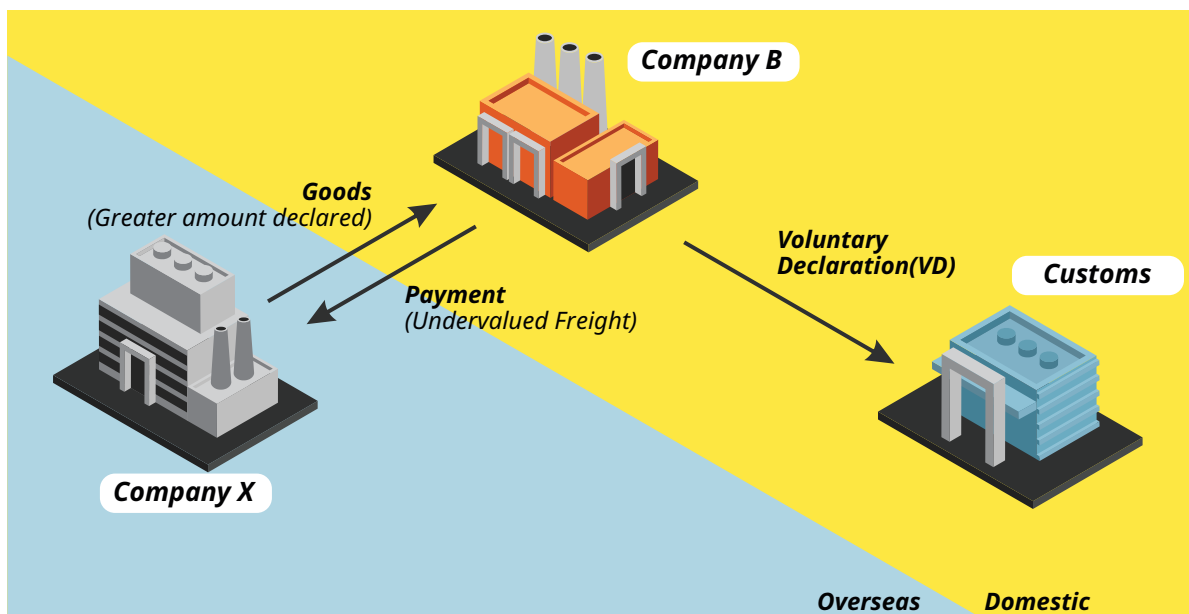
Modus Operandi:

The company hadn't added cost of freight

to the declared of freight value. Besides, the value of royalty and the amount of imported goods in the receiving report were greater than what had been declared in voluntary declaration and they didn't pay the underpaid of import duty as well as tax in the form of import.

Decision:

Audit team delivered preliminary findings to the company but the company denied the findings of royalty. However, after having final discussion between audit team and the company, they accept all findings and company had to pay IDR 1,375,749,000 (approximately USD 96,305).



CASE II

Multiple item

Facts of the Case:

Company C is a manufacturing company produced soap, detergent, and other cleaning products and they imported some machine using preferential tariff facilities (AK- FTA).

Findings:

There are 3 (three) import declarations (PIB) in Certificate of Origin (COO) that didn't meet procedural requirement. The company didn't put down the origin criteria of every goods in detail. There were 2 serial numbered goods in COO but they didn't put down origin criteria for second serial numbered goods. Article 6 Act 1 Letter A of Ministry of Finance Regulation number PMK 205/ PMK.04/2015 stated that if Certificate of Origin has more than one type of goods, the

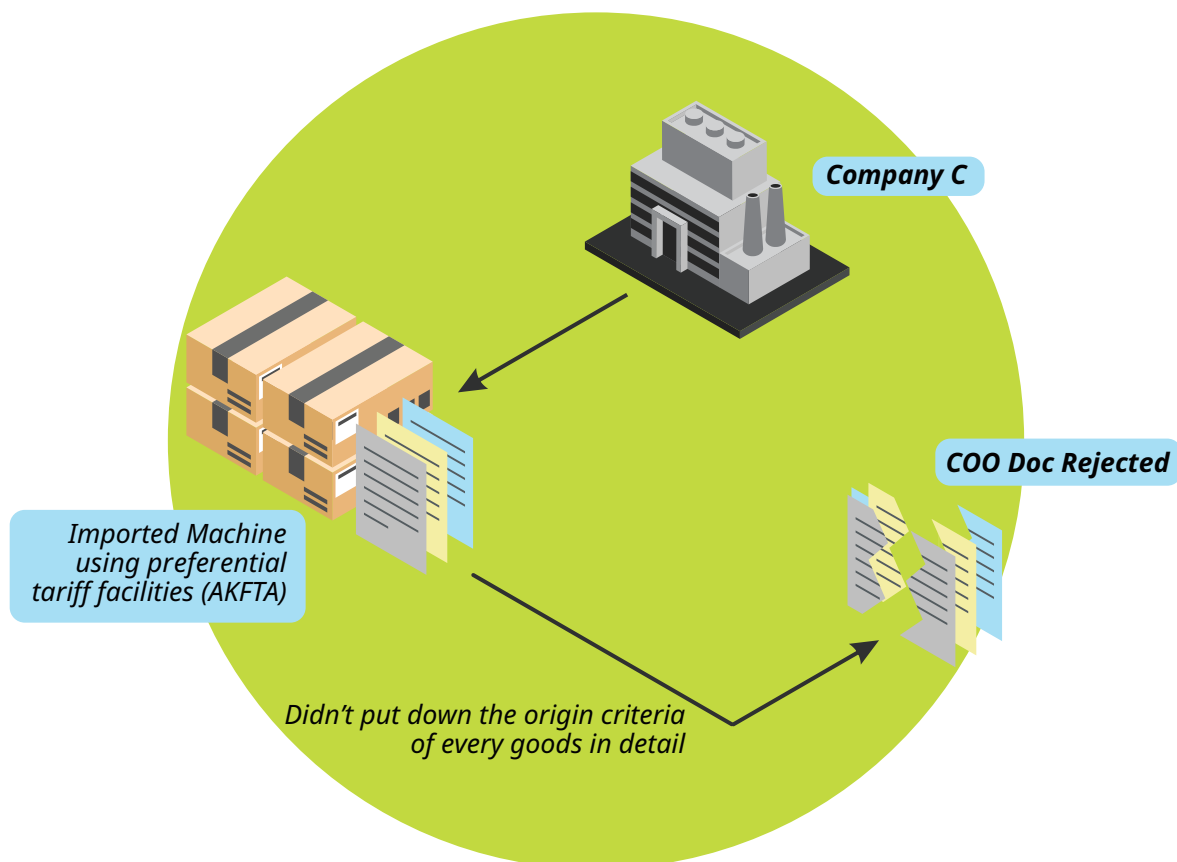
company ought to put down origin criteria of all types of goods (this was also regulated in Ministry of Finance Regulation Number PMK-229/PMK.04/2017 Article 7 Act 1 Letter E). Consequently, they couldn't use preferential tariff facility for second serial numbered goods.

Modus Operandi:

The company assumed that they knew nothing about the requirements.

Decision:

Audit team stated that the COO didn't meet procedural requirement. Consequently, they have to pay import duty based on MFN 5% tariff for serial numbered goods in which criteria origin hasn't been put down, after issuing the rejection letter.



CASE III

Royalty

Facts of the Case:

ABC Company (ID) is a manufacturing company for abrasive product. ABC Corp (Germany) as Parent Company has 75% of the ownership and 25% other is owned by XYZ Company (Indonesia). ABC Corp (Germany) is a multinational company who has worldwide ownership, one of its affiliation is ABC Corp (France).

