

**AN ANALYSIS ON RELAXATION OF IMPORT FACILITY FOR EXPORT PURPOSE
(KITE): A CASE STUDY OF PT INDONESIA ASAHAN ALUMINUM**

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ABSTRACT

BPS-Statistics Indonesia, noted the value of imports in 2018 grew 20.15% while export values only grew 6.65%. Accordingly, there was a trade deficit of USD 8.57 billion. For boosting export, the government gives exemption or reimbursement of import duty and other import related taxes through the Import Facility for Export Purpose (KITE). PT Indonesia Asahan Aluminum (Inalum) engages in aluminum processing industry. Inalum supplies intermediate input to third parties such as aluminum extrusion companies which export the end products. So far, imports of Inalum are still subject to import duty and other import related taxes. This study aims to provide an overview of the KITE expansion scheme that can be provided to Inalum. This study uses a descriptive exploratory method, moving from existing data then referring to the relevant provisions and then proposes new provisions plan for the expansion of KITE. This study found there is a great opportunity to overcome this deficit by providing an expansion of KITE. Then, this study discovered the extension of KITE to Inalum and the third parties had a significant impact on increasing exports. And then, from the analysis of the existing KITE provisions, this study found the need for expansion of the facility.

Kata kunci: *balance of payment deficit, exports expansion, customs trade facilitation, cost on goods sold*

1. INTRODUCTION

International trade is trade which is carried out by residents of one country with other countries based on mutual agreement. This trade may take place between individuals or between individuals and the government of countries with different culture, language, currency,

measurement and scale, as well as trade law. Foreign trade is one of the important aspects in the economy of every country. The role of foreign trade in the process of economic development, both directly and indirectly, is to increase income, open employment opportunities, increase foreign exchange earnings, transfer capital and technology from abroad and develop new industries. In addition, foreign trade also triggers changes in some economic sectors that will raise the country's economic growth.

The government's policy which is designed to increase export activities is expected to be able to take into account the actual condition of the domestic economy and favor manufacturers, particularly those who produce export goods. Export and import activities are of particular concern to countries that take part in international trade. Therefore, export and import activities must be supported with facilities by the state, particularly export activities to enhance domestic economic growth. The facilities provided by the state are intended to assist domestic manufacturers in their production so as to be able to heighten the level of exports which in turn boosts the country's economy.

In an open economy, exports of goods and services are the most important source of foreign exchange needed for financing imports. Larger exports than imports will provide a surplus in current account. Alternatively, larger imports than exports will provide a deficit in current account. In 2018, Indonesia's import value grew 20.15% to USD 188.63 billion while export value only grew 6.65% to USD 180.06 billion. It means there was a deficit in current account of USD 8.57 billion (Statistik, 2018).

The causes of the deficit in current account include:

- a. The drop in export growth and sharp import acceleration. Exports only grew 6.7%, far below the 2017 performance which grew to 16.2%. Whereas, imports actually experienced an acceleration from 15.7% in 2017 to 20.2% in 2018
- b. Widening the deficit in the oil and gas sector reached USD 12.4 billion due to an increase in world oil prices almost throughout 2018. As a result, Indonesia's oil and gas imports jumped from USD 24.3 billion in 2017 to USD 29.8 billion in 2018, or grew 22.6%
- c. World oil prices rose 37.3% during January-October 2018 (yoy), so the value of oil imports grew 36.8 percent in the same period while exports only grew 2.3%
- d. there was a sharp reduction in the non-oil and gas surplus from USD 20.4 billion in 2017 to USD 3.8 billion in 2018, or a contraction of 81.4%

Is the current account deficit critical for a country's economy? It could be yes, but it could also no. In Indonesia, there is a legal limit. If the current account deficit is not more than 3 percent of GDP, then it is still considered safe. When the current account has a deficit, the government is required to increase financial transactions, such as direct investment, portfolio investment, and other investments. However, if the financial transactions that have been carried out are still not able to cover the deficit, then the standing deposits in foreign reserves will be used. As a result, the Rupiah will experience pressure because the need for the US dollar will increase.

The high demand for the US dollar has an impact on the weakening of the Rupiah. Any pressure on the Rupiah will make the US dollar more powerful. This condition makes foreign trade transactions using US dollars more expensive, especially the import value which will certainly be higher. The impact will be felt on the price of imported commodities which certainly increase. Undoubtedly, the current account deficit put an onerous pressure on the Government of Indonesia. The worst case scenario would be the failure of funding imports, including intermediate inputs. Consequently, many manufacturers must stop production. The government definitely needs to get busy. Reducing imports through the application of tariff and quota mechanisms is no longer possible considering that Indonesia is bound by trade liberalization agreements. The most possible way is to encourage increased exports. One of the government's efforts to encourage an increase in the value of exports is by issuing an economic policy package in the form of an Import Facility for Export Purpose (KITE).

