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Bonded Logistic Center: Policy Analysis on Perspective Supply Side Tax Policy on Shipyard Industry

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Abstract—**The aim of this article is to examine government fiscal policy which establish Bonded Logistic Center (BLC) as an alternative of offering conventional fiscal incentives by using Supply-side Tax Policy perspective. This study also compares the implementation, advantages and disadvantages of conventional fiscal incentives and Bonded Logistic Centre on shipyard industry. This research occupies mix method approach. The data is collected through literature review, in-depth interview whereas then the simulation of industry transaction is occupied as quantitative aspect. The research found that based on Supply Side tax policy perspective the establishment of Bonded Logistic Centre is more efficient for the cost of taxation aspect, compare to that of conventional fiscal incentives which has to be applied on individual entity bases. In addition, establishing Bonded Logistic Centre seem more beneficial for the logistic cost aspect, administrative and bureaucracy procedures.**

Keywords—fiscal policy; fiscal incentives; Bonded Logistic Center; supply side tax policy

I. INTRODUCTION

The government effort to enhance maritime industry by implementing *cabotage* principle seems has not been successful enough indicated by the massive supply of used ship produced by local and foreign company. This practices has become pressure for local shipyard since they cannot compete in the shipping market due to the large inflow of used ship in Indonesia shipping market[1] [1]. The situation may be worsened by high logistic cost in Indonesia compare to Thailand and Malaysia during 2007-2016[2] whereas shipyard industry has to pass several value chains to construct new ship from kinds of components and spare parts [2].

Insufficient component and raw materials produced by local company and the need of sophisticated technology enforce the local shipyard to import them which are up to 65% from total needed. Large number of importation lead to high cost of import and liability and customs duty. Shipyard business has to pay 5%-15% of import tax and duty for each importation of component. This cost lead to higher cost of local ship production compare to imported ones thus local product hardly compete in shipping market.

The government commitment to promote maritime industry specifically to develop the competitiveness and productivity has begun to realize by the release of Economic Policy Package II. The Economic policy package focuses on friendly investment climate by offering less bureaucratic permit, tax incentives and the availability of logistic center through the release of Government Regulation No. 69/2015 that essentially change the Value-Added Tax (VAT) liability that is VAT treatment of imports and deliveries of certain means of transport and services related to it from VAT exemption to VAT not-collected [3], [4]. Regarding national industry competitiveness, the government also has provided customs duty incentives with the form of Customs Duty Paid by Government. However, both instrument is still ineffective due to administrative and bureaucratic hassle. Series of procedures to apply the incentive distort the goals of offering incentives.

To lessen bureaucratic procedure and dwelling time of importation as the spirit of Economic Package II, the government has been establishing Bonded Logistic Centre. Indonesia Investment Coordinating Board (2016) emphasizes that Bonded Logistic Centre (BLC) is expected to lower domestic logistic costs thus it can improve Indonesia's competitiveness particularly on the ground of investment that currently has to compete with other prominent South Asian countries.

II. DISCUSSION: EXAMINING FISCAL POLICIES ON MARITIME INDUSTRY - ADVANTAGES AND CONSTRAINTS

Tax incentives is a common selected instrument of government to reduce economic burden of the investors as an attraction tools. According to UNCTAD (2000), tax incentive can be defined as any incentives that reduce tax burden of business to induce them investing in particular projects or sector [5]. The incentives can occupy income tax, value added tax, tariff or other state levies. Conceptually, there are two

[1] The increase unit of ship went up to 120% in 2014 since 2005 whereas local production was nearly 20%

[2] Based on World Bank publication about Logistic Performance Index in ASEAN 2007-2016, Indonesia is in the fourth place or higher than Singapore (1), Malaysia (2) and Thailand (3).

types of VAT incentives, (i) VAT exemption and (ii) zero rate. Tait (1988) defines that "exemption actually means the entrepreneur has to pay the VAT input of acquired goods without being able to claim or calculate the credit for the paid tax on his input against the output tax of goods sold" whereas zero rate means that the entrepreneur is fully compensated for any VAT he says on input or it simply can be said the entrepreneur is taxed 0% of its input goods thus in the credit mechanism of output tax (tax on goods sold) against input tax (tax on acquired goods) lead to overpayment tax [6]. Thus, the entrepreneur is eligible to apply for tax refund.