Findings:

The audit team found that there was an agreement between ABC Indonesia Company and ABC Corp (France) about **Research and development services and technology license**. It proves that ABC Indonesia had made payment to ABC Corp (France) as royalty. ABC Corp (France) agreed to grant ABC Company (ID) a nonexclusive license under all ABC Corp rights to the extent necessary to permit the company to make, import, use and sell abrasive products. ABC Company (ID) shall pay a royalty fee to ABC Corp (France) amounting to 1% of the net sales of all abrasive products manufactured and sold by ABC Company (ID) to third parties and its affiliates. Based on the examination, there are only 2 (two) import documents / PIB found between ABC Indonesia (ID) and ABC Corp (Fr) within two years. Other 190 Import Documents from ABC Corp (German) and 532 Documents from another affiliate.

Based on the agreement: "a product comprising abrasives particles and a bond material by which the particles are held in fixed positions relatives to one another". This is intended to cover products generically referred to as "coated abrasives". Finished goods produced by ABC Company (ID) are conversion products in the form of wide belt, narrow belt, rolls, sheets, flap wheel, and blank disc. From the observation, production process can be summarized into some points:

- a. Importing the jumbo roll (sourced from its affiliation in Canada, Australia, US, France, Germany, and China)
- b. Slitting process using roll slitter machine
- c. Cutting process using belt cutter machine
- d. Gluing and connecting process using skive/backrub machine and roll press machine.

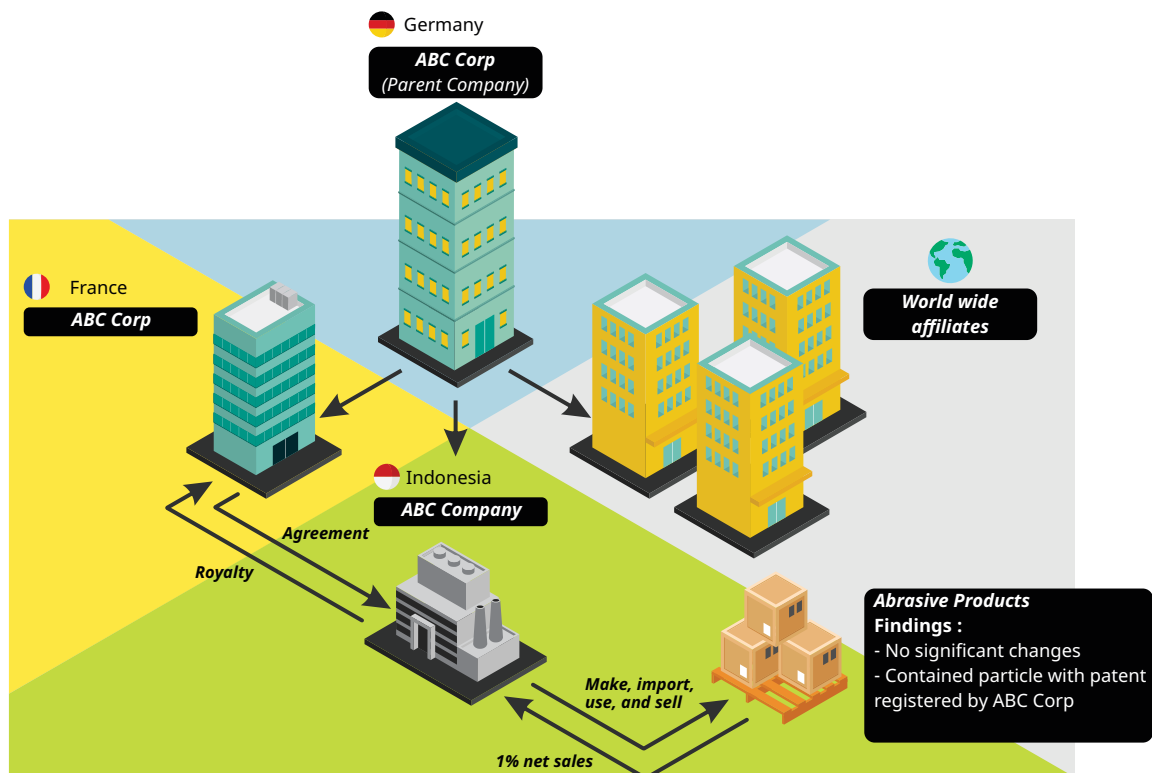
Modus Operandi:

There is a royalty accrual in the financial statement within two years as for IDR 599,689,967 (approximately USD 42,150)

Decision:

Since there are no significant change over the raw material during the production process and the raw material imported contained particle with patent registered by ABC Corp, the auditors decided that the royalty related to the imported goods should be added to the customs value.

From the audit findings, company had to pay IDR 225,331,000 (approximately USD 15,832).



CASE IV

Royalty

Facts of the Case:

A-Indonesia imported heavy equipment from B-Japan. In 2019, Audit team conducted examination on importation documents, bookkeeping, financial report and taxation data of A-Indonesia. From examination, known that:

1. A-Indonesia imported spare part and heavy equipment components from B-Japan and from another supplier.
2. A-Indonesia issued Purchase Order to C (Another Supplier) for producing spare part under A-B agreement.
3. A-Indonesia made royalty payment to B-Japan. (Based on Tax Documentation)
4. There was license agreement on "technology license and assistance agreement" between A-Indonesia and B-Japan.

Findings:

From license agreement examination done by audit team, it was indicated that there were imported goods that obtain intellectual property rights. Furthermore, audit team also found out A-Indonesia royalty calculation formula:

- Formula to calculate Royalty on Licensed Equipment
(All Net Sales Price – Less of B Components) x 3.0%
- Royalty on Licensed Spare part
All Net Sales Price x 3.0%

Modus Operandi :

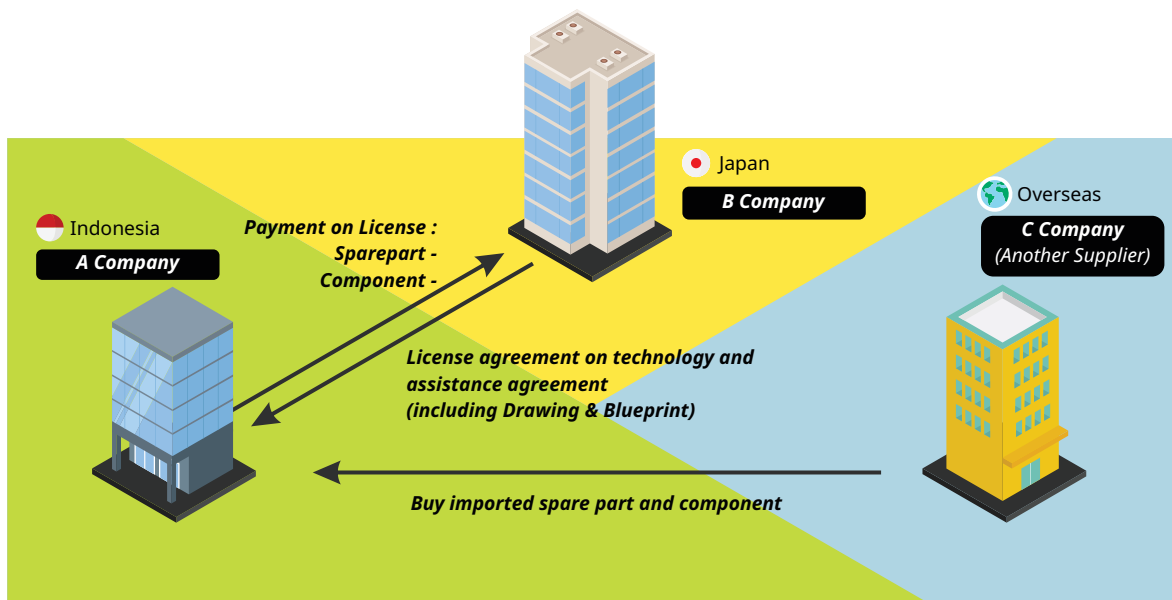
A-Indonesia did not declare additional costs that must be added to Customs Value and stated that the license was not related to imported goods.

