

ASIAN DEVELOPMENT BANK

**CUSTOMS COOPERATION COMMITTEE
REGIONAL CAPACITY BUILDING SEMINAR**

PROCEEDINGS

April 2003

CONTENTS

	Page
I. INTRODUCTION	1
II. SUMMARY OF THE SEMINAR PROGRAM	1
A. Integrity of Customs Administration	1
B. Revised Kyoto Convention	2
C. Risk Management	2
D. Customs Valuation	3
III. CONCLUSIONS AND SUGGESTIONS	3
APPENDIX	
1. Seminar Program	5

I. INTRODUCTION

1. A major regional cooperation initiative in East and Central Asia was the creation of the Customs Cooperation Committee (CCC) consisting of the heads of customs administrations of eight developing member countries (DMCs).¹ The CCC provides overall guidance and supervises the implementation of a Common Action Plan endorsed in the first CCC Meeting in August 2002.² The Common Action Plan lists seven priority areas for cooperation including joint capacity building activities.

2. The regional training seminar held in Almaty during 17-21 February 2003 was the first activity launched in support of the training component of the Common Action Plan. The Seminar is coordinated by a team including Shamshad Akhtar, Director, ECGF, Jeffrey Liang, Ying Qian, and Loreli de Dios, under the overall supervision of the Director, ECGF. The Seminar brought together 32 participants from the eight DMCs. The purpose of the Seminar was to help the participants gain knowledge on modern customs practices and on major international efforts to facilitate trade, in order to strengthen institutional capacity of customs administrations. The Seminar Program is given in the attachment. This information paper aims to further disseminate the outcome of the discussions on the Seminar topics: (i) integrity of customs administration, (ii) Revised Kyoto Convention for simplification of customs procedures, (iii) risk management, and (iv) customs valuation adopted by the World Trade Organization (WTO).

II. SUMMARY OF THE SEMINAR PROGRAM

3. Trade facilitation in terms of reducing customs red-tape, introducing modern customs techniques, and harmonizing trade procedures across countries is widely considered to be just as critical as trade liberalization in promoting growth and reducing poverty. The Seminar started by highlighting the development impact of trade facilitation and its importance in the context of East and Central Asia. Main benefits of trade facilitation include (i) reducing transaction costs and improving economic competitiveness; and (ii) promoting good governance through minimization of discretion that encourages corruption. Trade facilitation is particularly vital for Central Asian economies to overcome critical economic constraints (e.g., landlocked and small-scale economies), gain access to the international markets, and reestablish trade relations and distribution networks among themselves.

A. Integrity of Customs Administration

4. Customs administration is recognized as one of the most important agencies for trade facilitation because of multiple functions at its disposal. Integrity or good governance of customs administration is essential for customs officials to balance these functions and “clear” increasing volumes of trade while maintaining effective control to prevent illicit transactions such as drug-trafficking and gun-smuggling. The Seminar discussed several measures for improving customs integrity, particularly the “twelve principles” stipulated in the Arusha Declaration adopted by the World Customs Organization (WCO). These include (i) minimum administrative regulation, (ii) enhanced transparency of customs procedures and operations, (iii) increased automation of customs procedures to reduce human intervention in trade transactions, (iv) adequate remuneration for customs officials, and (v) enhanced partnership with trade and customs

¹ Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People's Republic of China, Tajikistan, Turkmenistan, Uzbekistan

² http://www.adb.org/Documents/Events/2002/CAREC/customs/Action_plan.pdf.

associations. Poor human resource management was acknowledged by many participants to be a crucial constraint for customs integrity, with the problem of inadequate pay as a major factor contributing to corruption. It was pointed out that strong long-term commitment from the top leadership within the customs administration is a key condition to put these principles into practice, particularly in guiding the revision of customs codes currently taking place in most of the DMCs party to the customs cooperation initiative.

5. Another point stressed by participants in the Seminar was that customs administration is a microcosm of the society; its integrity mirrors the governance quality of the civil services. Therefore efforts at improving customs integrity should be part of a broader civil services reform. Indeed a customs integrity program would be more effective and sustainable if implemented in the context of overall civil service reforms. Nonetheless, it was pointed out that simplified customs procedures and documentation and adoption of modern customs techniques are effective tools to strengthen customs integrity and fight corruption. The adoption by the WCO of an *“International Convention on the Simplification and Harmonization of Customs Procedures”* in 1973 in Kyoto, namely the Kyoto Convention, and its revised one in 1999, was a major effort in this endeavor.

