

Tax Regulations on Forest Products in Ternate at the XIX Century

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ABSTRACT

Ternate was the center of international trade in the past. After being occupied by the Dutch through VOC, economic activities in Ternate were controlled by the VOC. The monopoly of economic activity in Ternate resulted in the loss of income for the kingdom. As a compensation, the Dutch East Indies government gave the king the right to collect taxes, called *ngase*. After VOC collapsed and left a lot of debt, Ternate fell into the hands of the Dutch East Indies government. The government carried out various ways to pay off the debt, one of which was imposing land tax and forcing cultivation system until 1870. This study aims to explain the tax regulation on forest products during the Ternate Kingdom at the end of XIX century and the influence of the Dutch East Indies on the regulation. Philological method and historical approach were used in this research. The results show the percentage of tax that had to be paid, types of taxed forest products, and amount of fine if the tax regulation was violated. The intervention of the Dutch East Indies that was obviously seen in the tax regulation was that the amount of income earned by the Kingdom was determined by the Dutch East Indies.

Keywords: *Dutch East Indies, Tax Regulation, forest Products, Ternate, the XIX century*

1. INTRODUCTION

Ternate is an island located in the North Maluku Islands, precisely on the west of Halmahera Island. Ternate's wealth of clove invited many foreign countries who wanted to trade and even control the Kingdom of Ternate, especially European countries [1]. Around the fourteenth century, the Portuguese came to Ternate to buy cloves. After being controlled by the Portuguese, Ternate fell into the hands of the Dutch through the VOC. After the collapse of the VOC due to many debts and corruption practices, Ternate fell under the control of the Dutch East Indies government. At the beginning of the nineteenth century, the Dutch East Indies government had a huge number of debts, around 38 million guilders, left by the VOC. To cover the debt, the Dutch East Indies government imposed land taxes and forced planting systems [2]. Both policies were implemented in the archipelago, including Ternate.

After the VOC took control of Ternate at the beginning of the seventeenth century, buying and selling spices, including cloves, was controlled and monopolized by the VOC. Previously, spice trading was controlled by the sultan and became the royal income. With the VOC policy, the sultan could not sell spices freely because the

sale of spices was prohibited by the VOC. To compensate it, the VOC created a new system to restore the sultan's income. This system was called *reconitiepenneingen*. The system allowed the sultan to get tax payments for forest products in the form of resin, rattan, and so on. The tax payment was called *ngase* [2].

The conditions described above were recorded in the manuscript "Forest Product Tax Regulations" issued by the Kingdom of Ternate in December 1911. This manuscript was stored in the National Library of the Republic of Indonesia with code 113 8/11 +. It contains the tax regulations on the forest products of the Kingdom of Ternate. The manuscript consists of three pages and has four articles. The regulation stipulates the amount of forest products to be paid to the government. The manuscript is included in the archives of the Sultan of Ternate, which are mostly types of agreements, regulations, and political contracts [3].

The Dutch East Indies government had a huge influence in the archipelago, especially in the areas it controlled. The way the Dutch East Indies government demonstrated power over its colonies in the nineteenth century was seen in the regulations, treaties, and laws of that period [4]. Ternate, as one of the areas controlled by the Dutch East Indies government, did not escape this influence. One of the ways the Dutch East Indies government gave influence to Ternate was by intervening

in the policies of the Kingdom of Ternate in various fields. How the Dutch East Indies government intervened in the economic policies of the Kingdom of Ternate, especially in the field of taxation, is discussed below.

In the present, the twenty first century, regulations regarding the payment of forest products in Indonesia have been far more developed. Based on the Regulation of the Minister of Forestry of the Republic of Indonesia Number P.68/Menhut-II/2014, state revenues from forest products do not constitute tax. The regulation is more clearly and fairly regulated in terms of the utilization of forest products. This is interesting when compared to the situation at the end of the nineteenth century reflected in the manuscript of Ternate's "Forest Products Tax Regulation".