Facts of the Case:

From the short explanation above, concluded that the royalty payment made by A-Indonesia was royalty related to imported goods. The considerations were:

- imported goods of A-Indonesia were the same goods as intended in licensed products in the license agreement
- although the calculation of royalties was based on the selling price, royalties on imported goods can still be determined
- from the examination, concluded that royalty payments were required in the sale of imported goods
- The seller couldn't be able to sell the goods if they did not meet the quality standards of B-Japan
- The buyer couldn't buy the goods if they didn't make royalty payment

The audit team decided that the transaction value of imported spare parts and components from another supplier must be added to the royalty fee. The company must pay the shortage of import duty, tax in the form of import and administration penalty IDR 2,884,541,000 (approximately USD 210,970.48)



CASE V

Classification and Identification Tariff

Facts of the Case:

FR Company is a company engaged in the sale of heavy equipment, such as: engines, forklift, and spare part that were imported from international scale big company.

Findings:

From the examination on classification and identification of goods, it was found that there was inconsistency in determining HS Code. There were 104 Import Declarations documents stated as importation of heavy equipment body which were part of the Highway Truck, and they were declared with HS Code 8707.90.40 (import duty 10%), HS Code 8708.99.80 (import duty 10%) and HS Code 8708.99.99 (import duty 10%).

Modus Operandi:

There had been an indication of changing HS Code deliberately. The lower import duty rates has chosen to avoid the difference between the declared tariff and the actual tariff. (COO/Preferential Tariff vs MFN)

Decision:

Audit team determined that the heavy equipment body which was a part of the Highway Truck that utilized as truckload, must be classified into HS Code 8707.90.90 with import duty tariff 40%. The explanation was as follow:

Explanation :

Chapter 87 : Vehicles other than railway or tramway rolling-stock, and parts thereof and accessories thereof

Post 87.07 : Bodies (including cabs), for the motor vehicles of heading 87.01 to 87.05.

- Sub-Post 8707.90 : Other

- Tarif-Post 8707.90.90 : Other

The company was obliged to pay the shortage of import duty and tax IDR

93,407,312,000 (approximately USD 6,838,700.52)

CASE VI

Classification and Identification Tariff

Facts of the Case:

MAT Co. is one of the big companies in Indonesian automotive industry which imported vehicles and spare parts. The importation was conducted using IJEPA (Indonesia-Japan Economic Partnership Agreement) preferential tariff scheme, with detail description below

No	Good Desc.	HS Code	Pref. Tarif Scheme	Import Duty	VAT	Income Tax	Luxury Tax
1	xxx xxxxx A/T	87032367	IJEPA	5%	10%	7.5%/10%	20%
2	xxx xxxxx A/T	87032367	IJEPA	5%	10%	7.5%/10%	20%
3	xxx xxxxx A/T	87032367	IJEPA	5%	10%	7.5%/10%	20%
4	xxx xxxxx A/T	87032366	IJEPA	5%	10%	7.5%/10%	20%

8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02), including station wagons and racing cars.
	-Other vehicles, with only spark-ignition internal combustion reciprocating piston engine
8703.23	-- Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc :
	--- Other : (From Completely Knocked Down)
	---- Other motor cars (including station wagons and sports cars, but not including vans)
8703.23.66	----- Of a cylinder capacity exceeding 1,800 cc but not exceeding 2,000 cc
8703.23.67	----- Of a cylinder capacity exceeding 2,000 cc but not exceeding 2,500 cc

Findings:

The classification for those vehicle model, agreed by all ASEAN Member States, was determined as follows :

- Customs tariff code: 8703.23.73
- Import Duty tariff (MFN): 50%
- Import Duty Tariff-IJEPA 2017: 16.88%
- Import Duty Tariff-IJEPA 2018: 14,06%
- Import Duty Tariff-IJEPA 2019: 11.25%
- VAT: 10%, Income Tax: 7,5%, Luxury Tax: 20%

8703	Motor cars and other motor vehicles principally designed for the transport of persons (other
	-Other vehicles, with only spark-ignition internal combustion reciprocating piston engine
8703.23	-- Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc :
	--- Other : (From Completely Knocked Down)
	---- other : (<i>could be including "Van"</i>)
8703.23.72	----- Of a cylinder capacity exceeding 1,800 cc but not exceeding 2,000 cc
8703.23.73	----- Of a cylinder capacity exceeding 2,000 cc but not exceeding 2,500 cc

Based on the importation data of those vehicle between 2017 and 2019 which were using IJ-EPA Preferential tariff scheme, there were some importations that used incorrect customs tariff code for import declaration (tariff code 8703.23.67, Import Duty IJEPA 5%, VAT 10%, Income Tax: 7,5% and Luxury Tax 10%) which caused shortage of import duty.

Modus Operandi:

There had been an indication of intentional customs tariff code to HS Code with lower import duty to avoid the difference between the declared tariff and the actual tariff.

Decision:

Directorate General of Customs and Excise issued Customs Determination Letter through Re-calculation Procedure to claim shortage payment of duty and tax of IDR 728,382,336,000 (approximately USD 53,264,881).



LAO PDR

CASE I

Facts of the Case:

In August 2018, Customs authority regularly analyses data from automated Customs clearance systems on HS code from chapters 1-50 which covers major importations on prepared foodstuffs, beverages, spirits, tobacco, chemicals and mineral fuels.

Findings:

Customs authority found five declarations were miss declared the HS code of 2710.19.43 which had an affect on the determination of excise tax rate, the lubricant oil regarding to the Tax Law no. 70/na, dated: 15/12/2015.

Modus Operandi:

The company declared 5% tax rate instead of 9% rate.

Decision:

PCA Unit recalculated the duty and tax of each declarations and penalty and contacted with the business enterprise for clarifications. The process took about one month to accumulate the taxation total of 21,079,000 kips which is equivalent to about 2,370 USD.

CASE II

Facts of the Case:

In January 2017, Customs technical staff in PCA Unit did a routine check on declarations in the automated Customs clearance (ASYCUDA) System.

Findings:

Technical staff found twelve declarations declared incorrect HS code.

Modus Operandi:

Incorrect HS code which lead to differences of duty rates and statistical data.

Decision:

PCA Unit recalculated the duty of each declarations and penalty and contacted with the business enterprise for clarifications. PCA were able to accumulate the taxation total of 195,866,600 kips, about 21,960 USD

CASE III

Facts of The Case:

In January 2017, Customs technical staff in PCA Unit did a routine check on declarations in ASYCUDA System.

Findings :

Technical staff found one declaration declared under value of a vehicle.

Modus Operandi:

The company declared under value comparing to FOB value from CO (FORM D)

Decision:

PCA Unit recalculated the duty and tax of the declaration and penalty and contacted with the business enterprise for clarifications. PCA were able to accumulate the taxation total of 105,087,800 kips, about 11,780 USD.



MALAYSIA

CASE I

Facts of the Case:

KTT Co. Ltd. ("the Importer") is a distributor and manufacturer of rubber compound and thermoplastic elastomer-based products.

Findings:

1. PCA Verification Transaction was carried out on the Importer's individual declaration and consignment.
2. In the Customs declaration form, the Importer declared 'thermo plastic rubber' as 4002.70.1000, where the import duty rate is nil and the GST is 6%.
3. During the verification process, it is found out that 'thermo plastic rubber' should be classified as 4002.99.9000 which is at import duty rate of 25% and GST 6%.
4. In this case, the Importer agreed with the findings and the suggested tariff code.

Modus Operandi:

Making incorrect declaration by providing incorrect classification.

Decision:

1. The Importer has committed offences under Section 133(1)(a) of the Customs Act 1967.
2. Bill of demand was issued for MYR50,000.00 (USD11,900.00).
3. A full audit will be conducted on the Importer for the importations of retrospective three years.