KITE is one of the efforts of the Directorate General of Customs and Excise (DGCE) to provide incentives and facilities for exporters. KITE grants exemption or reimbursement of import duty and/or excise, while VAT and tax on luxury goods are not levied on the import of goods and/or materials to be processed, assembled, or installed on other goods whereupon the end products are mainly for export purposes (Minister of Finance, 2011). The regulation has been amended several times and the latest amendment is the Provision of the Minister of Finance Number 161/PMK.04/2018 concerning Reimbursement of Import Duties that have been paid for the import of goods and materials to be processed, assembled, or installed on other goods for export purposes (Minister of Finance, 2018); and the Provision of the Minister of Finance Number 160/PMK.04/2018 concerning Exemption from import duty and not being subject to value added tax and sales tax on luxury goods on imported goods and materials to be processed, assembled, or installed on other goods for export purpose (Minister of Finance, 2018).

KITE is provided by the DGCE in accordance with the provision of the World Trade Organization (WTO) Agreement on Trade Facilitation. This agreement requires members of the WTO to consent certain goods to be brought into their respective customs territory conditionally relieved, totally or partially, from import duties and taxes, or eligible for repayment, on the basis that these goods are intended for manufacturing, processing, or repair, and then subsequently exported (World Trade Organization, 2014). This particular import activity is known as "Inward Processing". Additionally, the DGCE regulate KITE in agreement with the World Customs Organization (WCO) Revised Kyoto Convention. Accordingly, goods imported under KITE scheme are granted total conditional relief from import duties and taxes. But, import duties and taxes may be levied on any products, including waste, which are not exported. Also, KITE scheme is not be limited to goods imported directly from abroad, but is also granted for goods already placed under another customs control, such as goods in bonded processing zone (World Customs Organization, 2008).

Unfortunately, The KITE provision which requires companies to export all production results is considered quite burdensome. This is due to high demand in the domestic market. Consequently, many companies cannot obtain this customs facility, including Inalum. This

company, which is the largest supplier of aluminum ingot in Indonesia, is obliged by the Ministry of Industry to safeguard domestic supply. Therefore, Inalum will not be able to obtain KITE under the existing provision. PT Indonesia Asahan Aluminium (Inalum) is a company which manufactures aluminum ingots, aluminum billets and foundry alloys. Inalum imports raw materials and auxiliary materials in the form of alumina, calcined petroleum coke and coal tar pitch. Currently, these materials are subject to import duty and other import related taxes such as VAT and income tax. As a result, the prices of export products are burdened with import duty and other import related taxes. Consequently, they are not competitive in the world market. Likewise, third-party exports which use intermediate inputs from of Inalum are not competitive as well.

The purpose of granting KITE expansion is to increase the value of exports and also increase the number of companies which use KITE. This expansion is expected to reduce or even eliminate Indonesia's current account deficit. If import duty and other import related tax components can be removed from the cost of product sold (COGS) of Inalum, Inalum and the third parties can reduce their export prices so that exports can be expected to increase. Therefore to explore whether extending the existing KITE provisions can improve the export value of Inalum and the third parties, Kuala Tanjung Customs office carried out this study.

This study also aims to find new business model that can be implemented by Inalum and third parties such as PT Alfo Citra Abadi (Alfo) in using KITE. This study uses a descriptive-exploratory method. Moreover, the data is obtained by using interview technique with Inalum and its buyer. Other imports and exports data is acquired from Kuala Tanjung Customs Office's Customs-Excise Information System and Automation (CEISA).

This paper begins with an introduction which describes the background of Indonesia's current account deficit, the contribution of the DGCE in overcoming the current account deficit, research objectives, research method and data collection methods. The subsequent section reveals the research methods by elaborating the concept of balance of payment (BoP) and current account (CA), the concept of KITE, the concept of COGS, and data collection methods. Afterward, a literature review describes the effect of fiscal and non-fiscal incentives on export performance and the DGCE monitoring scheme on goods upon which the import duty and other import relates taxes have not been paid. The next section presents the findings of this study which include the results of the interviews, the projected influence of the provision of KITE on the COGS, the proposed provision of the expansion of KITE in the form of KITE licensing business process as well as the import-export business process. Finally, the closing section offers the conclusions and policy recommendations of this study.

2. LITERATURE REVIEW

According to Perdana (2010), initially commodities produced by producers are only offered domestically. Nevertheless, as the world demand for goods and services increased and many countries could not meet their own needs, countries which could produce a large quantity of commodities would export to countries in need the commodity. Therefore, it can be concluded

that exports are efforts to sell commodities owned to other countries which cannot meet their own needs by expecting payment in the form of foreign exchange (Amir, 2003).

