

The Functioning Process of Logistics: A case of Licensed Manufacturing Warehouse (LMW) in Malaysia

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The main purpose of this study is to identify the License Manufacturing Warehouse (LMW) operator in the state of Penang, i.e. whether they are fully conversant or aware of the facilities provided by the Royal Customs Department. In analyzing the understanding of the facilities provided, data was collected and gathered which was obtained from various industrials. Data was also gathered through questionnaires that were distributed to selected respondents.

Since establishment of Free Trade Zone (FTZ) in 1972 and currently was name as Free Industrial Zone, the Government decided to launch the License Manufacturing Warehouse (LMW) system. The proposal to implement the LMW system was based on the same policy as that governing the establishment of the FTZ's in Malaysia, namely to provide exemption facilities and other incentives for export-manufacturers on an automatic basis but with a slight modification, whereas FTZ's were more or less permanent in terms of locality, area and permitted activities.

However the LMW manufacturer has a choice of location. The final decision on the location of the factory site would invariably be dictated by factors like, the availability of labour, cost of land and building and other supporting services. In the LMW system the export-manufacturer had the best of both choices of location as well as facilities for his operation that were more or less identical to that available in the FTZ.

The necessary legislation for the implementation of the LMW system was enacted in 1973 by amending the relevant provision in the Customs Act 1975. The amendment permitted a manufacturer to acquire LMW status for his manufacturing operation by having the factory bonded by Customs. The bonding or licensing of the premises allowed LMW manufacturers to import or purchase their raw materials tax-free and export their finished goods without duties.

The facilities provided by the Royal Customs Department are very important for the manufacturers in Malaysia, whether foreign or local and the kind of incentives and facilities available are very relevant before investing in

any activity in Malaysia. The purpose is to avoid any problems that are likely to be encountered by the manufacturers operating in a Customs territory such as within Principal Customs Area of Malaysia. The principal Customs Area consists of the Federation of Malaysia excluding the island of Langkawi, Labuan and Free Zone.

In prevailing Customs controlled environment the investing manufacturer will have to consider, among other thing, the existence of high tariff walls, import and export restrictions and the taxation of locally manufactured goods. In the circumstances, the potential manufacturer may be excused if he adopted the view that he will be operating under constraints imposed by Customs, Sales Tax and Excise legislation. What is important to the users is the availability of facilitation's and exemptions under prevailing Customs and Sales Tax laws to meet the requirement of his day-to-day operations. Therefore the latest information on Customs and Sales tax procedures for obtaining facilitation's and exemption are pertinent to the manufacturer.

The primary function of the Customs is the enforcement of the provisions of Customs, Sales tax and Excise laws whose basic object is the collection of revenue and protection of the same. It must be acknowledged that exemption facilities and incentives related to tax relief must necessarily operate within the framework of existing revenue laws and not outside of them.

The future economic well being of nations is dependent undeniably on the development of trade and industry as it has been up till now. Trade and Industry cannot however develop and function in an insulated environment on the basis of protectionism and self-sufficiency. There has to be economic co-operation transfer of technology effective utilization of resources, investments in industry and finally international trade through procurement of oversea markets.

All this can take place at a much-accelerated rate if Customs procedures are oriented towards facilitating trade and industry. More importantly facility must be provided through efficient Customs procedures.

Since the Government has provided the facilities to the Licensee but still not fully conversant or

aware of the facilities provided due to lack of awareness result in the delay of their operation in particular matters related to import & export and thereby incur higher operation cost.

This lack of awareness also results in licensee's flout the rules and regulations administered by the department and occasionally penalized and blacklisted. Complete knowledge of Customs laws and facilities are essential to the manufacturer so as to plan any manufacturing activity and expansion of business.

The objective of this research is to evaluate the effectiveness of the facilities granted to the Licensed Manufacturing Warehouse manufacturers that would like to discuss are as follows:-

1. Direct Release System

This facility was introduced is to help the manufacturers and the trading communities to get their import consignments released without physical examination but subject to condition imposed by the Director General of Customs.

The purpose of this facility is to avoid any delay faced by the users on the process of clearance and also to avoid port congestion. It is only allowed if:

- The declaration are completed
- Declaration is as per in manifest
- Supporting documents are all in order
- The consignment are not suspicious in nature
- Those importers are under License Manufacturing Warehouse or Free Industrial Zone
- Consignment that consign to public bonded warehouse

2. Selected Release System

This facility given by the Customs department base on certain type of consignment that are released without physical examinations and it only allowed based on the criteria as follows:

- The background of the importers.
- The importers are importing homogeneous goods.
- Value of the goods imported.