This basic concept of VAT incentives might be developed by tax policy maker in particular country for the purpose of practical implementation. For example, in Indonesia zero rate has been applied with the forms; non-collected VAT and VAT paid by government. In the adoption of VAT incentives in Indonesia besides zero rate and its variety developed form, the government also has ever applied VAT exemption. Both type of this incentives has advantages and disadvantages in its practical application. All the incentives have to applied individual entity basis.

VAT exemption incentives for shipping industry has been applied in 2000 through the release of Government Regulation No.146/2000 (GR-146) which solely applied for importation of spare parts for national commercial shipping industries and national fishing industry [7]. This regulation has not clearly governed whether the incentive offered would applied for government institutions other than the ones that has been stipulated on the regulation and for ship-related industry which has not hold shipping license (In Indonesia is called "SIUPAL") for example shipyard industry; shipbuilding and ship repairing. Thus, this policy for Indonesia context cannot be utilized by shipyard industry or partially it is only beneficial for parts of maritime industry chain.

In conceptual basis, the disadvantage of VAT exemption incentive is that the VAT input become the component cost of goods sold, so the cascading effect of taxation cost involve in the selling price but for obligation fulfillment of the tax administrative compliance to the tax authority, this type of incentive is more simple than that of zero rate. For Indonesia context for instance, in order to be granted the incentives, business industry only needed to released invoice that has been stamped with sign "VAT exempted based on GR No. 146 year 2000 as lastly amended by Presidential Regulation No. 28 year 2003". The printed stamp on the invoice would be released immediately after receiving the letter confirming VAT exemption facility for supply of taxable goods/service applied for each importation. Then the transaction would be reported in monthly VAT return.

The last application of zero rate in Indonesia is with the form of VAT paid by government through the release of Ministry of Finance Regulation No. 193/PMK.03/2015 [8] and Ministry of Finance Regulation No. 192/PMK.03/2015 (PMK-193 and PMK-192) [9]. Economically, this type of incentives can reduce the entrepreneur tax burden since they are eligible to get VAT refund. Thus, cost for VAT can be reallocate for other productive activities. However, for the fulfillment of administrative compliance, this incentive on its nature is quite complicated because the government has to established a monitoring system to ensure that the incentives is used properly by the targeted business sector. Probably for advance bureaucracy institution with integrated database and sophisticated technology, setting up a monitoring system with less administrative burden is not a big deal. The situation will be different if the less advance institution has to deal with this problem. In practice, the incentives even lead to high administrative cost because of administrative procedure thus the incentives distort the business to apply for incentives since the burden to some extend outweigh the benefit.

The situation in which considerable administrative burden of granting VAT incentives happened in Indonesia. To have VAT incentive facilities, business actors or shipyard entrepreneurs have to submit the proposal to be granted Official Letter of Non-Collectible VAT (or in Indonesia is called *Surat Keterangan Tidak Dipungut* or "SKTD"). The proposal to get SKTD to be attached with Importation Planning. The Importation Planning (In Indonesia is called *Rencana Kebutuhan Impor dan Perolehan* or "RKIP") describes the types, number and detail specification of equipment that will be imported for next one fiscal year. Most of shipyard industry could not perform this kind of technical regulation, since the production activity for example ship building and ship repairing is based on job order from shipping industries. For several cases, few number of well-developed shipyard probably will be able to provide RKIP in the beginning of fiscal year, however it will be the case for infant shipyards, especially if they receive docking and repairing job order. It tends to unpredictable the specification of needed components if they perform docking and repairing job in the mid of the year that mostly they have to complete the job in relatively short period of time. In addition, to the realization report of VAT incentives from the business to the government bear new problem because the series of tax audit that will spend another cost.

Besides VAT incentive mechanism, customs duty incentives are also offered by the government. Basically, the tariff of custom duty has been determined by World Trade Organization (WTO) that is called most favored nations but the reduced rate may apply if a country ratify international trade cooperation with other jurisdiction to set lower rate for certain goods that is known as preferential tariff. Another possible mechanism of reduce rate is through domestic interfere called rebates, remission and suspensions [10]. Most of the challenge in the implementation of customs duty incentives is the availability of data base system and reliable monitoring that commonly happen in developing countries but it remains as favorite policy choice [11].