In connection with the abovementioned description, the issue that will be discussed in this article is how the tax on forest products of the Kingdom of Ternate at the end of the nineteenth century regulated. It will be compared with the current tax policy on forest products. In addition, this article will also discuss the issue of how the Dutch East Indies government intervened in the Kingdom of Ternate's tax regulation on forest products.

2. DISCUSSION

2.1. Tax Regulations on Forest Products under the Ternate Kingdom at the End of the XIX Century and at Present

Tax is a mandatory levy paid by the people to the government, usually in the form of money. Tax had been applied during the Kingdom era and the colonial period in Nusantara archipelago. Taxes were included in government revenues used for various government purposes. These include paying debt, building, and financing government activities. Tax is also one of the ways the Dutch East Indies colonial government paid off debts left by the VOC.

In Ternate, the Kingdom's main income came from spices. After buying and selling spices was monopolized by the Dutch, the Kingdom lost its main source of income. As compensation, the Netherlands created a system called *reconitiepeneingen*. The system allowed the Sultan to impose taxes from natural resource products. The taxable natural resources were forest products, marine products, etc. [5]. Matters related to taxes from forest products were regulated in the manuscript "Forest Products Tax Regulations".

"Forest Product Tax Regulations" of the Kingdom of Ternate discussed the number and types of taxable forest products. This tax or *belasting* was called *ngase*. It also regulated tax on exported goods. In the regulation, it was stated that the taxable forest products included wood types such as resin, rattan, masoi; processed wood such as beams and boards; and forest products other than wood, e.g. sap. It was also stated that if the forest product had been processed into another form, for example the wood made into a boat, then the amount of the price for the wood used for the boat was not regulated further on the wood that was not used for making boats. This regulation was issued by the Kingdom of Ternate based

on *besluit* issued by the Resident of Ternate. It was established in December 1911 and approved by the Sultan of Ternate, Haji Muhamad Utsman.

The manuscript also regulated the procedure for payment and fines from those who violate these rules. The amount of *ngase* collected was five percent of the total price of forest products to be sold. In this regulation there was no mention of timber that has not been sold or delayed. *Ngase* must be paid using the Dutch currency. If the items were to be exported, the credit must be paid in advance, before the goods were taken abroad. Similarly, if the item was being purchased by a foreigner, the *ngase* must be paid in advance before the goods were delivered. However, if the goods were sold and purchased by people who had a high position, they did not have to be paid in advance. This was probably influenced by the assumption that officials and nobles with higher position deserved different treatment in this regulation. If one was late in paying, violated the rule, or tried to violate these rules, the penalty was a fine of up to one hundred rupiah. If the amount of payment was not in accordance with the determined amount, the person still had to pay off the income tax according to the stipulated forest product tax regulations.

The "Forest Product Tax Regulations" set out above was one of the main sources of income for the Kingdom of Ternate. Nonetheless, this income still had to be shared with the colonial government because taxes were one of the sources of income needed by the Dutch East Indies colonial government to pay off VOC's debts. The Dutch East Indies government, through the tax regulation, applied a high tax rate other than the export, import, industry, and trade monopolies to get a large income [6].

At the time, the amount of tax of five percent was a large sum. For the people of Ternate, forest products were the main commodity to substitute spices which had been monopolized by the Dutch East Indies government. The existence of a five percent tax on forest products reduced their income by a lot. It was even more difficult for Ternate people if they were about to sell their merchandise to people who were not Ternate residents because the tax had to be paid in advance. It was difficult to make a payment of taxes in advance, since the buyer was yet to make payment for their purchase.

The Dutch East Indies government, through the appointment of Ternate Resident, regulated taxes or taxation under the pretext of 'returning favor' because they had destroyed Ternate's economic system through the spice monopoly trade. The Dutch East Indies government felt that they had an obligation to help regulate Ternate's economic system. The Dutch East Indies government, through a tax collection, intended to help Ternate regain the kingdom's lost income due to the monopoly system.