B. Revised Kyoto Convention

6. The Seminar explained the structure of the Revised Kyoto Convention, which contains a set of general principles and specific guidelines for simplification of customs procedures. The general principles cover all major aspects of customs operations such as customs clearance, duties and taxes, security for guarantee of payments, customs control for compliance with domestic law and regulation, and application of information technology. Most of the core integrity principles stipulated in the Arusha Declaration were incorporated in the Revised Kyoto Convention. More importantly, the specific guidelines give detailed recommendations for customs reforms and modernization.

7. The Revised Kyoto Convention has become an important reference for regulatory reforms and revision of customs codes in the DMCs, even though most DMCs have not acceded to the Revised Kyoto Convention.³ The participants identified a number of possible steps for their countries to accede to the Convention including (i) need for a certified Russian translation of the Convention; (ii) detailed comparison of current legislation with the Revised Kyoto Convention to identify necessary legal reforms and areas for revision of their customs codes, (iii) introduction of new procedures and concepts such as risk management and post-entry audit; (iv) modernization of customs infrastructure through information technology to support new customs procedures and techniques; and (v) dialogues and partnership with all stakeholders particularly traders’ and brokers’ communities to improve transparency and client responsiveness of customs services.

C. Risk Management

8. With the rapid rise in the volume and pace of international trade, the traditional method of inspecting every item at the border has become a hindrance to trade. The use of modern customs techniques such as risk management offers a solution, allowing customs to ensure smooth and speedy flow of goods while minimizing the “risk” of not detecting wrongly declared transactions as well as those covered by fraudulent documents. The Seminar discussed the

³ Among the eight DMCs joining the regional customs cooperation initiatives, only the PRC has acceded to the Revised Kyoto Convention.

concepts and technology requirements for the application of risk management. A key condition is the establishment of a risk profile that contains information on the history of transactions of traders, origin, and route of their imports. Once such a risk profile is established, “low risk” consignments or cargo shipments can be distinguished from the “high risk” ones based on pre-determined selection criteria, and customs officials can focus inspection on the latter and limited enforcement resources can be more effectively deployed.

9. The introduction of risk management reflects a fundamental change in modern customs services as well as in the relationship between the public and private sector. Many modern Customs administrations view their goal to be that of achieving compliance by the private sector, and have instituted programs of “informed” compliance in which they assist traders to apply trade rules. This is in contrast to “enforced” compliance which is the traditional approach and involves more resources. To move toward this new approach, the participants recognized the importance of (i) partnership with the private sector and (ii) cooperation with the neighboring countries. Only through the development of strong cooperation with the private sector can customs rely, with great confidence, on the self-compliance and self-regulation procedures adopted by enterprise and trade communities. Regional cooperation for data exchange on consignments is vital for risk profiling to separate high-risk consignments from low-risk ones. Country members of such cooperative initiatives need to put in place an adequate information technology infrastructure and agree on procedures for electronic data interchange. A regional intelligence system will emerge once such an IT system links all the relevant law enforcement agencies involved in combating illegal trade.

D. Customs Valuation

10. The discussion focused on basic concepts of the WTO Customs Valuation Agreement in order for participants to fully appreciate the issues involved in its implementation. Customs valuation is required not only for duty collection but for such other purposes as trade statistics, execution of licensing arrangements, or the application of preferential treatment. Customs valuation has varied considerably among the DMCs and has been a major source of discretion and corruption, adding to business costs and inhibiting trade. To reduce such discretion, the Agreement provides a set of principles and detailed methods for the determination of goods’ values for duty collection. A basic principle is that the customs value of imported goods should be the transaction value, i.e., the price actually paid or payable for the goods when sold at the exporting country. The discussion gave examples where the transaction value is hard to define or is influenced by factors such as royalties and commissions.

The experiences of the Philippines served as a case study during the Seminar. One of the lessons learned, for instance, in countering the basic problem of undervaluation at the initial stage of implementing the Agreement, was to create a “valuation screen” to establish a value range for each item. This enables customs to tag declarations that fall outside the range and analyse them later to determine whether a valuation issue exists.

III. CONCLUSIONS AND SUGGESTIONS

11. The training Seminar raised awareness of major international conventions such as the Arusha Declaration and the Revised Kyoto Convention. It also helped participants gain in-depth knowledge of modern customs techniques such as risk management and the WTO customs valuation method.

