

Trade Facilitation Initiatives : Customs Enhance Services
Royal Customs and Excise Department



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Introduction

Royal Customs and Excise Department has played a major role as the gatekeeper for security and trade facilitators at the borders. Royal Customs and Excise Department has been the consistent source of revenue that is not related to oil and gas and contributed around \$1.266b in revenue in the last 9 years at an average collection of \$140m annually despite the uncertain economic climate and robust reduction of tariff.

With the price of oil lingers between the \$60's and \$70's range, Brunei Darussalam needs to focus on increasing the revenue collection through Royal Customs and Excise Department by having more economic activities by the private sectors especially trade and services to drive and stimulate the economy.

It is a well-known fact that majority of trade and services in Brunei Darussalam has always been dependent on the local market's consumption. Many efforts had been done to improve the situation, but the dependent persist where local businesses are content with the current volume of trade and services being provided.

Increasing trade volumes and services depends solely on the demand, supply and the availability of the goods and services themselves. Traders are not willing to spend unnecessarily and bear any additional cost associated when importing any goods such as paying excise and import duties, insurance, transport and storage charges. Currently, volume of imported goods will only fulfill the demand of local market. Cost will be determined by the volume of imported goods. Importing higher volume can lower the cost of any goods that will equate to better profit margins for traders.

Royal Customs and Excise Department can play a role in assisting traders to maximize their potential profit margins for the benefit of Brunei Darussalam's economy as a whole by facilitating their trading activities.

Why Trade Facilitation?

Trade Facilitation is the key element in helping business to thrive, thus achieving their true potential. Brunei Darussalam has taken steps forward by making it easier

for business to be incorporated providing opportunities to offer a wide-ranging businesses and services activities. Businesses and services activities in the country will drive the economy and create a 'knock on effect' creating local demand for employees, utilizing local financial services providers such as bank, transportation and infrastructure investment etc.

To achieve greater economic activities, Brunei Darussalam needs to expand the market outreach beyond her border and cannot rely solely on the local market and local demand. His Majesty's Government can play a role in providing the platform to garner interest from traders.

Historically, Brunei Darussalam has always been the center of trade during the spice trade era since it is strategically positioned around ASEAN. With this advantage, Brunei Darussalam can seize this opportunity to be a trading hub by complimenting the existing hubs around the region. This can lead to the establishment of Brunei Darussalam's ambition to become the Gateway of Trade for the whole of Borneo Island and BIMP-EAGA areas.

How Does Trade Facilitation Increases Revenue?

With the effort to provide Trade Facilitation, the Government is expecting a much higher trade volume in Brunei Darussalam. Higher trade volumes may also lead to a higher sale for any companies that is related to trading, that eventually increases profit. The Government can expect an increase in revenue collection due to the projected higher trade volume. Existing collection mechanism to collect revenues are as the following:

1. Excise Duty and Import Tax : Royal Customs & Excise Department, Ministry of Finance;
2. Income Tax : Revenue Division, Ministry of Finance;
3. Any Other Applicable Fee or Rent : Relevant Department or Ministry;

Excise Duty and Import Tax is normally imposed on to goods brought into Brunei Darussalam and paid once it is imported. Excise Duty and Import Tax Rates are determined by the rates prescribed in the Brunei Darussalam Tariff and Trade

Classification, 2017. Imposition of such Excise Duty and Import Tax will be applicable to all individual and companies that fall into predetermined category that import any goods into Brunei Darussalam.

Income Tax is tax imposed to any corporations, registered locally or elsewhere where income accrued in, derived from, or received in Brunei Darussalam at the prevailing rates.

Introduction of relevant fees or rent can also help in contributing to the collection of alternative stream of revenue for the Government.

The Government of Brunei Darussalam can improve trade and economic activities by introducing a few initiatives using existing act with minor amendment on the rates under the purview of Royal Customs and Excise Department, Ministry of Finance. With this amendment, it will enable Brunei Darussalam ability to increase revenue from other sources other than the dependency of oil and gas revenue.

Licensed Warehouse

Licensed Warehouse is a scheme where an approved company is allowed to store dutiable / non-dutiable goods for a period of time in a designated area licensed by the Royal Customs and Excise Department. Excise Duty and Import Tax is only payable when the goods are removed from the Licensed Warehouse for local consumption. Excise Duty and Import Tax are not payable if the goods are removed for the purpose of exportation.