CASE I

Facts of the Case:

Importer imported engine oil to Myanmar. According to the regular schedule, PCA Unit audited to Company in April 2018.

Findings:

1. PCA Unit audited (24 Import Declarations) at the premises of the importer. They collected and compiled relevant supporting import documentation of company starting with the import document from November 2016 to March 2018.
2. PCA Unit found that the declared value of (5) Import Declarations were lower than the actual payment to the exporter.
3. PCA Unit sound out with the importer revealed that the company purposely lowered the declared value so that less Customs duties and Taxes would be paid.
4. PCA Unit calculated that short paid Duties and Taxes were amounted to 22,184,656/- MMK (US \$ 14,600/-).

Modus Operandi:

The importers used falsify invoices for the undervalued declarations.

Decision:

Claim for shorted Customs duties and Taxes amounted to 22,184,656/-MMK (US \$ 14,600/-) was made promptly paid by Importer.

CASE II

Facts of the Case:

Company A is a company which is importing medicine and it was audited for the first time by Myanmar Customs.

Findings:

It was found that the price of goods had been under declared during their importation.

Modus Operandi:

The company submitted the make-up invoices.

Decision:

After Audit team delivered preliminary findings to the company, the company accepted all findings and company had to pay 76061862.00 K (approximately USD 50,707)



SINGAPORE

CASE I

Former director of freight forwarding company fined S\$109,000 for submitting incorrect declarations to Singapore Customs

Facts/ Findings of the Case:

In 2014, the former director of a freight forwarding company provided incorrect information to a declaring agent about the port of discharge for the export of three shipments of cigarettes and other tobacco products. Based on the information provided by the former director, the declaring agent made three incorrect declarations to Singapore Customs.

Between 2016 and 2017, the former director also wrongly declared details of the shipping company, goods description, and quantity of goods in 13 permit applications to Singapore Customs. These permits were for the transshipment of liquor and tobacco products through Singapore.

A total of 186,817 cartons of cigarettes, 25,662kg of tobacco products and 57,464 bottles of liquor were seized and ordered to be forfeited by the court.

Modus Operandi:

Providing false information to declaring agent and making incorrect declarations despite knowing that the details submitted were incorrect.

Decision:

The former director was sentenced by the State Courts on 3 May 2019 to a fine of S\$109,000, or in default 95 weeks and 45 days of imprisonment, for making incorrect declarations and causing incorrect declarations to be made to Singapore Customs, and breaching a condition imposed on permits issued by Singapore Customs.

Under the Customs Act, any person who makes any declaration which is untrue, incorrect or incomplete will be liable on conviction to a fine not exceeding \$10,000, or the equivalent of the amount of the customs duty, excise duty or tax payable, whichever is the greater amount, or to imprisonment for a term not exceeding 12 months, or both. Any person who breaches any condition and restriction for which a licence or permit is granted will be liable on conviction to a fine not exceeding \$5,000.



During an inspection in the Keppel Free Trade Zone, Singapore Customs officers found liquor and tobacco products in a warehouse. The former director breached a Customs permit condition on 10 occasions when he stored dutiable liquor and tobacco products in the Keppel Free Trade Zone after removing them from a licensed warehouse, instead of exporting them.

CASE II

Importer of mobile phone repair parts fined \$72,400 for failing to declare actual values of imported mobile phone spare parts

Facts/ Findings of the Case:

In June 2018, Singapore Customs conducted an inspection on two boxes of mobile phone spare parts consigned to an importer (who is a partner of a mobile phone repair company) at Changi Airfreight Centre. The two boxes contained 542 pieces of mobile phone spare parts. It was discovered that the invoice was falsified by stating that the value of the goods was less than \$400 when the actual value was established to be \$7,810. As Goods and Services Tax (GST) import relief is granted on goods imported by post or air (excluding intoxicating liquors and tobacco) if the value did not exceed \$400, by under-stating the import values, the GST for this consignment was not paid.

Investigations revealed that the importer had purchased mobile phone spare parts from his suppliers in China and imported them into Singapore on 48 occasions between 2015 and 2018. The values of all these consignments were under-declared

and the resulting amount of GST evaded was \$14,040.

Modus Operandi:

Deliberately suppressing the import values of goods by falsifying invoices.

Decision:

The importer faced 48 charges of fraudulent evasion of GST. He pleaded guilty to 16 charges and the other 32 charges were taken into consideration in the sentencing.

The importer was fined \$72,400 by the State Courts on 6 November 2019 for fraudulent evasion of GST by deliberately suppressing the import values of mobile phone spare parts in order to avail himself of the GST import relief granted to goods imported by post or air.

Fraudulent evasion of GST on the importation of goods is a serious offence under the Customs Act. Anyone found guilty can be liable to a fine up to 20 times the amount of tax evaded and/or be jailed for up to six years.



Mobile phone spare parts that were imported into Singapore

CASE I

Incorrect tariff code, incorrect FTA's duty privilege

Facts of the Case:

A dairy company imported 40-kilogram full creme milk powder, declared as 0402.21.90 (Milk powder of a fat content, by weight not exceeding 1.5% and not containing added sugar or other sweetening matter in other form) with AANZ (ASEAN-Australia-NEW Zealand) forms with 0% duty exemption.

Findings:

The company regularly applies AANZ and TAU (Thai – Australia FTA) forms for duty exemption/reduction of full creme milk powder, condensed milk and skim milk; the tariff rate of milk powder may vary for AANZ and TAU since it depends on fat content and container's weight per unit. The milk powder was declared in 7 import declarations as whole milk powder, consumable for babies. The fact is dairy – whole milk – is not recommended for babies under 12 months of age (according to the American Academy of Pediatrics (AAP)'s article).

Modus Operandi:

The declarations show the weight and the quantity of the milk powder that the container's weight per unit is 25 kilograms. Moreover, the product specification of the full crème milk powder shown in the seller's website clarifies the fat content in product is 26% (compared with the percentage of fat content from the website of American Dairy Product Institute that the fat content percentage of whole milk/full crème milk powder is 26% or more).

So that the company was requested to present the certificates of origin which presented during the goods were imported since the number of AANZ and TAU forms in these declarations are totally different. Then, it was found that the certificates are issued for Thai – Australia FTA.

Decision:

The tariff code for this case should be 0402.21.20 (Milk powder of a fat content, by weight exceeding 1.5% and not containing added sugar or other sweetening matter in containers of a net weight of 20 kilograms or more) and the tariff rate of full crème milk powder for TAU is 2%.

The company was claimed the shortage amount of import duties, based on difference, and compound from short - paid VAT for the offence committed. The total value is approximately 800,000 THB (26,XXX USD).

CASE II

Undervaluation

Facts of the Case:

A company imported robots and injection mouldings for many shipments, total 3,721 declarations, total declared value of 1.4 billion baht (USD 45M). Major import commodities are HS 39.03, 84.80, 84.28 and 84.79. Major Duty rates are 5% and 0%.

Findings:

The first indication of suspicion is how the robots were declared with different HS code. Some were declared under HS 84.79 (duty 0%), some were declared under HS 84.28 (duty 5%) – even though these robots have the same brand, type and exporter. The second indication of suspicion is that we had the evidence from the Revenue Department that this company paid non-resident withholding tax to the company in Taiwan – the document shows “Royalty”. Furthermore, report from the Department of Business Development shows that this company has a parent company in Taiwan.

Modus Operandi:

Thai Customs PCA division did on-site audited this company to examine financial records. We found invoices, remittance payments and service agreement. These evidences indicated that the importer paid the exporter (seller/service provider) USD 12,000 per month, total USD 144,000 per year, which provided for researching and developing the technique of injection moulding and tooling, and also provide new sample styling and design of injection moulding. The Agreement is effective for 3 years until terminated as hereinafter provided and may be terminated by written notice in advance from one party to another.