Malian (2003) explains that the factors affecting exports can be seen from the demand and supply sides. From the demand side, exports are influenced by export prices, real exchange rates, income, and devaluation policies. While on the supply side, exports are influenced by export prices, domestic prices, real exchange rates, production capacity that can be increased through investment, imports of raw materials and deregulation policies.

KITE is a facility provided by the Minister of Finance through the DGCE. This facility provides exemption or reimbursement of import duty on imported goods that are processed, assembled or installed on goods that will be exported. In KITE with reimbursement, a company is obliged to pay import duty at the time of submission of import declaration. The import duty may be reimbursed at the time of export of the goods listed in the import declaration. Companies receiving KITE reimbursement are required to fulfill the requirements as stipulated in Provision of the Minister of Finance Number 161/PMK.04/2018.

Research on the KITE has been carried out by several researchers such as the analysis of the impact of the KITE on the value of exports by Alfi Nabila and Agus Sriyanto (2017). The result of this research shows the value of fiscal facilities from the provision of KITE in the form of exemption and reimbursement of import duty have a positive and significant impact on the value of exports with a level of confidence of 95%. From this research it can be concluded that the greater the KITE provided by the government through DGCE will further increase the value of exports.

Aritonang (2005) conducted research on the effect of providing KITE on the value of exports in Indonesia in 2005. The independent variable used was total export value and the dependent variable used was the value of imports using KITE, the value of imports without KITE, the amount of money in circulation and the exchange rate of the Rupiah against the US dollar. From these results it can be concluded that the KITE has a positive influence on the value of exports and in particular on finished goods.

Praja (2014) examined the effect of fiscal and non-fiscal incentives on export performance with the bonded zone scheme for the Bekasi area in 2014. The dependent variable used was export performance, namely export value, export volume and export concentration. The independent variable used was fiscal incentives (facility value KITE provided), non-fiscal incentives (number of decree), Japanese GDP and Rupiah exchange rate against the US Dollar. The conclusions obtained from the study is that fiscal incentives have a positive influence on export values and export volumes while non-fiscal incentives have a positive effect on export values and export concentration.

DGCE has a scheme for monitoring the circulation of goods upon which the excise has not been paid as in the Provisions of the Minister of Finance Number 226/PMK.04/2014 concerning the Storing, Importing, Exporting and Transportation of Excisable Goods. Manufacturers of excisable goods who have not paid their excise have the obligation to record the production, storing and sale of excisable goods on inventory records and make reports every month to be

submitted to DGCE. Every process of transporting excisable goods whose excise has not been paid must be covered with customs documents. This scheme can be adopted to monitor the circulation of goods using KITE.

3. RESEARCH METHODOLOGY

Balance of payment is a systematic record of all economic transactions between residents of one country and another in a certain period of time, usually one year period. The definition of population in an international balance of payments includes individuals, legal entities, and governments. Balance of payments is prepared based on a double entry-bookkeeping system. Every transaction recorded as a credit is offset by transactions that are recorded as a debit or vice versa. By using a double recording system, the amount between credit and debit will be zero, despite the fact that the actual balance of payments may not be equal to zero.

Credit (+) means an increase in the right of residents of a country to receive payments from residents of another country, while debit (-) means an increase in the obligation or debt of a country's population to make payments to residents of another country. If the credit side is greater than the debit side, the balance of payments has a surplus, but if the debit side is greater than the credit side, the balance of payments has a deficit.

The balance of payments has the three components, namely the Current Account, the Capital Account and the Reserve Account. The current accounts consist of import and export transactions of goods and services, factor payments and unilateral transfers. In the current account, exports are recorded as credits because they generate foreign exchange for the country. Imports, on the other hand, are recorded as debits because they eliminate or remove foreign exchange from the country. If a country exports, this means that the country accepts foreign currencies, the supply of foreign currencies increases and will have an impact on increasing demand for the local currency. Conversely, if a country imports, this means that demand for foreign currencies increases and the supply of local currency will increase. If the total value of imported goods is greater than export goods, it is called a trade deficit. Otherwise, if the value of exported goods is greater than imports, it is called a trade surplus.

Capital Accounts are net receipts of capital transactions, for example, the purchase of shares, bonds, bank loans, and others. Capital account shows the amount of foreign investment in the country and domestic investment abroad. Asset sales abroad are recorded as credit, which is positive because it generates capital inflows. Asset purchases are recorded as debits, which are negative because they result in capital outflows. If the capital inflow is greater than the capital outflow, then the capital account will experience a surplus.

A Reserve account is an account which records all purchase or sale transactions involving official state reserve assets. Central bank intervention in the foreign exchange market by buying or selling the domestic currency is a transaction that is recorded on the reserve balance sheet.