Indonesia government adopt customs duty incentives as instrument to support industrial development including for maritime sector. Indonesia applied another type of customs duty incentives differed from the general, it is customs duty paid by government. In practice, the government allocate amount as tax expenditure for each fiscal year. The amount of tax expenditure allocated from National Tax Revenue and Expenditure will be examined based on several economic considerations thus the amount of incentives to be granted for the industry will be different for each year.

To get the facilities, business practitioner has to pass series of procedure. The procedure is as follow:

TABLE I. THE PROCEDURE TO APPLY CUSTOMS DUTY INCENTIVES AND CUSTOMS DECLARATION SETTLEMENT

	Business	**Technical Ministry**	**Directorate of Customs and Excise Ministry of Finance**			
Application of incentive	Import planning	Approval	Customs Facility Affair	Customs Settlement	Customs Service Office	Customs Secretary
	Import facility application		Application from technical institution			
Importation process					Importation	
					Assessment of Customs duty facility	
Facility settlement			Submission of import declaration and customs payment receipt	Submission of import declaration and customs payment receipt		
		Submission of import declaration and customs payment receipt				Submission of import declaration and customs payment receipt
		Approval				

Source: Directorate General of Customs and Excise of Republic of Indonesia (2013)

The process shall be conducted by the government to grant customs incentives is as followed:

TABLE II. THE BUDGETING PROCESS AND DRAFTING OF CUSTOMS DUTY INCENTIVES

Government (Ministry of Finance and Parliament)	**Ministry of Industrial Affair**	**Fiscal Policy Office**	**Ministry of Finance**
Drafting of Annual Budget Revenue and Expenditure Assessment and discussion amount of incentives planning	Technical assessment based on industry activities growth Analysis of incentives needed by business sector from the data of incentive realization in the latest year	Regulation drafting with Directorate of Budget Affair and Directorate General of Customs and Excise	Stipulation and release of customs incentive procedure

Source: Directorate General of Customs and Excise of Republic of Indonesia (2013)

Examining both process shall be passed by government and business that is quite complicated and inefficient. A series of procedure process that takes a lot of time to reduce the business attraction to apply for since the dwelling time need to carry out imported goods which are granted incentives from the port to the warehouse before the settlement of importation documents negatively affect factory activities. The government tried to monitor the use of incentive by using kinds of documents examination in several institutions as instruments however that way of monitoring hinders the business to optimize the incentives thus the government tries to create new incentives scheme that probably will be more effective and potentially can reduce logistic cost by establishing Bonded Logistic Centre.

III. PERSPECTIVE SUPPLY-SIDE TAX POLICY IN OPTIMIZING BONDED LOGISTIC CENTRE TO PROMOTE THE DEVELOPMENT OF MARITIME INDUSTRY

Microeconomic policy for at least in this last decade has become important determinant of output and economic growth as catalyst in economy stagnation and economic aggregates. The microeconomic perspective also become antecedent in classical economics in modern era [12]. Since 1981, the mainstream of occupying macroeconomics to boost the growth has been questionable. The Reagan economist has begun to combined macroeconomic policy with supply-side element to favor climate for investment [13].

That policy for most of the cases are related to incentive instruments that likely show the positive movement when the market is suppressed [14]. The intended incentives are varying as long as they are related to the source of economic growth for example deregulation or the change of legislation or particular level of government capital spending. The government capital expenditure is used to improve existing, create new program for example infrastructure to ease the mobility of factor of production. Supply side policy may also be associated to the increasing of productivity by raising output per factor input or efficiency by reducing average cost of production through keep the firm produces goods which its cost close to marginal cost. Importantly, this policy is regarded to be long-term effective policy [15]. Among types of supply side policy, increasing incentives seem become more popular by lowering marginal rate of income tax paid by individual or corporate to encourage the firm and employee to increase output.