Decision:

Research and Development (R&D) fee is paid to the Seller apart from invoice price. The Buyer is required to pay the Seller in relation with injection moulding. R&D fee shall be included in Price Actually Paid or Payable (PAPP) of the injection moulding following Article 1 of GATT Valuation.

The company was claimed the shortage amount of import duties, based on difference, and compound from short - paid VAT for the offence committed.

CASE I

Origin Fraud of Exported Goods

Facts of the Case:

Since the middle of 2018, the trade war between the US and China has occurred in which the US is imposing higher taxes on many goods originating from China. This situation caused goods from China illegally transfer into Vietnam to forge Vietnamese origin to export to the US.

The Company A imported 100% bicycles, electric bicycles and components from China to Vietnam and assembled simply at the final stage into bicycles, electric bicycles and electric scooters without any other manufacturing processes, and then exported these products to the US market as products originating from Vietnam in order to enjoy preferential import tax imposed by the US government.

Findings:

The Post Clearance Audit:

- Checked some products and through screening and conducting physical inspection, the force found was a word "Made in Vietnam" labeled on these products.
- Collected declaration, commercial invoices, packing lists, bill of lading, and scanned files of shipment to analyse.

Modus Operandi:

- Imported all components of products from China and assembled the final stage in Vietnam.
- Implemented fraudulent procedures to obtain the certificate of Vietnam origin (C/O form B) from the competent authority (VCCI)
- Therefore, Company A had violation of Vietnamese origin for exported goods.

Decision:

Customs Audit decided to issue a claim for penalty and confiscated all bicycles, electric bicycles and components products in the warehouse of the Company A to contribute to national budget.



ASEAN WORKSHOP ON POST CLEARANCE AUDIT (PCA) **INCREASING THE EFFECTIVENESS ON PCA THROUGH CUSTOMS AND TAX COOPERATION**

The workshop was organized by Indonesia Directorate General of Customs and Excise (DGCE) and Indonesia Customs and Excise Educational and Training Center (CEETC). The workshop was held in Jakarta, on 1 – 3 October 2019. This workshop has been scheduled as the follow-up activity of Customs Enforcement and Compliance Working Group (CECWG) meeting that was held in Brunei Darussalam (26th-28th February, 2019) and Medan (27th -29th August, 2019), in harmonization and understanding of Post Clearance Audit (PCA) procedures among ASEAN Member States is crucial for supporting the performance of Customs Administration. This workshop was conducted to disseminate the comprehensive understanding of Post Clearance Audit. The harmonization will play an important role in promoting the implementation of risk management and accelerating the modernization process in ASEAN Member State of Customs.

The workshop was attended by 35 participants came from each ASEAN Member States and was opened by Head of Indonesia Customs and Excise Education and Training Centre (CEETC), Mr. Harry Mulya. Mr Harry Mulya, in his speech, welcomed all of the participant and hope the workshop would increasing knowledge and experiences of all the participants. He also hoped all the participants from other ASEAN Member States enjoyed their time in Indonesia.

For three days, the facilitators and participants discussed several points of substances, such as:

1. Background and Benefit of PCA
2. Legal and Operational Framework for PCA
3. Strategic Planning and Risk Management
4. Targeting Auditees and Preparation of Audit
5. Professional Standards for Auditors
6. Quality Management and Liaison with Other/Foreign Customs Unit or Tax Department
7. PCA and Customs Regimes and Procedures
8. Audit Reporting
9. Post PCA Activities
10. Transfer Pricing
11. Customs and Tax Cooperation
12. Joint Analysis, and
13. Country Report of Each ASEAN Member States.





On October 2nd 2019, the participants were invited to join the ceremony in Headquarter of Indonesia Customs and Excise for celebrating International Customs Day. After that, they visited Directorate Audit of Customs and Excise. Mr. Kushari Suprianto as The Director of Audit of Customs and Excise gave his welcoming remark and presented Indonesia Country Report on PCA. They also observed the Quality Assurance dan Targeting Auditees process thoroughly.

This workshop was also included Transfer Pricing material. The Material was presented by Ms. Dwi Astuti From Indonesia Directorate of Taxes. In international trade, relationship between parties might affect the transaction value between them. There is common potential risk of customs offences and tax evasion. Concerted effort between customs and tax authorities is imperative to mitigate such potential risk. Approaches that can be adopted among others are Exchange of Information, Joint activities and "Interact and interlock".

On the 3rd day, there were explanation of study cases and group discussion about current issues on PCA. Continued with the wrap-up session, Mr Heru Hardjanto Adi Pradopo, from Directorate Audit of Customs and Excise of Indonesia DGCE, gave summaries that can be concluded from the workshop, as follows:

1. Recommendation for National Level

- a. Strengthen the efficiency of the existing PCA organization and methods
- b. Explore new methods on PCA using the benefit of IT and international best practices
- c. Enhance the knowledge of PCA through capacity building such as workshops or trainings
- d. Ensure compliance of customs stakeholders by continuous improvement of services.
- e. Cooperate with other government units, especially tax agency in the area of data exchange, by doing, for example: joint analysis, joint audit, Joint Collection, Joint Investigation, Joint Business Process and Single Profile, and Secondment.
- f. Encourage the cooperation between customs and tax agency, it requires the support from the government

2. Recommendation for Regional Level

- a. Include the cooperation between customs and tax in the Strategic Plan for Customs Development (SPCD) on PCA.
- b. Look for cooperation with dialog partners for enhancement of skills and knowledges through regional capacity building programs.
- c. Increase the sharing Knowledge among ASEAN Member States on PCA Procedures.

The workshop closing ceremony was closed by The Director of International Affairs of Indonesia DGCE, Mr. R. Syarif Hidayat. He appreciated the participants for their efforts and active participation on ASEAN Workshop on Post Clearance Audit. He expected the knowledges and experiences shared on this workshop could be implemented by the participants for increasing their performance on PCA. Last but not least, he appreciated the committee for their efforts on conducting the workshop.



National Workshop on Post Clearance Audit for Cambodia Customs Officials

On 22nd – 24th July 2019, Department of Customs and Excise of Cambodia organized National Workshop on Post Clearance Audit (PCA) for her customs officials. Indonesia Customs was invited to be resource persons of the workshop.

The workshop was held in Sunway Hotel, Phnom Penh and attended by 56 Cambodia customs officials as participant. The workshop was opened by Deputy Director General of General Department of Customs and Excise of Cambodia, Mrs. Heng Samoun. In her welcoming speech, she delivered her appreciation to Indonesia Customs for the support of the workshop. She further explained that the workshop being held is one of the Reform and Modernization of the General Department of Customs and Excise of Cambodia programs in enhancing the capacity of human resources in 2019.

PCA has been implemented in Cambodia since 2007 as a strategy to strengthen the balance of facilitating trade function and law enforcement function. PCA in Cambodia has a remarkable development and been implemented in stages. PCA is conducted to garment and non-garment companies, companies which conducts temporary import, and other import-export companies.

Following Mrs. Heng Samoun speech was the remarks from Indonesia Customs representative, Mr. Lupi Hartono. Delivered in his speech that, it was an honor for Indonesia Customs to be a resource person in this workshop. He also said that Indonesia Customs is happy to share knowledge and experiences to Cambodia Customs

Department Officials.