Below is a formula in the balance of payments:

$$\mathbf{BoP = (X-M) + (CI - CO) + (FB)}$$

whereas: BoP represents the balance of payment, X-M is the current account balance which is the difference between the value of exports (E) and imports (M) of goods and services, CI-CO denotes capital transaction balance which is the difference between the value of capital inflow (CI) and capital outflow (CO), and FB symbolizes federal reserve balance sheet. From the formula above it is acknowledged that the current account balance is one of the factors affecting the balance of payments. If exports (X) increase, it will increase the balance of payments. And conversely, if imports (M) are high it will reduce the value of the balance of payments. In the fourth quarter of 2017, Indonesia's current account deficit reached 5.8 billion US dollars or 2.2 percent of GDP. This figure increased compared to the previous quarter which was recorded at 4.6 billion US dollars or 1.7 percent of GDP (Statistik, 2018). Bank Indonesia recorded a current account deficit in the fourth quarter of 2018 reaching 9.1 billion or 3.57 percent of GDP. This deficit was recorded higher than the deficit in the previous quarter of 8.6 billion or 3.28 percent of GDP (Prasongko, 2018).

Strategies or measures which can be taken to reduce the current account deficit are to increase exports of goods and services (goods leaving one country to another) or reducing imports of goods and services (goods entering from other countries into a country). The strategies are part of international trade policies which include restrictions on imports such as tariff and quota policies, in addition to export promotion such as granting subsidies, exempting or reimbursing import duties.

Exemption or reimbursement of import duty is one of the international trade policies provided by the government through the Directorate General of Customs and Excise in an effort to provide facilities for exporters. By providing exemption or reimbursement of import duty, it is expected that exports will increase so that the current account balance will improve and eventually the balance of payments will recover. Exemption or reimbursement of import duty is provided by KITE as stated in Article 1 of the Provision of the Director General of Customs and Excise Number PER-02/BC/2019 concerning the Procedures for Monitoring and Evaluation of Recipients of Bonded Facilities and Recipients of Import Facilities for Export Purpose (Director General Customs Excise, 2019). KITE is, in point of fact, an import facility which grants exemption or reimbursement of import duty and other import related taxes for imports of raw materials to be processed, assembled, installed which the end products will be exported. With KITE, a manufacturer may import raw materials as many as its production capacity. The type of raw material which can be imported with KITE scheme must be related to the end products. In addition to imports from overseas, KITE is also applicable for goods purchased from bonded zones.

Furthermore, KITE with reimbursement is stipulated in the Provision of the Minister of Finance Number 161/PMK.04/2018. Chapter II of the Provision stipulates the scope of reimbursement given by the government to companies receiving KITE, and chapter III stipulates the conditions and the procedures for obtaining the reimbursement in KITE scheme.

Article 2 paragraph 4 of the Provision stipulates that the reimbursement includes:

- a. Import duty that has been paid for importing goods and materials

b. Import duty that has been paid upon the stipulation of tariffs and customs value by the Customs Official which results in a deficiency of Import Duty in importation of goods and materials

c. Additional import duties

In Article 3 paragraph 3, the Provision stipulates that in order to operate with KITE; a business entity must submit an application to the head of the Customs Regional Office or Customs Primary Office which oversees the location of the factory or the location of the business entity's activities. The application can be submitted electronically through the Indonesia National Single Window (INSW) system within the Online Single Submission (OSS) framework. It can also be submitted in writing through the head of the Customs Office. The business entity, in the application, needs to provide the following:

a. Business License Number;

b. Number and date of Stipulation Letter of the Business License Number, and name of the issuing institution;

c. Type, number, and date of proof of ownership or entitlement of business premises;

d. List of goods and materials, list of manufactured products, and list of subcontractors, in the event that there is a production process to be subcontracted;

e. Data on the amount of investment, the number of workers, and the number of assets, debt, and capital;

f. Key performance indicator data (key performance indicators) targeted by business entities to measure the economic benefits arising from the use of KITE, such as increased corporate income tax, increased investment, and increased labor; and

g. Time for site inspection readiness, presentation of business processes and fulfillment of the terms and conditions stipulated in the Provision.

In addition, the terms and conditions which must be fulfilled are:

a. have a good internal control system;

b. have a computer-based inventory information system (IT Inventory);

c. has a nature of business in the form of a manufacturing industry;

d. own or entitle of the location or place of business;

e. have a Customs Identity Number (NIK); and

f. has a subcontracted production plan and list of subcontractors, in the event that there is a subcontracted production process.

This study focuses on the reimbursement import duties on goods or raw materials imported by Inalum. This study was carried out by using a descriptive-explorative method which includes analyzes based on research objects that have been determined previously so that this study can be more directed. This study departs from Creswell's statement (Creswell, 2013, p. 274) which revealed that data analysis is an ongoing process that requires continuous reflection of data, asking analytical questions, and writing short notes throughout the study. Explorative data analysis can involve the process of collecting data, interpreting, and reporting results collectively and simultaneously. The purpose of this study is to explore the possibility of expanding the

provision of KITE by highlighting the effect of the cost of raw materials on increasing exports at Inalum and Alfo which is a buyer of Inalum. In other words, the focus of this study is exploring the scheme to expand KITE scheme to increase exports.