Taxation seem has become common instrument in supply-side policy that may be called as supply-side tax policy. The supply-side tax policy that probably has been known or generally identified with tax cuts or other tax incentives can be defined in wider perspective. It means there are many other form of tax policy that give larger space for policy that needs to reconstruct to hinder the policy from being trapped into tax incentive polemic. Considering its coverage, the concept of supply-side tax policy can be reconstructed through deregulation. In practice for example, the deregulation of tax policy can minimize tax dispute that leads to cost reduction of bureaucratic hassle between government and business in the settlement of tax obligation. The termination of unfavorable tax provision that lead to business cash-flow distortion also can be categorized as supply-side tax policy. Probably to some extent, these type of policy is preferable than that of reduced-rate tax related instrument [16].

In offering incentives for business, the Indonesian government seem tries to promote new type of fiscal incentives other than to offer conventional tax incentives like VAT exemption and non-collectible customs duty which bear new high administrative cost and inefficient incentives package. As a new of tax incentives, the existence of Bonded Logistic Centre is one emerging economic stimuli package to improve the competitiveness of industry since it will reduce the logistic cost that highly affects the selling price and added by types of tax and customs incentives which also reduce the business burden. The BLCs become the stockpiling to collect the inventories in the vast quantity from foreign countries to be used by local manufacture. The local manufacture industries have not had to import material, equipment, supplies for their factory activities [17]. In short BLC is to shorten of procurement chain for manufacture industries since they don't have to import equipment, inventory, machinery, spare parts or other goods needed for their industrial activities.

TABLE III. THE ILLUSTRATION OF SUPPLY CHAIN AFTER IMPLEMENTATION BLC

Non BLC	BLC
Country Origin Raw material supplier ↓ Grading Warehouse ↓ Distribution center	**Country Origin** Raw material supplier ↓ Grading Warehouse ↓ Distribution center
Middle Country Regional Distribution Centre	**No chain**
Destination Country Distribution Center ↓ Buyer	**Destination Country** Distribution Center ↓ Buyer

Source: Indonesia Bonded Logistic Centre Management (2016)

In China, the application of BLC has been practices for types of industry other than manufacture, for instance cross-border e-commerce since 2012 in several cities and property industry since 2013. Mix product needed from overseas are imported and stored in BLC. The variety of imported goods depend on the local buyer industry's forecasting and the trend of market. The importers are responsible to deal with tax and state levies obligation. For most of domestic industry, more than 60% of material imported are acquired from BLC. This BLC model has shown significant advantage for local buyers and customs. The delivery time and logistic cost have reduced and the imported goods got protection from importer with certain of import services. This system also reduces the burden of customs officer because less frequent of direct import from local business and in the same time it reduces the potential of untaxed goods entering the country [18]. China customs authority has set Import Export Management System to simplify the importation process and to reduce logistic cost even though this facility is focused on temporarily goods for processing in a large storage thus tax obligation and customs duty are postponed. Having processed, the products that will be exported can be stored in BLC under Customs Management System [19]. The bonded storage operational method and management tools model in China is as follow