One of the economic regulatory assistances carried out by the Dutch East Indies government was the separation of the state finances from the royal family finances, making efficiency in royal expenditures, and managing financial resources in a modern way. Although the management of the royal economic system as such was good, it was not something that was common at the time. At the time, the kingdom or the sultanate was

basically owned by the royal family, so it was unusual for separating royal family's expenditures from state expenditures [5].

The manuscript "Forest Product Tax Regulations" showed a large interference by the Dutch East Indies government. Through these regulations, the Dutch East Indies government, using the hands of the Kingdom of Ternate, wanted to emphasize their rules related to the tax on forest products. Their firmness can be seen from the stipulated fine for anyone who tries to violate the provisions of the regulation. In the following quote the amount of fine to be paid by those who violated the rule was stated.

"Article Four/

1. Whoever violates/ the *ngase* rule or/ tries to violate the rule/ is fined up to *f100*/ one hundred rupiahs./
Whoever pays/ the *ngase* less than it is supposed to be/ that is stipulated will suffice/ what is deficient./" [7]

From the quotation above, there was uncertainty in the regulation, no specific amounts and provisions of fines intended for the violator. The *f100* was a considerable amount at that time. The salary of a *jogugu* who stood directly under the sultan was only *f75*, so it can be said that *f100* fine was a very large amount. Unfortunately, the amount that had to be paid according to the income ratio was not clearly regulated.

At the end of the XIX century in Ternate, taxes from forest products became state's revenue which was used for development. There was no fixed standard regarding the amount of tax. It was only stated that the tax was five percent of the selling price. Meanwhile, in Indonesia today, according to the Regulation of the Minister of Forestry of the Republic of Indonesia Number P.68/Menhut-II/2014, state revenues derived from forest products do not include taxes. This income was called non-tax state income. The businesses in forestry industry did have to pay fees to the government for selling their forest products but not in the form of taxes. The regulation also regulated the amount to be paid based on the type and amount of commodities.

When compared to the situations in Ternate at the end of the nineteenth century, policies regarding forest products in present day Indonesia were far better. In the past, regulations regarding the tax on forest products, especially in Ternate, were largely influenced by the intervention of the Dutch East Indies colonial government. Regulations at that time gave more benefits to the colonial government than to the indigenous people. The current regulations regarding forest product resources were more just and decisive. In the current regulations, the amount that must be paid was clearly stipulated based on the amount and number of commodities. Similarly, the sanctions were also clear for every violation. It also regulated the amount that must be paid for the preservation of the commodities [8]. Thus, the current regulations were far more just, clearer, and more assertive than the regulations at the end of the nineteenth century. They were also applied impartially and did not benefit one party while harming others,

unlike the regulations at the end of the nineteenth century.

In the Regulation of the Minister of Forestry there is a list of tariffs to be paid to the government by the businesses based on the type of wood, the diameter of the wood, the area of origin of the wood, and the level of scarcity of the wood [8]. This situation showed that the current regulations have better management than the late nineteenth century regulations. Current regulations made the forest product fees paid to the government seem to be non-binding like taxes. However, it resulted in the forest exploitation which caused the imbalance between the utilization of forest products and the amount of planting of new forest.

At the present day, there was a lot of exploitation of forest products and deviations in the use of forest products. Although the regulations regarding the use of forest products have been far better than in the past, in practice these regulations have not been used properly. Consequently, it resulted in a lot of fraud and damage to the environment. Many corporations took forest products outside the area permitted by the government. They did logging activities in the areas that were intended for the preservation of natural resources. This was caused by deviations in the implementation of regulations regarding the use of forest products and regulations that seem less binding.