Royal Customs and Excise Department will impose a minimal fee to any qualified company to operate a Licensed Warehouse based on the projected potential monthly or annual duty, subject to the fulfilment of the following criteria such as:

1. Operators must be a Limited Liability Company;
2. High compliant company;
3. The operators must have a warehousing management system and stock management system to track the movement of goods;
4. Licensed Warehouse must be fully secured and operators will be responsible for the security of the warehoused goods.

Who Will Benefit Licensed Warehouse and How Will They Benefit?

1. Consumers

- a. Competitive price of goods;
- b. Availability of goods;
- c. Wider choice of goods.

2. Traders

- a. Reduced price of goods;
- b. Reduced overhead;
- c. Availability of goods;
- d. Improve cashflow;
- e. Wider customer based (local / across border).

3. Importers / Exporters

- a. Suspended duty payable;
- b. Reduced price of goods;
- c. Reduced overhead;
- d. Improve cashflow;
- e. Wider customer based (local / across border).

4. Government

- a. Improve efficiency in management of implementing this scheme;
- b. Improve overall economic activity;
- c. Opening up a new business opportunity for companies to be involved;
- d. Job creation potential for the country that can benefit the locals;
- e. New source of income for the Government through imposition of fees and improve duty and tax collected through multiple agencies as a direct effect of a higher trading activities.

How will Licensed Warehouse Operator Benefit From This Scheme?

Without Licensed Warehouse

Importers need to declare their goods and pay all duties even before it is consumed in the local market which can affect their cash flow severely considering unnecessarily tying available fund from investment opportunities in other business ventures. This is the opportunity cost that retailer face doing business in Brunei Darussalam. If the goods are exported, importers will be able to request for a drawback, a refund any tax paid (more than \$500), within a year of the goods being imported at 9/10 of the amount paid.

Furthermore, without Licensed Warehouse, movement of imported goods leaving the Customs Control Post quickly will be hindered with the requirement for Royal Customs and Excise Department to inspect them before the goods leave the area.

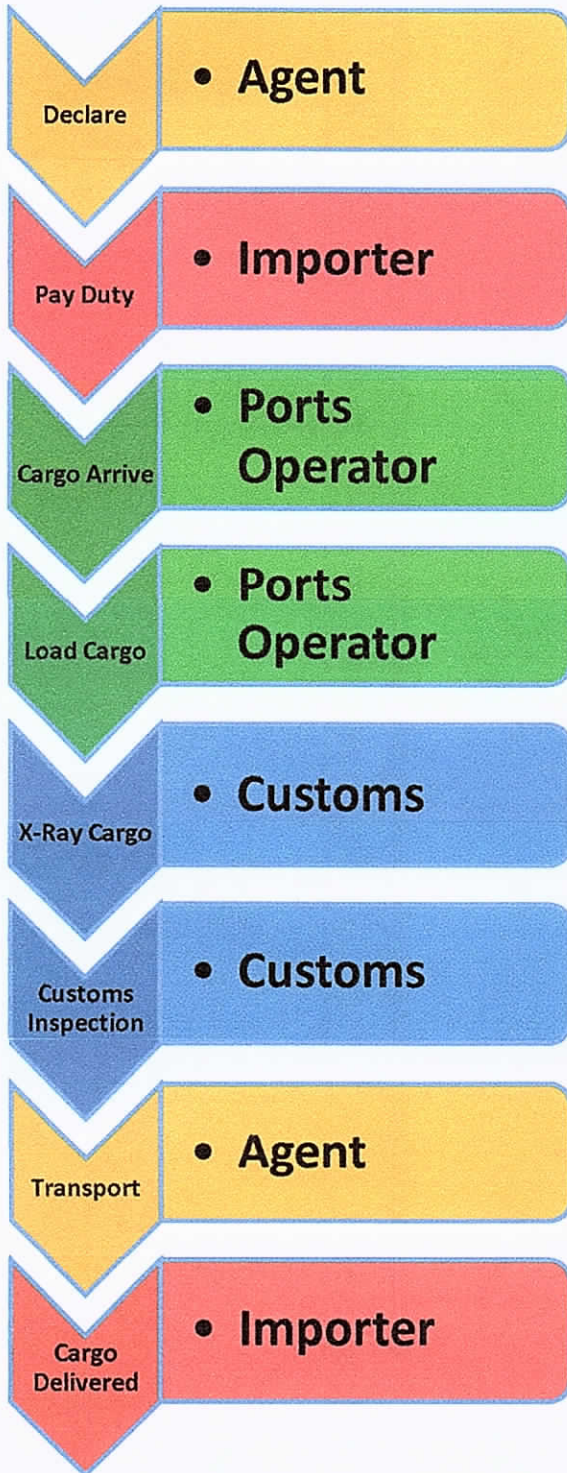
With Licensed Warehouse

Importers only need to declare their goods and goes through a less evasive X-Ray procedure done by the Royal Customs and Excise Department, thus reducing the time taken for the imported goods to leave Customs Control Post to be stored in an approved Licensed Warehouse. Royal Customs and Excise Department will only examine the stored imported goods when it is necessary and required. Duties are only paid if it is consumed in the local market.