The subjects of discussion in the workshop were:

1. Introduction, Need and Expectation,
2. WCO Revenue Package,
3. Implementation Guidance on PCA,
4. Background to PCA, Benefit of PCA, Legal Framework for PCA,
5. Strategic Planning for PCA, Risk Management, Targeting Audit,
6. Audit Standard, Professional Standard for Auditors
7. Preparation of Audit, Understanding of Trader Business, Audit Interviewing,
8. Audit Program,
9. Audit Report, Monitoring and Evaluation Follow Up,
10. Liaison with Other/Foreign Customs Unit of Tax Department, Quality Assurance / Management
11. Irregularities vs Fraud,
12. Case Study related with Royalty and Harmonized System



In the wash up session, Indonesia Customs distributed questionnaire to participants in order to know whether the need and expectation of the participants had been met. Participants delivered their opinion on the resource persons and the topic of discussion. They said that both resource person and the topic of discussion were good. They also said the workshop was needed for development of PCA in Cambodia and they could increase their knowledge and experiences regarding PCA practice. They propose to hold other PCA workshop with more detailed discussion in data processing, financial report analysis and more case examples.

The workshop was ended by Mrs. Heng Samoun. In her speech, she conveyed her gratitude to resources person from Indonesia Customs for the willing in sharing their knowledge and experiences in the workshop and gave Mr. Agus Triono as one of the the resource persons a precious gift as a token of appreciation. She hoped Cambodia Customs Officials can obtain new view and perspective from the knowledge and experiences that have been shared for the development of an effective PCA to increase trader's compliance and state revenue. Besides, she asked participants to share this knowledge to other customs officials.

The closing speech was delivered by the resource person, Mr. Heru Hardjanto Adi Pradopo. He expressed his gratefulness that he has been allowed to share knowledge and experience through the workshop and hoped that what have been discussed will be useful for PCA Cambodia development. He appreciated participants for the live and active discussion, also the hard work of the committee for organizing the workshop.



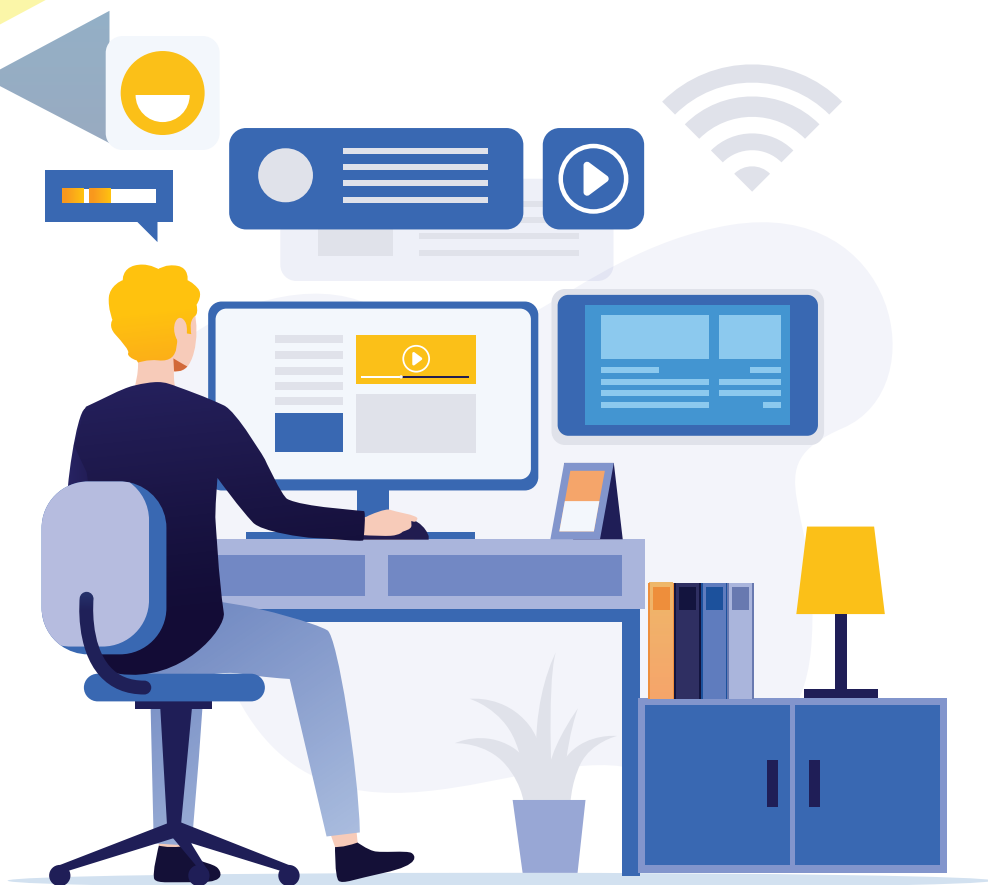
DID YOU KNOW?



This is a new building of ASEAN Secretariat. This new ASEAN Secretariat building was inaugurated to coincide with the 52nd ASEAN anniversary on 8th August 2019. Located in Trunojoyo Street, South Jakarta, Indonesia, this building has 2 towers. Each tower has 16 floors and is equipped with 2 basements as well as a 5-storey floors podium. To connect the towers, there is a sky bridge spanning 40.5 meters. The sky bridge is recorded and awarded by MURI (Indonesian Records Museum) as the longest suspension bridge in Indonesia.

ASEAN SECRETARIAT BUILDING

Do you want to see more pics? Let's go to page 40



GALLERY



26TH CECWG MEETING

27-29 August 2019 Medan, Indonesia





27TH CECWG MEETING

25 – 27 February 2020, Cebu City, The Philippines





ASEAN SECRETARIAT BUILDING | Interior

Source :

<https://setkab.go.id/en/new-asean-secretariat-building-to-be-completed-in-march/> -

<https://news.detik.com/foto-news/d-4657007/potret-wajah-baru-gedung-sekretariat-asean/1> -

Pictures :

ASEAN Secretariat Documents.





ARTICLES

Joint Analysis of Directorate General of Customs and Excise (DGCE), Directorate General of Taxation (DGT), and Directorate General of Budget (DGB)

In Accordance with Optimizing The State Revenue of Indonesia

by: Heru Hardjanto Adi Pradopo and Hermaz Wibisono

Abstract

In accordance with optimizing the state revenue, the Minister of Finance, Republic of Indonesia initiated the policies and empowerment of Joint Program between DGCE and DGT, in which one of them is Joint Analysis towards service users of customs and excise or taxpayers who carry out customs and excise activities. Joint Analysis is an analysis conducted together by two directorate generals towards the excise and taxation data/information with the focus of optimizing the state revenue and improving the compliance of customs and excise service users.

1. Preface

In the Practice Note on Compliance Measurement issued by OECD (The

Organization for Economic Co-operation and Development) (2001), compliance is divided into two categories, which are: (1) administrative compliance; and (2) technical compliance. The administrative compliance consists of reporting compliance and procedural compliance. And the technical compliance comprises compliance in calculating the tax amount to be paid by taxpayers. The administrative compliance is formal compliance, that is compliance related to general provisions and procedures of taxation. In the meantime, the technical compliance is compliance on material, i.e. compliance related to accuracy in filling out the Annual Tax Report (SPT) in determining the amount of tax to be paid.