The cost of product sold (COGS) of a company is influenced by variables, namely Direct Material (Raw Material), Direct Labor (Employee Salary), and factory overhead (FOH). However, this study only focused on Direct Materials (Raw Materials) only by projecting export prices after the import duty and related tax variable was removed from the price of these raw materials. The production of aluminum ingots is produced by three raw main materials namely alumina, calcined petroleum coke and coal tar pitch. Imports of alumina are not subject to import duties but subject by value added tax, while imports of calcined petroleum coke and coal tar pitch are subject to import duties.

Alfo produces extruded aluminum products. It operates as a bonded zone which is overseen by Medan Customs Office. Alfo uses raw material in the form of 100% aluminum ingot which is purchased from Inalum. Accordingly, this study focuses on COGS of aluminum ingot. With the projection on the export selling price after the import duty is eliminated, it is expected that the aluminum ingot price of Inalum will decrease. Subsequently, Alfo will increase the number of aluminum ingot purchases from Inalum. And eventually, it will have an impact on increasing exports from Alfo.

The data used in this study are all secondary data for the period 2018. Data collection was done by using interview techniques. Interviews were conducted using an unstructured interview model with the snow ball sampling method. The interview model was chosen to obtain further explanation about Inalum's business processes related to production, sales, and existing problems related to exports. The snow ball sampling method is obtained through a rolling process from one respondent to another, starting from Inalum which is located in Kuala Tanjung, and then proceed to the buyer of Inalum which located in Medan, where in this case is Alfo.

The data used in this study are the import of Inalum which are obtained from CEISA. This import data provide information regarding the price per metric ton of alumina, calcined petroleum coke and coal tar pitch. In addition to import data, this study also uses aluminum ingot purchase of Alfo from Inalum. This data is obtained from Medan Customs Office's CEISA. This data provides information regarding Inalum's sales volume and value of aluminum ingot to Alfo in 2018. From Medan Customs Office's CEISA, this study also obtained export data of Alfo which reveals information regarding volume and value of its export.

In providing the expansion of the KITE, monitoring is needed for the transfer of goods from Inalum to Alfo. For the transfer of these goods, this study adopted the stipulations in the Provision of the Minister of Finance Number 226/PMK.04/2014 concerning the Storing, Importing, Exporting and Transportation of Excisable Goods (Minister of Finance, 2014). Monitoring of the transfer of goods is carried out because of the expansion of the KITE by giving a reimbursement to Inalum for exports done by Alfo. In addition to the monitoring the transfer of intermediate inputs from Inalum to Alfo, this study also consider it is necessary to give special treatment when storing, recording, and reporting the use of imported goods. In this

case, this study adopted the stipulation in the Provisions of the Minister of Finance Number 109/PMK.04/2010 concerning Procedures for Excise Exemption (Minister of Finance, 2010).

4. ANALYSIS AND DISCUSSION

From the analysis of the current account, it can be concluded that there are two efforts that can be made to overcome the trade balance deficit. These efforts are increasing the value of exports or reducing the value of imports. Practically, the possible effort in the Kuala Tanjung Customs Office working environment is to increase the value of exports. This is because efforts to reduce the value of imports through rising of import duties are not possible to be implemented due to international agreements under the WTO and regional free trade agreement (FTA) frameworks.

This study is conducted by interviewing resource person of Inalum. This interview is aimed to disclose the impact of reimbursing import duty and other import related taxes on the COGS of Inalum. The interview continues with resource person of Alfo regarding the same information. Afterwards, the authors quantify the impact of reimbursing import duty and other import related taxes on the COGS of both firms by using import and export data. By employing this method, this study is able to quantitatively describe the impact of reimbursing import duty and other import related taxes on the COGS and propose policy recommendations. In dealing with confidentiality issues regarding sensitive data, this study will only reveal rounded up value of the data in this paper.

4.1 Interview results

Inalum is located in Kuala Tanjung, Batu Bara Regency, North Sumatra. Inalum is a pioneer and the first company in Indonesia engages in the aluminum smelting industry. From the results of interviews with Inalum it is acknowledged that Inalum imported raw materials for its production process. The raw materials are alumina, coal tar pitch and calcied petroleum coke. At present, the imported raw material is subject to import duty and other import related tax. Inalum produces aluminum ingots, aluminum billets and Foundry Alloy products. Aluminum billets and Foundry Alloy are added to the master alloy during the molding process, while aluminum ingots are produced without any additional material. The production results are then sold to the domestic market as well as overseas. Inalum focuses on the domestic market to meet domestic needs but the export market is open and Inalum is capable compete in the export market. For export sales, Inalum periodically releases their sales prices to the export market. Inalum sets the selling price based on LME + MJP + UPCHARGE rates set by the company. LME is the price which is set by London Metal Exchange. MJP is hedging tools to mitigate the risk of the volatility of aluminum price. Upcharge depends on the expected profit. In terms of quality, Inalum can compete in the export market, but in terms of price it is difficult to compete where buyers demand prices below the price offered by Inalum for the export market. For domestic sales, in 2017, Inalum met about 57% of aluminum ingot products. The market share has decreased from the previous year where the previous year Inalum controlled 64% of the domestic market. The decrease was due to an increase in demand and a decrease in the company's