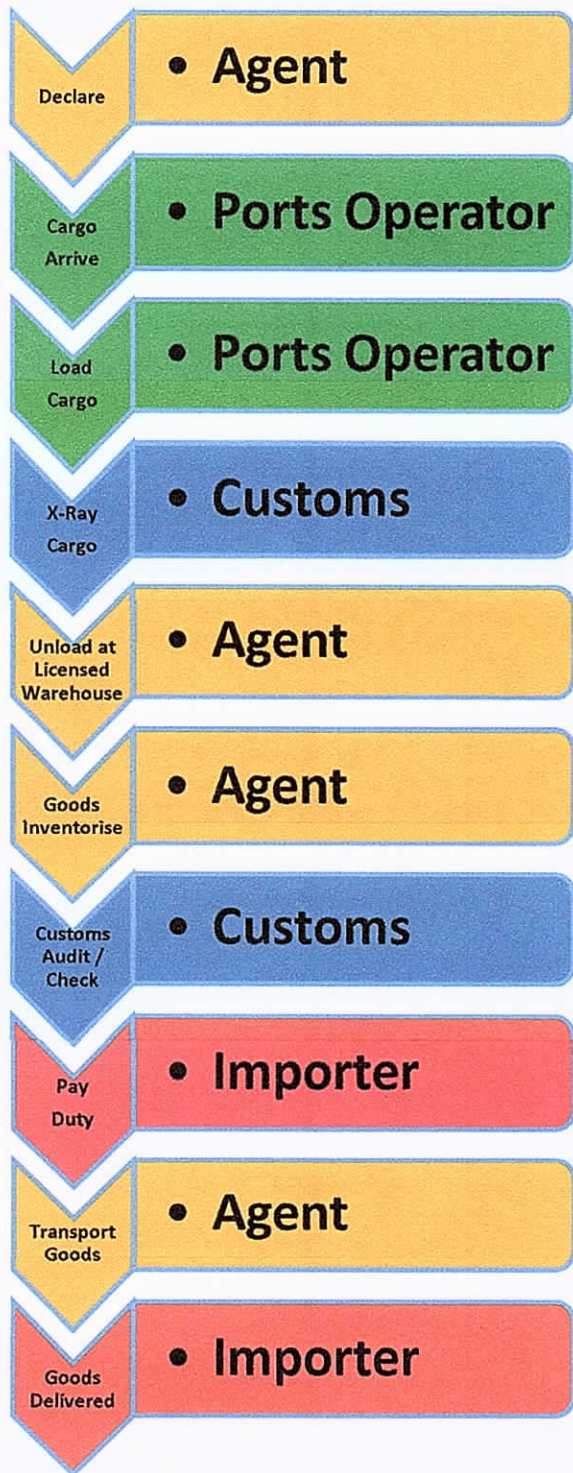
With Licensed Warehouse (Export)

If any imported goods are exported, no duties will be levied, giving ample opportunities for the company to utilize the fund to invest in other business ventures.