2.2. Intervention of the Dutch East Indies in the Regulation of Forest Products under the Kingdom of Ternate at the End of the XIX Century

In the nineteenth century, the Dutch East Indies government adopted ethical politics as a form of reciprocation in its colonies [9]. Ternate was also affected by the introduction of ethical politics. In Ternate the ethical politics was carried out in the early 1900s. The Dutch East Indies government tried to improve the Ternate economic system by separating the income and personal expenses of the sultan's family from the state. This was uncommon in a sultanate or a kingdom because basically all the wealth in the country was owned by the sultan as the head of state. "Improvement of the economic system" carried out by the Dutch East Indies government was not actually an improvement in the economic system, but rather an attempt to fully control Ternate's economy [10].

One of the reasons for the Dutch to make economic improvements was to reciprocate the system of monopoly carried out by them in the previous century. However, at the same time it also served as a cover to other Dutch interests. The Netherlands wanted to have influence in the royal financial system. The structuring of the economic system carried out by the Dutch East Indies government through the establishment of the Sultanate-Owned Funds Agency in 1900 [10]. This agency was run by a royal treasurer and a Dutch official as superintendent. This agency took care of royal income from various sources. The royal sources of income at that time came from the forest products, marine products, and swallow nests. Before the establishment of this agency,

royal income was managed by royal officials under the *jogugu* directives, the main officials in the structure of the Ternate Sultanate.

Superintendent, as an extension of the Resident, actually had considerable power over the financial field of the Ternate Sultanate since 1898. Superintendents were tasked with regulating royal income and expenditure. Every year, superintendents were also tasked with sending royal financial reports to the Dutch East Indies government [10]. Since the establishment of the Sultanate's Funds Agency, on paper, the tasks and authority of the superintendent began to decrease. Superintendents, on paper, were only authorized to make financial reports. The Dutch East Indies government also gave autonomy in the financial sector to the sultanate. However, in practice, the Dutch East Indies continued its will to interfere with the sultanate's financial affairs.

In the early days of the establishment of the Sultanate's Funds Agency, the Dutch East Indies government seemed to be giving freedom in terms of royal income and expenditure by limiting superintendent roles. However, this was only temporary. In the following year, 1900, the Ternate Resident made an appointment to the Director of the Ministry of Home Affairs to improve Ternate's income and expenditure system. Based on this promise, the Director of the Department of Internal Affairs gave several recommendations. Firstly, Ternate's financial statements were prepared based on the provisions set by the Dutch East Indies government, and secondly, to not limit the superintendent's power, so that the superintendent not only had power over the financial statements, but also had power over management of royal funds including the official salaries and various other needs [10].

The recommendation from the Director of the Department of Internal Affairs of the Netherlands East Indies to the Ternate Resident indirectly showed that the Dutch East Indies Government actually wanted to have absolute intervention in the field of royal financial income and expenditure. Ethical politics, in the form of improving the royal financial system, only served as a cover for the real purpose of the Dutch East Indies government. It was clear that the Dutch East Indies government through the Resident and the superintendents wanted the Ternate Sultanate to fall under their full power.

The intervention of the Dutch East Indies government in Ternate's financial sector became more obvious in 1902 when the Resident began to have a greater role than the superintendent. The sultanate's budget, if previously was regulated by the royal treasurer and superintendent, in 1902 onwards not be carried out without the approval of the Resident. This made the movement of the Sultan and his officials in terms of expenditure and income to be increasingly limited [10]. The policy also had led to a situation where the profits earned by the kingdom in the form of natural resources tax had to be reused for the need of kingdom and its people. In other words, through the Dutch East Indies government policy, the Ternate Sultanate did not have a portion of income that could be saved. The income earned must be reused for meeting with the Sultanate and its people's needs. Through the system, the Dutch East Indies government gained many

benefits. It gave the impression that the Dutch East Indies government 'had helped a lot' the Ternate Sultanate, yet at the same time, the Dutch East Indies government did not have to spend money on Ternate's development.

It was also seen in the manuscript "Forest Products Tax Regulation". In the manuscript, the Dutch East Indies government had a strong influence. The influence was clearly seen from the basis used in making the tax regulation. The enactment of the tax regulation was made based on the *besluit* issued by the Ternate Resident in the following quotation.