production capacity. Inalum has prepared the Company's Long Term Plan for 2017-2021 through the operation and development of low-cost and sustainable aluminum-based industries through expansion, diversification and optimization and integration. The ultimate goal of the Long Term Plan is to increase Inalum's production capacity to 500,000 MT by 2021.

Alfo is an aluminum extrusion company based in Marindal, Medan, North Sumatra. Alfo buys raw materials for aluminum extrusion processing from Inalum. Alfo sells 90% of its products whose intermediate input comes from Inalum in the export market. The product consists of extruded aluminum and around 90% of total exports are sold in the US. Alfo's export is around 7,500 MT per year. Alfo plans to increase its production capacity by adding 2 new engine units where the addition will increase its production capacity from 9,500 MT to 12,000 MT. For export competition, Alfo can compete in quality but it is still difficult to compete in terms of sales prices. Alfo can increase the amount of export if cost of direct material can reduce by 10%. In addition to sales prices, factors that affect the amount of Alfo's exports are domestic and global market needs, economic climate, and regulation.

4.2 Projection of the effect of the provision of KITE on COGS

In 2018, Alfo submitted 513 export declaration documents for extruded aluminum with a net amount of 12.000 MT and at the price of IDR 540 million. From the analysis, it can be concluded that COGS of export sales made by Inalum and Alfo contains the import duty and other import related tax. Removal of the import duty and other import related taxes components in COGS calculation can increase the competitive advantage of Inalum and Alfo's products. From the literature review it is known that to produce 1 MT of aluminum ingot requires anode which is produced from of 650 kg of calcined petroleum coke, 150 kg of coal tar pitch and 99 kg of recycled butts (International Aluminium Institute, 2013). Based on the analysis of CEISA data, it is known that the price of 1 MT calcined petroleum coke is around IDR 8 million and 1 MT coal tar pitch is around IDR 12 million. The calculation shows that the price data of alumina, calcined petroleum coke and coal tar pitch to produce 1 MT aluminum ingot as follows:

Table 1 :

Calculation cost of Aluminum Production with and without Import duty and Other Import related Taxes

MATE-RIALS	COM-POSI-TION (MT)	PRICE (WITH IMPORT DUTY AND OTHER IMPORT RELATED TAXES)	PRICE (WITHOUT IMPORT DUTY AND OTHER IMPORT RELATED TAXES)
ALUMINA	2	IDR 13 million	IDR 11 million
CTP	0,15	IDR 1.8 million	IDR 1.5 million
CPC	0,65	IDR 5.2 million	IDR 4.4 million
TOTAL		IDR 20.2 million	IDR 17.7 million
DIFFERENCE			IDR 2.5 million

*Source by : (International Aluminium Institute, 2013) ,CEISA 2018.

From the data above, it can be determined that the price of the delivery of Aluminum Ingot Inalum to Alfo without being subjected to import duty and other import related taxes:

Table 2:

The Comparation of Aluminum Ingot cost production with and without Import Duty and Other Import related Taxes

	Average COGS aluminum ingot per MT
With import duty and other import related taxes	IDR 32 million
Without import duty and other import related taxes	IDR 30 million
Difference	IDR 2.5 million
%	7,7%

Based on these data it can be seen that by reducing import duty and other import related tax, Inalum can reduce the COGS by IDR 2.4 million. Thus it can be seen that the reimbursement of import duty can reduce COGS by 7.7%. In 2018, Inalum sale to Alfo was around IDR 90 billion. If it reduces the import duty and other import related tax components of the COGS, then the value of sales can be reduced by IDR 6.8 billion. Assuming the price that affects the export price of Alfo remains fixed in addition to the price of aluminum ingot direct material, Alfo's export sales price also decreases by IDR 6.8 billion. If you see this data, it is expected that Alfo can reduce COGS so that it can compete in the export market.