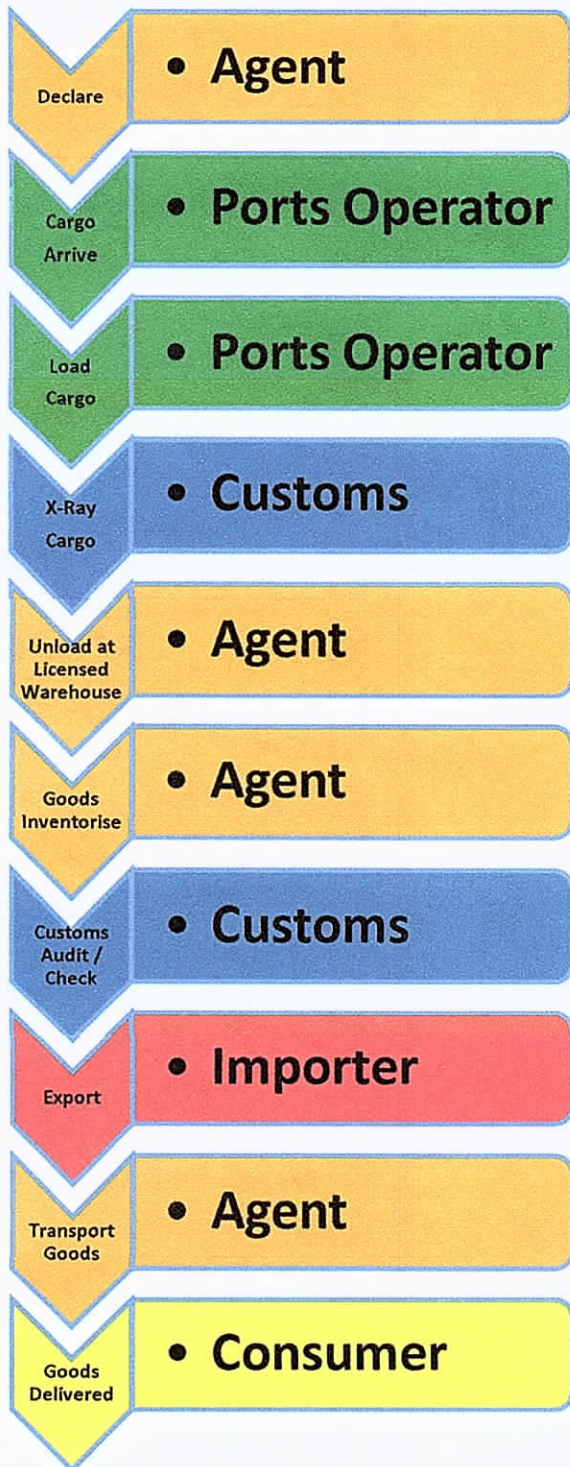
Without Licensed Warehouse



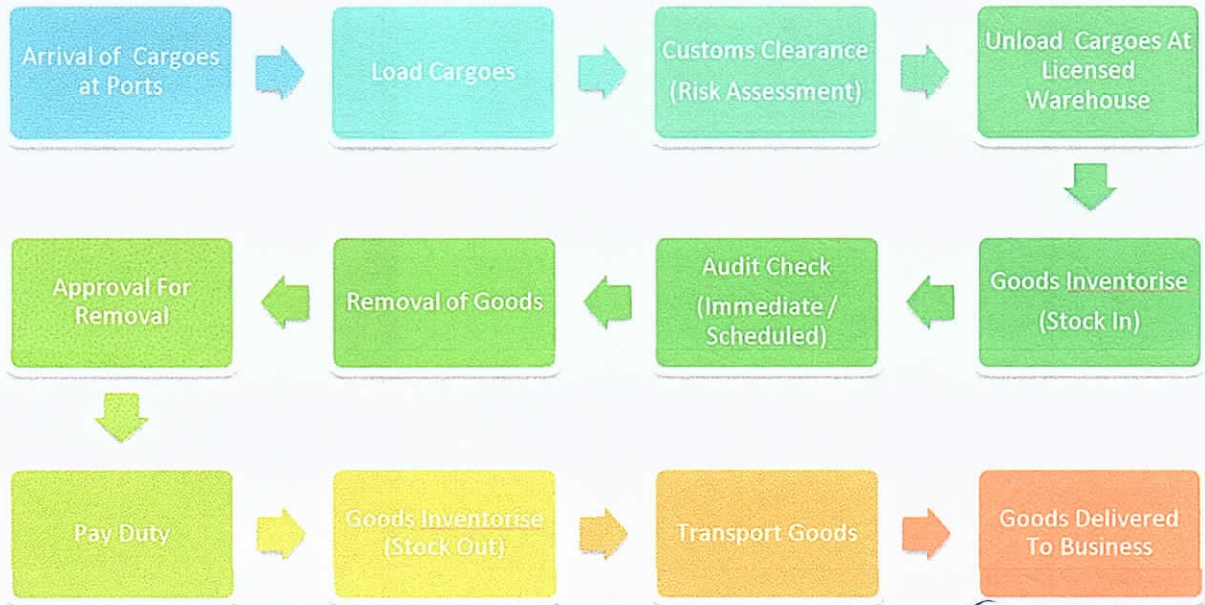
With Licensed Warehouse



With Licensed Warehouse (Export)



Proposed Procedures For Movement of Imported Goods



1. Arrival of Cargoes At Ports

Obtaining cargoes clearance from Port Authority / Port Operators.