"Read[h] *besluit* Sri/ Paduka Tuan Residen[t] Ternate/ and the occupied land *tertakbir*" [7]

In this regulation the Dutch East Indies government through the Ternate Sultanate also set a large amount of taxes and fines. Taxes drawn from forest products were five percent, while fine for those who violate the regulation was *f*100. The tax amount was contained in the following quotation.

"Article Two/
The amount of *ngase* which will/ given five per[u]sen[t] from/ the price of forest products/ which is charged." [7]

Meanwhile, the amount of the fine charged was found on the following quotation.

"Article Four/
1. Whoever violates/ the rule of *ngase* or/ tries to violate the rule/ is fined up to *f*100/ one hundred rupiahs. /
Whoever pays/ *ngase* less than what is set in the regulation/ what is stipulated will suffice/ what is lacking./" [7].

In addition to the tax on forest products drawn by the Ternate Sultanate in the form of *ngase*, there was also a land tax drawn by the Dutch East Indies government. In text 113 8/1 [11] issued in 1870, it was stipulated that forests were not included in the area with which land tax was collected. Forest was an area that can be utilized by indigenous people. Technically, the Dutch East Indies government did not tax the forest products, but in practice, through the Sultanate's Funds Agency, the Dutch East Indies government indirectly participated in taking the tax.

Ngase or tax on forest products taken was not fully used for the interests of the sultanate. The royal income from *ngase* did not go into the sovereign or the Sultan personal wealth. However, these funds were used in ethical political practices carried out by the Dutch East Indies government. Some of these incomes were used for development in various fields in Ternate. Even though the development had been carried out from and by the colonial government, it was done by using Sultanate's money, in accordance with the political narrative of the Dutch East Indies who wanted to repay the colonies by carrying out development and structuring in various fields.

This situation gave many advantages to the Dutch East Indies government. They seemed to be developing

Ternate through various policies. However, in fact the Dutch East Indies government only used various opportunities in their intervention to seek profits and build their own reputation. The Dutch East Indies government wanted to pay off VOC debt in various ways. Therefore, the Dutch East Indies government made many tricks to conduct ethical politics while still benefited from its colonies.

The "Forest Products Tax Regulation" was one of the concrete actions of how the Dutch East Indies government intervened in the kingdoms in the archipelago. The regulation indirectly regulated Ternate to pay for the forest products they got, although the forest products were actually in the possession of the kingdom and the Sultan. The Dutch East Indies government, which was supposed to finance the development in Ternate, in fact made Ternate financed its own development and did not benefit at all. At the same time, the Dutch East Indies government received economic and political benefits from the practice.

3. CONCLUSION

The manuscript of "Forest Product Tax Regulations" was one of the Dutch East Indies government's instruments to intervene in the Sultanate of Ternate. One proof that the regulation had served as an intervention tool was the fact that it was made based on the rules and orders of the Resident of Ternate. The regulation was indeed issued by the Ternate Sultanate but its contents, if examined further, would be very unfair to the people of Ternate. This was also influenced by Ternate's economic and financial situation at the time. At that time the Dutch East Indies government was intensifying ethical political practices which intended to repay favor to their colonies, although this was not the case. The ethical politics was implemented in Ternate's economy through the establishment of an Sultanate-Owned Fund Agency that was indirectly controlled by the Dutch. The agency regulated the income and expenditure of the sultanate including the taxes on forest products (*ngase*).

Through *ngase* and the improvement of the sultanate's economic system, the Dutch East Indies government gave the impression that they wanted to build and develop Ternate. In practice, that was not the case. *Ngase* was not included completely in the royal funds. The money was used to rebuild Ternate while it was supposed to be the responsibility of the Dutch East Indies as a ruler to fund the development of its colonized territory. Developing Ternate was one of the promises given in ethical politics. In practice, Ternate was increasingly being controlled by the Dutch power and in fact, it was Ternate itself who built its own territory, not the Dutch East Indies government.

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