Unfortunately, on the interview, Alfo cannot confirm how much its exports will increase if Inalum's sales price is reduced by 7,7%. However, Alfo makes sure that its export price will decrease due to lower price of intermediate inputs. Alfo explains that currently its export price is still 10% higher than products from other countries, such as Vietnam. In view of that, it is difficult to determine how much its export will increase. Nevertheless, the impact of this price reduction will certainly large taking into consideration all third parties which obtain intermediate inputs from Inalum. Below are several buyers of Inalum in Indonesia and their export value in 2018:

Table 3 :
List of Export Value of Inalum Buyer's Company

Company	Export Value
PT Daiki Aluminium Industry Indonesia	IDR 1.5 trillion
PT Edico Utama	IDR 222 billion
PT Calindo Damai	IDR 74 billion
PT Aluprima Pacific Industri	IDR 59 billion
PT Alexindo	IDR 43 billion
PT Alcomex Indo	IDR 37 billion
PT Damai Abadi	IDR 36 billion
PT Alumindo Berkat Sejahtera	IDR 802 million
PT Alumindo Alloy Abadi	IDR 767 million

4.3 Proposed Provision of Extension of KITE

From the business process described earlier, Inalum has an obligation to meet a certain level of domestic demand before it can turn to overseas market. Consequently, Inalum is unlikely to

export 100% in accordance with the provisions of the KITE. However, products in the form of aluminum ingots produced by Inalum are sold to third parties such as Alfo. The aluminum ingot is subsequently processed by the third party to produce extruded aluminum, where most of the products produced by the third party are sold in the export market. From the above conditions, this study propose a relaxed provision of KITE where Inalum may receive a reimbursement of import duties and other import related taxes for exports made by the third party, namely Alfo. By using this business model, there is a transfer of goods from Inalum to Alfo where the goods are still under the monitor of Kuala Tanjung Customs Office. This monitoring scheme, adopts the stipulations in the Provisions of the Minister of Finance Number 226/PMK.04/2014 concerning the Storing, Importing, Exporting and Transportation of Excisable Goods.

In addition to the monitoring the movement of goods from Inalum to Alfo, this study also considers it necessary to give special treatment to imported goods regarding storing, recording, and reporting the use of imported goods. In this case, this study proposes the adoption of the stipulation of the Provision of the Minister of Finance Number 109/PMK.04/2010 concerning Procedures for Exemption of Excise. From the points above, the proposed expansion of the KITE is as follows:

4.3.1. KITE Licensing Flow

Before obtaining KITE, Inalum must submit an application to the North Sumatera Customs Regional Office. In addition to the administrative requirements which have been stipulated in the Provision of the Minister of Finance Number 161/PMK.04/2018, Inalum is also required to submit Inalum's conversion data of raw material usage as well as its buyer's. After Inalum fulfills the Administrative requirements, while the application is processed at the Regional Office, the Supervisory Office, in this case, Kuala Tanjung Customs office conducts an inspection on the factory sites. If all requirements are met, then the Regional Office will grant KITE. If at a later date, there is a change in conversion of Inalum's production scheme or the third party's, Inalum must submit a conversion change. Submission of the conversion changes needs to be submitted to Kuala Tanjung Customs Office, at the latest before Inalum or the third party exports.

4.3.2. Import-Export Flow

a. Import Flow

Inalum will import raw materials by using a special import declaration for KITE and pay Import duty and other import related taxes. With regard to the imports, physical inspection is conducted based on risk management. Kuala Tanjung Customs Office then records the volume and value of imports which will be compared with exports data.

b. Physical Control of Goods Movements

Inalum is required to maintain records on import, stockpiling and use of raw materials. Raw material and inventory usage is reported every month with a special form. Imports of raw materials and delivering goods produced to the third parties must be notified to the Kuala

Tanjung Customs Office. Transportation goods produced by Inalum to the buyer must be accompanied by customs documents.

c. Export Flow

1) Inalum

Inalum declares its exports using export declaration which refers the import declarations for the raw materials and accompanied by a special sheet for the conversion of raw material usage.

2) The third parties

The third party declare their exports by using export declaration which is accompanied by a special sheet for the conversion of raw material usage and the customs document which accompanied the transfer of intermediate inputs from Inalum.

d. Import Duty Reimbursement

Reimbursement of import duty and other import related taxes can be made periodically after Inalum submits an application by attaching:

- a. import declarations which is accompanied by a sheet conversion of raw material usage, as well as customs documents for transporting intermediate inputs, in the case of export is carried out by the buyer.
- b. report on the use of raw materials upon which reimbursement are requested
- c. export declarations and export consent
- d. report on export inspection, when available.

At the time of document inspection, Kuala Tanjung Customs Office calculates the amount of imported raw materials used for the goods declared in the export declaration submitted by Inalum or the buyer, and check the appropriateness of the conversion of raw material usage. The extension of KITE to third parties is indeed endorsed by the WCO Revised Kyoto Convention. This convention explicitly recommends that members should make provision which consent for continuing inward processing in the event of transfer of ownership of the imported goods and the compensating products to a third party (World Customs Organization, 2008). Accordingly, DGCE should produces provision which allows KITE to be extended to third parties.