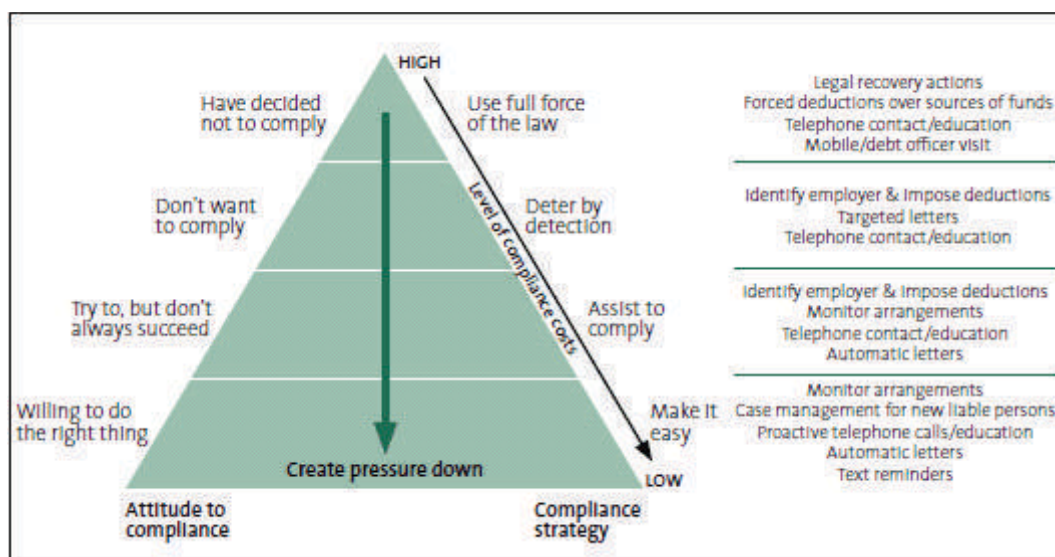


Figure 1. Tax Compliance Model (OECD Centre for Tax Policy and Administration)

Tax Office (2000) and New Zealand Revenue Department (2003) divides compliance level into Compliance Model like the figure above. Such a model is also in line with the tax compliance described by OECD Centre for Tax Policy and Administration (2004).

Based on the model, Taxpayers' compliance behavior is known to be varied. Each compliance level can be treated with a

certain compliance level. The pyramid above divides the compliance behavior of Taxpayers into 4 (four) levels with 4 (four) types of compliance strategy to be carried out by tax authority. The best/ideal level is when the Taxpayers have already had very high awareness in carrying out their tax obligation (willing to do the right things), so that the Fiscus compliance strategy shall continuously deliver easiness and best services.

2. Joint Analysis of Directorate General of Customs and Excise (DGCE), Directorate General of Tax (DGT) and Directorate General of Budget (DGB)

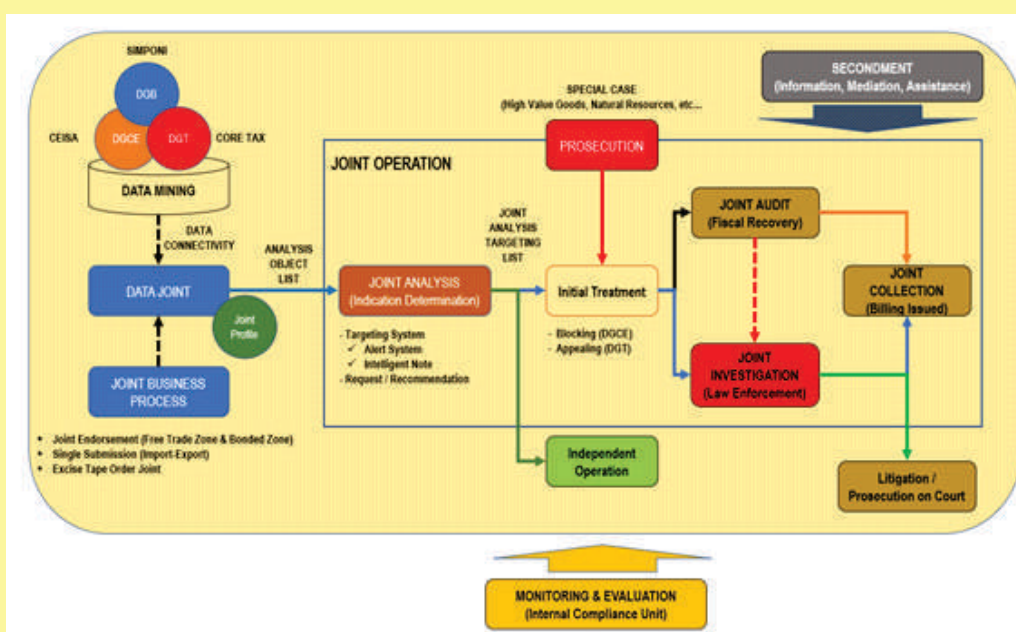


Figure 2. General Description of Joint Program Activities

In accordance with optimizing the state revenue, the Minister of Finance, Republic of Indonesia initiated the policies and empowerment of Joint Program between DGCE and DGT, in which one of them is Joint Analysis towards service users of customs and excise or taxpayers who carry out customs and excise activities. Joint Analysis is an analysis conducted together by DGCE and DGT towards the excise and taxation data/ information with the focus of optimizing the state revenue and improving the compliance of customs and excise service users.

Joint Analysis is one of the milestones of B.6 Strategic Initiative of DGCE and DGT

Joint Program which is available in the Reform Program of Customs and Excise. The Strategic Initiative of DGCE and DGT Joint Program has been created by the Customs and Excise Reform Empowerment Team based on the Decree of Minister of Finance Number 929/KMK.04/2016 on the Establishment of Customs and Excise Reform Empowerment Team which continued every year and the last was based on the Decree of Minister of Finance, Republic of Indonesia Number 704/KMK.02/2019 on the Reform Synergistic Program of Directorate General of Customs and Excise and Directorate General of Budget.

Based on Point Two, Joint Decree of Director General of Taxation and Director General of Customs and Excise Number KEP-195/PJ/2018 and Number KEP-182/BC/2018 on Implementation Guidelines of Joint Analysis Between Directorate General of Taxation and Directorate General of Customs and Excise towards Taxpayers, Joint Analysis is an analytical activity conducted together by both Directorate General to review Taxpayers' compliance level in the fields of taxation and/ or customs and excise with the purpose of improving the compliance and optimizing the state revenue.

The themes and objects in tax and/ or customs and excise include export, import, excise duties and receivers of tax facilities and/ or customs and excise shall become the references in carrying out the Joint Analysis. This activity is one of 8 (eight) synergistic programs as meant by Point Two, Decree of Minister of Finance, Republic of Indonesia Number 704/KMK.01/2019 on Reform Synergistic Program of Directorate General of Taxation, Directorate General of Customs and Excise and Directorate General of Budget.

The Synergistic Program among Directorate General of Taxation (DGT), Directorate General of Customs and Excise (DGCE), and Directorate General of Budget (DGB) is an important part of Ministry of Finance (Kemenkeu) Strategy in accelerating development and improving national independence. This synergy is expected to be able to boost national economic growth, improve competitiveness, Indonesia's EODB rank, and credibility as well as effectiveness of State Budget. The main purpose of the program is to develop a system which is able to support a compliant economic ecosystem towards the applicable legislative regulations including taxation, customs, excise, and Non-Tax State Revenue (PNBP).

The system development is based on the risk management principles where compliant business practitioners will get various facilities in relation to taxation and customs. Continuous reform is conducted by the Ministry of Finance to realize an ideal condition, and to answer various challenges of global economy. There are at least eight programs already created by them as a form of synergy in accordance with optimizing state revenue and improving easy services for Taxpayers (WP) and/ or Compulsory Payers (WB) which are Programs of Joint Analysis, Joint Audit, Joint Collection, Joint Investigation, Joint Business Process, Single Profile, Secondment, and Other Synergistic Programs. Joint Analysis Program is an analysis among them, in accordance with conducting researches of WP and WB obligation. In 2018, it was conducted towards 13,748 WP, and in 2019 to continue the previous year with an addition of 3,390 WP (including WB PNBP), which was included in the List of Joint Analysis Targets (DSAB). In addition, blocking the customs access was also conducted towards WP who had not carried out their tax obligation (1,243 WP in 2018, where 424 WP did their obligation; and 2,181 WP in 2019).

3. Optimizing State Revenue through Joint Analysis

The Ministry of Finance, Republic of Indonesia strengthens its three directorates in accordance with optimizing the state revenue and improving easy services towards Taxpayers and Compulsory Payers. These three directorates are Directorate General of Taxation, Directorate General of Customs and Excise and Directorate General of Budget. The synergy is expected to boost the national economic growth, to improve competitiveness, the rank of EoDB (Ease of Doing Business) or easiness in carrying out business in Indonesia, and credibility as well as effectiveness of State Budget.