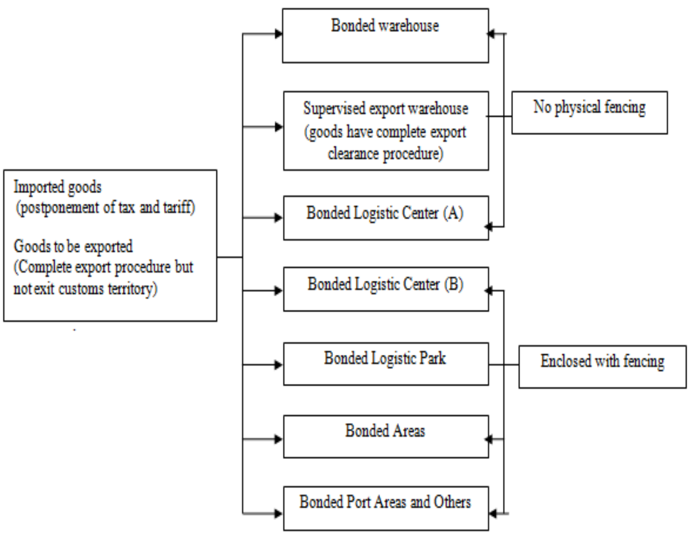

Fig. 1. Bonded Storage Operational Method and Management Tools Model in China

Source: China Customs Institution

The initiation to established BLC in Indonesia is to ensure that industry demand on goods on their business process are available with more competitive logistic cost, less administrative burden and in the same time as realization of tax incentive to support the increase of business competitiveness. The provision of BLC in Indonesia has been regulated in Government Regulation No. 85/2015 (GR-85) concerning Bonded Storage [20]. Through GR-85, the government provide fiscal incentives in the form of (i) postponement of import duty, (ii) non-collection of VAT, luxury-goods sales tax (LST) and prepaid income tax art.22 and (iii) exemption of excise. For the technical regulation, the government has released Ministry of Finance Regulation No. 272/PMK/04/2015 (PMK-272) concerning Bonded Logistic Centre (BLC) [21]. PMK-22 defines BLC is a place for bonded storage which may also conduct one or more simple activities that are not processing activities which generate new products that have a different nature characteristics, and/or function from the original goods, within a certain period for later removal.

In practice, for one BLC will stock one supply chain of particular industrial supplies and the distribution chain of one BLC is expected to supply several industries located in/or out of bonded zones. Thus, the purpose of BLC establishment is to provide flexibility to business to take their goods specifically for manufacture industry that enable them to stockpile their inventory in more cost effective. The chain of BLC as published by Directorate General of Customs and Excise is as followed:

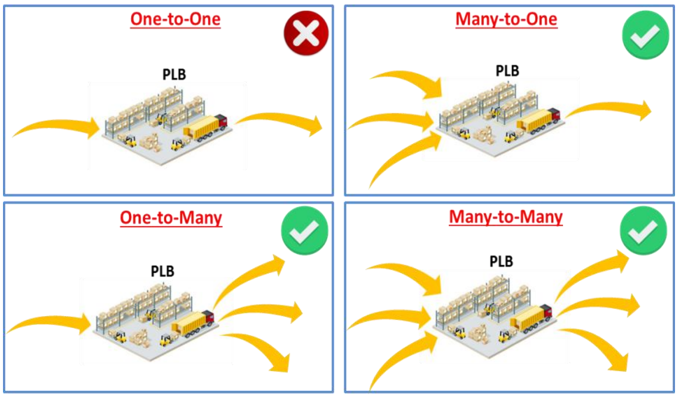

Fig. 2. The Supply Chain Illustration of Indonesia BLC

Source: Directorate General of Customs and Excise (2016)

The government set the plan to established 25 BLC and 14 out of 25 has been established to supply the needs of types of industries including maritime industry chain. The location of BLC in Indonesia following the operator of BLC is as follow:

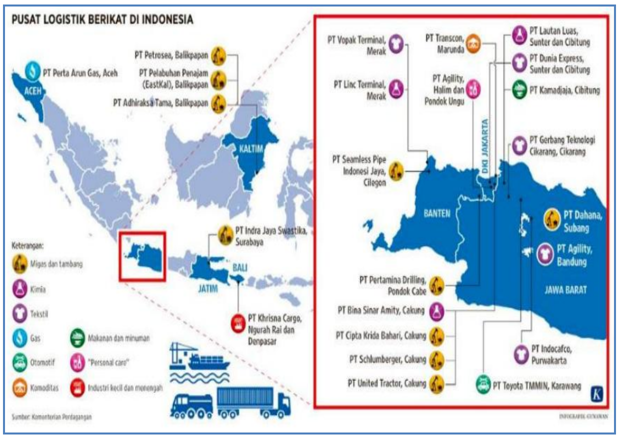

Fig. 3. Bonded Logistic Centre in Indonesia

Source: Directorate General Customs and Excise (2016)

BLC as a multi-functional logistic warehouse that is exempted from import tax and duty, is also intended to promote Foreign Direct Investment. This facility is expected can support industrial estate as the investment location that most of area near with port and toll road. As part of incentive package, the time limit for stockpiling goods in the bonded logistic centre is three years and for certain goods including goods needed by shipping industry chain, the time limit can be extended. The following are tax facilities offer to business who acquire their supplies from BLC.