- Upon application by the importer.

3. Express Handling Unit

Express Handling Unit is a facility that enables fast and direct release of goods imported by air. Under item 172 of the Customs Duties (Exemption) Order 1988, goods that are imported by any person using air courier service through the Kuala Lumpur International Airport, Sepang air cargo, as general rule goods are normally released within one day. Under this facility the goods imported are not exceeding RM200.00 of the total value per consignment, exempted from pay import duty and need not be declared in Customs Form 1. Category of goods is free sample that are imported for testing or exhibition.

4. Export Mobile Examination Team

This facility provides speedy clearance of goods for export from the premises of the manufacturers. Goods which are normally required to be examined at the place of export for the purpose of duty drawback facility and etc, can now be done at the premises of the manufacturers, this facility is to avoid inconvenience of having to repack or replacing goods which may be damaged as a result of Customs examination at the place of export. The condition imposed by the Customs Department is a follow:-

- Application must be made to the controlling Customs stations by the exporters / importers.
- It is limited to the goods, which are not subject to export duty.
- The goods must be loaded in full Container Load (FCL).
- The importers / exporters must have good record with the Customs Department.
- Located within 25km from the Customs station.

The mobile examination team was established at certain Customs station as an additional facility to ease congestion at the ports entry points and it only available at Penang port, Port Klang and Johor Bahru.

The objective of the Mobile Examination Team is to overcome the difficulties of doing examination

at the port or entry points. It is also in line with the Just in Time (JIT) delivery requirement and as an additional facility to the Direct Release System.

In case of imports, the goods are released after Customs duties and taxes are paid based on the information declared in the Customs Declaration Form 1 and the containers are sealed with Customs seal. In the case of export, the declaration can be prepared in advance for the mobile examination team to verify that the goods are loaded into the container for export and sealed.

5. Pre-Clearance

This facility is to allow import declaration being carried out 14 days before the arrival of the vessel provided that the importer fulfilled the condition as follows:-

- Customs duties and taxes can be paid 14 days before the arrival of goods.
- The conveyance manifest has been submitted to the respective Customs stations.
- The port operator confirms the estimated time of arrival of the vessel.
- Other shipping documents must be accompanied such as Commercial invoice, AP (Approved Permit) if required, Packing List and Delivery order, etc.
- The consignment is not subject to Customs examination.

6. Release of Export Goods without Customs Declaration

This facility was announced by the Ministry of Finance in 1998 Budget, which is to simplify export procedures and to facilitate the exporter to export their goods without declaration of Form 2. However, the form shall be submitted to the Customs station not later than 7 days after the departure of the vessel.

7. One-Stop Licensing Centre

This facility was introduced to centralize the application, processing and issuing of the license under the various acts, this will help the applicant save time in their submission of any application form and seek advice pertaining to the

Customs Rules and Regulations, e.g. like:-

- Customs Act 1967
- Application of Warehouse License-Public and Private.
- License Manufacturing Warehouse.
- Duty Free Shop License.
- Inland Clearance Depot License.
- Excise Act 1976.
- Manufacturing License.
- Warehouse License
- Sales Tax Act 1972.
- Manufacturer's License.
- Service Tax Act 1975.
- Service Tax License.

8. Establishment of Licensed Warehouse

The establishment of the license warehouse (public and private) is to allow the trading communities to carry out various activities in the warehouse before export or re-export their goods. The activities that allow by the Customs Department are:-

- Storage
- Customs survey
- Bulk breaking
- Re-packing
- Consolidation
- Labeling
- De-vending

9. Facilities that allowed Licensed Manufacturing Warehouse (LMW) to carry out day-to-day activities

Importation of machinery, spare parts, equipment, tools and accessories used directly in the production is given full relief of duties. To ensure this exemption is granted automatically at the point of entry with minimal of Customs control and documentation, the Importer must declare in Customs Form 1 with proper supporting documents and claim exemption under the Customs Duties Order Exemption Order 1988 and Sales Tax Exemption Order 1988.

10. Importation of raw materials from overseas or Free Industrial Zone

Raw materials use directly in the production of finish goods for the purpose of export or local sales are given full tax relief, the importer must declare in Customs Form 1, and attach with proper document and claim exemption under the relevant act.