In the meantime, the policies and strategy conducted by DGCE in increasing the revenue is included in the empowerment program of customs and excise reform (PRKC), among others are High Risk Importers Controlling Program (PIBT) and The Synergistic Program with Directorate General of Taxation. This synergy has continuously been strengthened, among others is in a form of joint program/operation such as joint analysis, audit, and collection. Then there is intensification and extensification of revenue in a form of extending tax bases, improving compliance, securing fiscal facilities, and integrating business processes and utilizing database such as single identity.

Through such programs, DGCE is convinced to be able to increase revenue directly from import activities of incoming duty and taxes, as well as expanding tax bases by tagging the indentors/ owners of import goods, which eventually will increase the revenue.

Since 2018 up to the moment, the realization of receivables from Joint Analysis program result has reached +/- Rp 1.42 trillion with the company population being in analysis of 3,302 companies. Yet, the modes or themes included in the List of Joint Analysis Targets (DSAB) among others are import and export issues, Industrial Estate, fishery, export, coal, indentors, PLB (Bonded warehouse), palm oil producing companies, and excise.

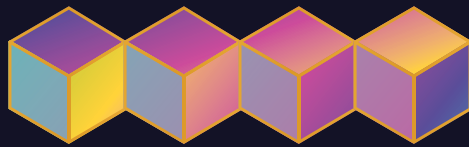
Right now, the joint analysis has been conducted in vertical units (regional offices and Tax or Customs Excise Service Offices) by establishing 15 groups spread out in the whole regions of Indonesia. The implementation of joint analysis in the vertical units can cover the gap of tax avoidance with the modes of moving activity

locations or company domiciles within Indonesia.

In the initial stage of joint analysis, the three institutions conducted data mining activities by exchanging data and information then these data and information will be combined, compared and analyzed to see the initial indication of problem flags. Furthermore, this indication included in the List of Joint Analysis Target (DSAB) will be followed up by an initial action of blocking the import and export transactions by DDCE or a warning by DGT if the company being in analysis is proven to carry out violation. Besides such an action, individual operation by each institution or even a joint audit as well as joint investigation can also be carried out.***

References:

- *Decree of Minister of Finance, Republic of Indonesia Number 704/KMK.02/2019 on Synergistic Reform Program of Directorate General of Taxation, Directorate General of Customs and Excise and Directorate General of Budget.*
- *Joint Decree of Director General of Taxation and Director General of Customs and Excise Number KEP-195/PJ/2018 and Number KEP-182/BC/2018 on Implementation Guidelines of Joint Analysis Between Directorate General of Taxation and Directorate General of Customs and Excise Towards Taxpayers.*
- <https://news.ddtc.co.id/kerek-penerimaan-perpajakan-djp--djbc-lanjutkan-joint-audit-19196>



MITIGATING IMPACT OF COVID-19 PANDEMIC ON TRADE

by: Rizki Saputri

The world has been erratic for the past decade. In 2008, the Global Financial Crisis has cost us a tighter room for monetary and fiscal policy maneuvers. The high debt level suddenly becomes a problem, particularly in several advanced economies. Adding to that, geopolitical risk and social unrest in some countries also contribute to the uncertainty faced by the global economy. We have also witnessed how the protectionism trend emerged with trade war escalating, not only between the United States and China but also several other countries like South Korea and Japan.

However, in early 2020, the narrative about the global economy was quite optimistic with expectations about economic recovery. This optimism supported by some positive developments in many countries. The United States and China have reached an initial stage of a trade agreement. This first phase of the trade agreement, which was signed on January 15, 2019, has approved the purchase of the US goods by China worth USD200 billion in the next two years. On the other side, the US also agreed to reduce its tariffs from 15 percent to 7.5 percent on imports from China worth USD120 billion.

In Europe, the United Kingdom has avoided the Brexit non-deal and officially left the European Union on 31 January 2020. Manufacturing performance in several countries—including ASEAN—has also rebounded after in 2019 the global manufacturing performance fell due to weak demand and the tension of trade war. These positive developments have also helped global trade performance to

improve.

Not long after the optimism, the global economy faced a new challenge stemming from the spread of the novel Coronavirus (COVID-19). The virus which has a faster spread rate than the SARS epidemic in 2003 is originating from Wuhan, one of the major industrial cities in China. Initially, the pressure only occurred in China as the epicenter of the COVID-19 spread. Nevertheless, it brings new uncertainty to the economy. Not only it has disrupted China's economy especially in tourism, trade, transportation, and industrial activities, the COVID-19 outbreak also brings spillover risk to China's major trading partner. In contrast to the SARS epidemic in 2003, China's contribution to the global GDP at present has recorded around 17 percent, much higher than it was in the SARS epidemic period when the contribution to global GDP only around 5 percent. This time, China's economy also has a heavy burden due to the rebalancing economy that has led to moderation in economic growth in recent years.

On March 11, 2020, the WHO declared COVID-19 as a pandemic event, and this shifts how the world sees the economy in the medium term. At present, the spread of COVID-19 in China has subsided, but outside China, especially in Europe and the US, the case numbers are skyrocketing. With the increase in COVID-19 cases outside China, the potential risk that was initially thought to be only a spillover or external risk is now turned into a domestic disruption due to a massive decrease in economic activities in almost all countries in the world.

Until the end of March 2020, the total number of COVID-19 cases had reached more than 799 thousand, with a total casualty of nearly 39 thousand. The spread of the COVID-19 outbreak occurred in more than 200 countries, with 10 percent cases happened in China (where the virus originated) and 90 percent happened outside China.

With that in the background, several scenarios carried out by various institutions show that the economic growth will be constrained, even expecting a recession. China's economic growth in 2020 is expected to be in the range of 3.9 percent (worst) to 5.6 percent, below the baseline projection of 6.0 percent. As for the global economic growth, the Consensus of the market as of March 2020 sees global economic growth in 2020 will drop to 2.1 percent.

Countries	Economic Growth Projection	Economic Growth Projection
	2020	2021
Indonesia	4.8	5,3
Malaysia	3,5	4,7
Philippines	5,9	6,3
Singapore	0,3	2,5
Thailand	1,2	3,6
Vietnam	6	6,7

Sources: Consensus Forecast, March 2020.

In the trade front, COVID-19 impact will also be unavoidable, as the workers were quarantined, industrial activities were slowing, and cross-border movements restriction measures were taken by many countries. China's rising importance in the global economy will also significantly affected its major trading partner. Now, China has become the main exporter of intermediate goods for global manufacturing companies, as 20 percent of intermediate goods are originating from China. A decline in China's supply can surely affect the production capacity and export of any given country depending on their reliance on China.

At the time like this, ASEAN should work collectively to mitigate the impact of COVID-19, including the economic impact. Trade channels should be kept open to mitigate the inevitable global economic downturn. The cross-border movement restriction that we are having now due to the COVID-19 outbreak should be based on public health consideration. Strengthening the regional supply chain is also important to create a more resilient supply chain which less vulnerable to internal and external shock. Here, we should refrain from imposing new and unnecessary non-tariff measures as it will impede the supply chain. Lastly, strengthening the existing trade facilitating platforms in ASEAN is also an important step, so that it can promote and support supply chain connectivity.

We are moving towards a new normal, where the uncertainty becomes very uncertain. The increasing pressures should not make us more protective and reclusive. When the COVID-19 crisis passes—and it will—we will understand that stronger cooperation, not only in good times but also in the bad times, is the utmost effort to achieve ASEAN prosperous path. ***

ASEAN CUSTOMS

PCA Bulletin • Volume XI • May 2020



Prepared and Printed by
The Directorate General of Customs and Excise
Ministry of Finance of The Republic of Indonesia
as Country Coordinator SPCD 08 on Post Clearance Audit