4.4 Impact of Relaxation on KITE

Providing the relaxation of KITE to related companies can cause changes and adjustments to several aspects that produce legal and administrative impacts.

4.4.1. Legal Impact

The granting of KITE relaxation results in the facility receiving companies being exempted from import duty and other import related taxes for the imports of raw materials which are processed, assembled, or Installed on other goods and then exported. In this KITE relaxation scheme, a third party or a buyer that processes the intermediate inputs supplied by Inalum is included in the KITE scheme. According to the Customs Law Number 17 of 2006 Article 26 Paragraph 1 Letter K stipulated that exemption or reimbursement of import duties can be given on the import of goods and materials to be processed, assembled, or installed on other goods for the purpose of being exported. In this article it is not explicitly stipulated that those who obtain

the facility must carry out the exports of the processed imported raw materials. The granting of KITE relaxation to Inalum by involving a third party scheme as a company that exports end products produced from intermediate inputs supplied by Inalum does not conflict with these stipulations. Conceptually, the relaxation of the KITE has complied with laws and regulations because it exports the imported raw materials which are processed by Inalum or by Alfo, as a third party. Providing relaxation for KITE requires the addition of a provision that the party which can process imported raw materials as intermediate inputs for export will receive facilities that are limited to third party production chains (in this case Alfo). Reimbursement of import duty and other import related taxes can be given after the fulfillment of exports either by Inalum or a third party (in this case Alfo) through the proposed scheme previously described.

4.4.2. Administrative Impact

The granting of KITE relaxation results in the reduced state revenue because import duties and other import related taxes for imported goods that are supposed to be state revenue will be returned as a form of granting facilities. In addition, the provision of facilities can reduce the price of delivery from Inalum to third parties and it is expected that the price reduction can increase competitiveness for export sales. In this case study, the drop in delivery price was 7.7%. The price reduction can be higher or lower depending on the conversion of raw materials used by third party companies. Administrative requirements that must be submitted by Inalum and third parties are slightly different from the administrative requirements of the existing KITE in general. Administrative requirements required in accordance with the proposed scheme previously described. In the process of granting KITE relaxation, the company conducting imports, in this case, Inalum must submit a list of third parties (buyers) who will conduct the export, types of third party export goods and conversion of material usage. When Inalum imports raw materials, Kuala Tanjung Customs Office will record the value of imports. The process of transfer of goods from Inalum to a third party must be accompanied by customs documents. Furthermore, during the exports, Kuala Tanjung Customs Office compares the export goods with the imported raw materials which have been previously recorded. The reimbursement process can be done periodically in accordance with the fulfillment of exports. Customs officers carry out physical inspection on the flow of the implementation of KITE by using risk management.

5. CONCLUSION AND POLICY RECOMMENDATIONS

5.1. Conclusion

Based on an analysis of the expansion of KITE to encourage export value of Inalum and third parties, the following conclusions can be drawn:

- 1) Based on the existing provisions, KITE cannot be granted to Inalum and the third parties, because they cannot export all of its products, due to Inalum's obligation to fulfill domestic aluminum demand and the high domestic demand of their products;
- 2) The imposition of import duty and other import related taxes on the imports of raw materials by Inalum increases the price of Inalum's and the third parties' export products. It consequently makes their products less competitive in the overseas market;

- 3) Intermediate inputs produced by Inalum whose raw materials are subject to import duty and other import related taxes are subsequently processed by third parties, and then sold for export. Considering the existence of a monitoring and risk management scheme for the KITE with reimbursement, in principle, the import of Inalum raw materials can be reimbursed, thereby increasing the competitive advantage of Inalum's and third parties' exports in the world market;
- 4) With reference to the existing monitoring model of goods upon which the import duty or excise have not been paid, the provision of KITE with reimbursement can be provided by adopting the provisions on storing, importing, exporting, and transportation of excisable goods;
- 5) Reimbursement of import duty and other import related taxes significantly reduces the price of exports.
- 6) Reducing cost of direct material by 7.7% might not have a large impact on Alfo's exports. But it certainly improves Alfo's competitiveness in the world market. The impact will definitely significant taking into account all third parties which purchase intermediate inputs from Inalum.

5.2. Policy Recommendations

The regulation that requires companies which use KITE to export all the goods produced is considered burdensome for several companies, including Inalum. The fact that the decreasing number of companies which use KITE from year to year adds to the reason that there are KITE provisions which need to be reviewed. This study found that it is necessary to expand the provisions of KITE so that it is more easily applied by companies. The projected significant reduction in the export price of products which is coupled with the expansion of the number of companies with KITE in the future is expected to have a positive impact on the national export value. Eventually, this relaxation of KITE provisions will be able to contribute to the reduction of the current account deficit.

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