11. Import through Public Bonded Warehouse

This facility is allowed for LMW licensee that faced constraint in warehouse space, the goods will be transferred directly from the entry point to the public bonded warehouse by using Customs Form 8 and the movement of goods in container or truck must be seal by Customs department. All the bonded truck or open lorry must obtained approval from state Director of Customs before allow carrying the goods.

On movement of the goods from public bonded warehouse to the LMW premises, the Customs Department allowed the licensee to take partial or full load delivery as they wish. It must be declared in Customs Form 9 for partial delivery and Customs Form 1 for full load delivery and claim exemption.

12. Re-import of Rejected Finish goods for Reprocessing

This facility allows the exporters to re-import their good from overseas or Free Industrial Zone due to quality problem for the purpose of reprocessing and re-exports to the consignee. First of all the consignor must obtained approval in writing from State Director of Customs before the goods allow into the LMW premises. Duty exemption claims under item 69 of Customs Duties Exemption Order and Item 75 of Sales Tax Exemption Order and declare in Customs Form 1.

13. Re-import of Machinery or Spare Parts after repaired

This facility allowed the licensee to send the machine or spare parts to oversea for repair and re-import after it is repaired. Before sending the licensee must obtained approval fro State Director

Of Customs and declares in Customs Form 2 attached with the approval. During importation the licensee can claim tax exemption under item 51 of Customs Duties Exemption Order and item 55 of Sales Tax Exemption order and declare in Customs Form 1.

14. Purchase from Sales Tax License Company

This facility allowed the licensee to purchase their raw materials or packing materials from any local Sales Tax license suppliers without paying any Sales Tax for use directly in the production. Exemption of the duties is claim under Item 28 Sales Tax Exemption Order and the licensee must chop and sign the invoice and delivery order as a proved of receipt before it could be submitted to the Customs Department.

15. Export of Finish Goods through Public Bonded Warehouse

This facility allowed the licensee to transfer their finish goods to the public bonded warehouse for temporarily storage due to constraint of space. Approval must be obtained before the goods are allowed to move to the bonded warehouse. The movement of the goods from LMW to the bonded warehouse is under Appendix GPB-2 and proforma invoice. However for export direct from bonded warehouse is by using Customs Form 2 without Customs seal.

16. Export of Finish Goods from LMW premises through Third Party

This facility allowed the trading company to export direct the goods that are purchased from LMW Company without paying any taxes (if applicable) for the purpose of save time and cost but approval must be obtained from the nearest Customs Department. Export declaration in Customs Form 2 and must endorse by the licensee.

17. Export of Finish Goods through third party from Principal Customs Area (PCA).

This facility allowed the trading company to export the goods purchased from LMW

Company without paying any taxes but approval must be obtained from the nearest Customs Department. The movements of goods from LMW premises to principal Customs Area premises that are approved by the Customs will be declared in Customs Form 9. Tax exemption is claimed under Item 165 Customs Duties Order and Item 77 Sales Tax Exemption Order. However, the exportation must be carried out within six months from the approved date.

Export from PCA will be declared in Customs Form 2 and must be endorsed by LMW licensee.

Since the Customs Department had granted a lot of facilities to facilitate the LMW licensee, however, still a lot of the licensee is still not aware of the facilities provided, even though the survey carried out from various industries like:- Electronic, Garments, Assembly Plants and other Industry. It was discovered that the result collected showed 60% out of 26 questionnaires rated it as good but it had spent a lot of time to explain to the respondents about the function and benefit of the facilities provided.

It shows that a lot of the respondents are not aware of the actual facilities that they can enjoy and always refer or follow the advice from the

appointed forwarding agent.

Nevertheless, the licensee should take full responsibility to understand the requirements of LMW rules and regulations and its facilities, if difficulties occurred, they should refer it back to the LMW Customs division for further advice on the rules and regulations and the facilities provided is very important, in order to have smooth operation.

Through the analysis carried out on various industries, few recommendations had been proposed in order to overcome the problems faced by the License Manufacturing Warehouse is to attend courses pertaining to LMW rules & regulations, which may be organized by the Royal Customs Department or private institution.

However, the Royal Customs Department should introduce or implement a kind of special license to the person in charge of a LMW company; the purpose is to upgrade the standard and knowledge of the person in charge. Those holding this license shall go through yearly examination pertaining to LMW rules & regulations when they renew the license. Besides that, the Royal Customs Department shall carry out the dialogue or seminar regularly to the licensee based on the nature of the business.