2. Load Cargoes

Loading sealed cargoes using designated transportation mode.

3. Customs Clearance (Risk Assessment)

Cargoes should pass through scanning without further scrutiny by Royal Customs and Excise Department (ie all necessary approval / grants from Royal Customs and Excise Department / Other Government Agencies is obtained before cargoes reach the port).

Cargoes which are to be assessed at random or selected will be examined for further inspection.

4. Unload Cargoes at Licensed Warehouse

Cargoes to be unloaded at a Licensed Warehouse.

5. Goods Inventorise (Stock In)

All unloaded goods must be accounted for and inventorise as per the declaration. Any anomaly must be reported to Royal Customs and Excise Department immediately for further action.

Licensed Warehouse Operators will be solely responsible for the security of any declared goods kept in the vicinity.

6. Audit Check

Royal Customs and Excise Department will perform a routine audit check of declared goods kept in a Licensed Warehouse.

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7. Removal of Goods

Any declared goods that is kept at a Licensed Warehouse must obtain an approval from Royal Customs and Excise Department / Other Government Agencies before the removal of such goods.

8. Approval For Removal

Necessary approval (including Other Government Agencies) need to be obtained before the removal of such goods from a Licensed Warehouse.

9. Pay Duty

Once approval for removal is granted, duty due (where applicable) must be paid first before removing the goods from a Licensed Warehouse. No such duty will be paid for any qualified goods to be exported.

10. Goods Inventorise (Stock Out)

Licensed Warehouse Operators will be solely responsible for the security of any declared goods removed from the vicinity.

11. Transport Goods

Goods that has comply with all the necessary requirement for removal will be transported to the business premises.

12. Goods Delivered To Business

Delivered goods in a timely manner with minimal cost to business.

License Warehouse : Pros and Cons

Although this initiative is expected to have positive economic impact, it also has its Pros and Cons once it is implemented and should be mitigated accordingly:

Pros

1. Controlled movement of imported goods;
2. Burden of compliance and responsibility will be from Licensed Warehouse Operators;
3. It will tighten and reduce the revenue leakage collected through the payment of duties;
4. Businesses will be able to proper manage their finance by utilising their capital for other economic activities and other business ventures;
5. Businesses will benefit greatly with an improved cash flow;
6. New revenue stream for the Government of Brunei Darussalam;
7. The first step to assist in establishing Brunei Darussalam as a Trading Hub;
8. New businesses opportunity for the locals to fulfilled the increasing demand in the service industry;

Cons

1. High initial capital investment for companies to comply;
2. Duties will not be collected early;
3. Risk of non-compliance by the Licensed Warehouse Operators;
4. Risk of undeclared goods;
5. Risk of unpaid duties;

Action To Be Taken : Now and Beyond

In order to implement this Trade Facilitation Initiative, Royal Customs and Excise Department should take action on the following recommendation:

Now

1. Licensed Warehousing for selected companies which will comply to imposed conditions as an operator;
2. Regulate control of agents by introducing complimenting law;
3. Mandatory test for all declarants to maintain their quality;
4. Impose bank guarantees for agents for security for payment of duties;
5. Reorganise the Standard Operating Procedures and redeploy Royal Customs and Excise Department personnel in line with trade facilitation initiative;
6. Payment of duties before the removal of any imported goods from the warehouse;

Beyond

1. Licensed Warehousing for other type of predetermined 'sectors';
2. Shifting the role of Royal Customs and Excise Department officers to focus more on auditing and compliance work for companies that have been approved to an operator a Licensed Warehouse;
3. Identify goods which have low value to be zero rated duty (Excise Duty);
4. Focus on higher value goods;
5. To amend Customs Law to reflect the Trade Facilitation Initiative (where applicable) ;
6. Cooperation from Other Government Agencies to enhance other Trade Facilitation Initiative;

It is also recommended for Royal Customs and Excise Department to implement the Licensed Warehouse Initiatives in phases as the following:



Conclusion

In line with Royal Customs and Excise Departments' aim to modernize customs policies and operations, the Licensed Warehouse Trade Facilitation Initiatives will be the backbone of the economic policy in years to come that will affect the overall trade and economic activities of Brunei Darussalam. By directing the behavior of importers to match with Brunei Darussalam Government plan of a Balance Trade, the time has come to seize the opportunity and act upon it by offering this Trade Facilitation Initiative to ambitious companies that wants to reach the goal together.

With this effort, Brunei Darussalam will be able to achieve the long ambition to reestablish herself as the New 'Spice Trade Centre of ASEAN'.