TABLE IV. TAX AND CUSTOMS FACILITIES ON TRAFFIC OF GOODS TO A BLC

BLC Facilities	**Taxes on Imports**			**VAT/LST on local deliveries**
	VAT/LST/Art.22 Inc Tax	***Import Duty***	***Excise***	
Import of goods from overseas	Not collected	Postponed	Exempted	-
Delivery of goods originated from overseas via: a. other bonded stockpiling area; b. other special zones; or c. other places within the Indonesian customs area by a taxpayer granted with tax and customs facilities	Not collected	Postponed	Exempted	Not collected
Delivery of goods from another BLC	Not collected	Postponed	Exempted	Not collected
Delivery of goods from other place within the Customs Area (for export or certain purposes) directly to BLC or via other bonded stockpiling area or other special zones	-	-	-	Not collected

Source: PwC Indonesia Tax Flash Nov 2016 No.20

Before the establishment, the government has established industrial area for example Free Trade Zone, Bonded Zone or Bonded Warehouse. Most of them are intended for export oriented product. In order to optimize the development of industrial sector especially for maritime supply chain industry, the government establishes Bonded Logistic Center as the more comprehensive solution to support the business. Bonded Logistic Center is a multipurpose logistic warehouse that enjoys the exemption of import duty and tax. The different between BLC and others are as follow.

TABLE V. THE DIFFERENT BETWEEN BONDED WAREHOUSE, BONDED ZONE AND BONDED LOGISTIC CENTRE

Bonded Warehouse	**Bonded Zone**	**Bonded Logistic Center**
A structure or building in where imported goods are kept for further factory process within a certain period of time Types of bonded warehouse: 1. bonded warehouse for imported goods distributed to	An area where imported goods and/or goods from other location in Indonesia are kept to process for mainly export purpose	A place to store imported or domestically produced goods for a period of time when they on packaging process, sorting, standardization, kiting, reassembling or repair, labeling before being extracted for specific purpose such as delivery to another bonded storage area, used by industry,

Bonded Warehouse	Bonded Zone	Bonded Logistic Center
industrial companies (specifically for manufacture, mining, heavy equipment and oil services industry) 2. bonded warehouse used as distribution center for duty-free stores 3. bonded warehouse for goods for the exported purpose		export or re-export. Goods may be stored for up to three years although certain goods are eligible for extension such as goods for mining, oil and gas operation and specific industries.

Perspective of supply side policy on economic growth is to provide favorable environment for business. Even though the government has provided conventional incentives like reduce rate of tariff and non-collected VAT, however on business perspective it is not efficient. Deregulation of existing regulation with breakthrough to find new solution is the basic principle of supply-side tax policy. If the government offer reduce tariff until 0% for imported goods through acquisition of supply taken by shipyard from BLC, the economic benefit they get due to 0% tariff (see the illustration) can be utilized to expand the business.

TABLE VI. THE ILLUSTRATION OF ECONOMIC IMPACT OF CUSTOMS DUTY/TARIFF ON IMPORTED GOODS FOR SHIPPING INDUSTRY

Place of origin	%	Value	Economic Burden before Tariff Facility: Government Revenue — VAT 10.0%	Local prepaid tax PPh 22 lokal 0.3%	Impor prepaid tax 7.5%	Tariff (Plate) 7.5%	Tariff (main comp) 7.5%	Tariff(Comp) 10.0%	Total	Quantity sales (Unit)	asumption
Local	35%									500	Tariff facility creates opportunity to increase productivity through production increase 20% and the use of local content 10%
85% Plate	30%	151	15	0	-	-			16		
15% Other components	5%	27	3	-	-	-			3		
Import	65%										
10% Plate	7%	33	3	-	2	2		-	8		Production increase
55% Main component	36%	181	18	1	14	-	14	-	46		25%
35% Other components	59%	296	30	-	22	-	-	30	81	IDR	Local content increase
		687	69	1	38	2	14	30	154	76,777	10%

%	Value	Economic Burden after Tariff Facility: Government Revenue — VAT 10.0%	Local prepaid tax PPh 22 lokal 0.3%	Impor prepaid tax 7.5%	Tariff (Plate) 0.0%	Tariff (main comp) 0.0%	Tariff (Comp) 0.0%	Total	Quantity sales (Unit)
45%									625
38%	194	19	1	-	-		-	20	
7%	34	3	-	-	-		-	3	
55%									
6%	28	3	-	2	-	-	-	5	
30%	153	15	0	11	-	-	-	27	
50%	250	25	-	19	-	-	-	44	Rupiah
	659	66	1	32	-		-	99	62,062
								Government revenue loss/addition	-19.2%
									14,715

Source: Indonesia Shipping Industry Association (2016)

Based on that illustration, there is potential loss of government revenue from taxation about 19,2% but customs duty incentive can increase production opportunity and productivity through the increase of production volume up to 20% and the use of local content up to 10%. The increase of production is intended to be a main supplier of domestic shipping industry. The positive impact of customs duty incentive can also increase shipyard revenue and government potential revenue through corporate income tax as illustrated below.

TABLE VII. THE ILLUSTRATION IMPACT OF CUSTOMS DUTY INCENTIVE ON THE INCREASE AND GOVERNMENT REVENUE FROM CORPORATE INCOME TAX

Income Statement	Before Tariff Facility: %	Quantity	IDR/unit	Tariff (Plate) 7.5%	Tariff (comp) 15.0%	IDR	After Tariff Facility: %	Quantity	IDR/unit	Tariff (Plate) 0.0%	Tariff (comp) 0.0%	IDR
Sales	100%	500	1,000	-	-	**500,000**	100%	625	1,000	-	-	**625,000**
Cost of Goods Sold (COGS)												
Components												
Local												
Plate	23%	500	193	-	-	96,688	29%	625	249	-	-	155,391
Other components	4%	500	34	-	-	17,063	5%	625	44	-	-	27,422
Imported												
Plate	5%	500	42	3	-	22,709	4%	625	36	-	-	22,344
Main Component	36%	500	232	17	-	124,902	23%	625	197	-	-	122,891
Other components	17%	500	148	-	22	85,028	15%	625	125	-	-	78,203
Labor	15%	500	128	-	-	63,750	15%	625	128	-	-	79,688
Factory overhead	9%	500	73	-	-	36,250	9%	625	73	-	-	45,313
					Total COGS	**446,389**					**Total COGS**	**531,250**
					Marjin keuntungan	53,611					Marjin keuntungan	93,750
					pajak Penghasilan 25%	**13,403**					**pajak Penghasilan 25%**	**23,438**
											Increase/(decrease) government revenue	74.9%

Source: Indonesia Shipping Industry Association (2016)

The illustration above is the impact of partial incentive which use customs duty facility as instrument. The illustration of potential productivity increase when the government offers fiscal incentives package in BLC is as followed:

TABLE VIII. THE ILLUSTRATION OF POTENTIAL PRODUCTIVITY INCREASE OF FISCAL INCENTIVES PACKAGE IN BLC

Remarks	IDR
Cost Insurance Freight (10 unit @100)	1,000
Import duty (15%)	150
Cost of imported goods	1,150
VAT of imported goods (10%)	115
Prepaid tax art 22 (7.5%)	86.25
Total Cost	1,351

The state levies contribute up to more than 30% of component material production. If the government give incentives through non-collected tax and other state levies, it means the business can afford to purchase 3 additional unit of goods or the amount can be allocated to improve other factory's activity. In addition, the establishment of BLC will reduce the logistic cost up to 7% because the shorter of supply chain that means the cost of production will also reduce thus the products produces of local business can offer competitive price especially for those that will be exported.

Besides the monetary cost or tangible cost, the perspective of supply-side tax policy that also promote the deregulation to ease the business is also important to reduce intangible cost. The cost to deal with carry out imported goods from the stockpiling in the port and to settle the import declaration and related document will also diminish since this part will become the responsibility of BLC management.

IV. CONCLUSION

The government has shown its serious effort to support the development of shipyard industry productivity by offering conventional fiscal incentives with the form of customs duty paid by government and non-collectible VAT. Of course, the government shall establish the instrument to monitoring the realization of incentives whether it has been utilized properly as its goal. However, the conventional fiscal incentive bear new burden for instance administrative burden for business to fulfill their obligation thus the incentives seems contra-productive with its aim. As the follow up of the government support on industrial development, the government establish one package incentive through the establishment of Bonded Logistic Centre (BLC). The BLC currently can reduce the cost of production due to non-collected customs duty, VAT and logistic cost. In addition, it also offers less administrative burden for business since the import settlement will not the responsible of the buyer but it will shift to the management of BLC.

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