12. Evaluation conducted after the Seminar showed that the participants found the Seminar to be very useful and requested ADB to continue supporting such events. The majority of the Seminar participants found the training directly related to their current functions. All the lectures were rated as excellent. The group discussions organized as part of the Seminar proved to be a very effective learning instrument. Participants were very active in sharing country experiences on the topics assigned and made three high quality presentations toward the end of the Seminar.

13. The participants made a number of suggestion which deserve serious consideration in preparations for the next regional training seminars: (i) there should be fewer topics in each seminar so as to give time for group discussions; (ii) participants should be better selected and required to prepare to ensure the overall effectiveness of the seminar and group discussions; (iii) discussions of country experiences in customs reforms and modernization must be in-depth and take into account the differences in stages of development so that they provide useful lessons for the DMCs.; and (iv) topics should cover various application of information technology in customs operations.

14. Additional capacity-building programs, an integral component of ADB's Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) will continue to be pursued and these are expected to benefit from the guidance of the CCC and the forthcoming CCC Working Group Meeting, which will be held from 21-25 April 2003 in Almaty, Kazakhstan.

15:30 **Coffee Break**

16:00 **Implementation Issues based on Customs Experiences** Bienvenido Alano
Country experiences in implementation and control procedures

Thursday, 20 February

RISK MANAGEMENT AS A TOOL FOR CUSTOMS CONTROL AND TRADE FACILITATION

9:00 **Introduction to Risk Management** Walter Hekala
Rationale for the use of risk management and principles followed in line with informed compliance
Senior Customs Consultant
Booz Allen & Hamilton Inc.
United States

10:00 **Coffee Break**

10:30 **Risk Management Process** Walter Hekala
The risk management technique and steps involved

12:00 **Lunch**

13:30 **Operationalizing Risk Management: Risk Profiling and Selectivity Criteria** Walter Hekala
Using risk management in Customs and identifying sources of information

15:00 **Coffee Break**

15:30 **Operationalizing Risk Management: Developing an Action Plan** Walter Hekala
Prior steps and follow through for installing a risk management system for Customs

Friday, 21 February

IMPROVING CUSTOMS EFFICIENCY THROUGH BEST PRACTICE

9:00 **Group Discussions**

10:30 **Coffee Break**

11:00 **Continuation of Group Discussions**

12:00 **Lunch**

13:30 **Group Presentations**

15:00 **Closing Remarks**

Erlan Toktarkhanovich
Head, Almaty Customs
Control Agency

Jeffrey Liang
Sr. Trade Economist, ADB



Customs Cooperation Committee

Regional Capacity Building Seminar

**17-21 February 2003
Almaty, Kazakhstan**

**Sponsored by
Asian Development Bank
and
Customs Control Agency of Kazakhstan**

PROGRAM

Appendix 1 6

Monday, 17 February

- 8:45 **Registration**
- 9:00 **Welcome Address**
Saule Nuzgalieva
Head, International Department
Customs Control Agency of
Kazakhstan
- 9:10 **Opening Remarks**
Ying Qian
Principal Financial Economist
Asian Development Bank
- 9:20 **Orientation**
Jeffrey Liang
Senior Trade Economist
Asian Development Bank
- 9:30 **Role of Customs in Today's Trading Environment**
*Crucial responsibilities of Customs in facilitating trade
while retaining control*
Shahid Rahim Sheikh
Technical Officer, Customs
Modernization SubDirectorate,
World Customs Organization
- 10:00 **Coffee Break**

ACHIEVING CUSTOMS INTEGRITY

- 10:30 **Customs Integrity for Improved Efficiency**
*Integrity as the foundation for best practice in various
aspects of Customs administration*
Shahid Sheikh
- 12:00 **Lunch**
- 13:30 **The Arusha Declaration**
*Twelve elements that are designed to increase levels
of integrity*
Shahid Sheikh
- 15:00 **Coffee Break**
- 15:30 **Integrity Self-Assessment Guide and Model Code of Conduct**
*Tools for evaluation and the development of a national
integrity strategy*
Shahid Sheikh

Tuesday, 18 February

STANDARDIZING PROCEDURES BASED ON THE REVISED KYOTO CONVENTION

- 9:00 **Introduction to the Revised Kyoto Convention:
Benefits from Accession**
*Uniform principles for simple, effective, and predictable
procedures, spelled out in the General Annex and
Specific Annex Guidelines*
Simon Royals
Technical Officer, Facilitation
& Procedures SubDirectorate,
World Customs Organization

- 10:00 **Coffee Break**
- 10:30 **General Annex Principles (Ch.1), Definitions (Ch.2),
Clearance and Customs Formalities (Ch.3)**
Prescribed procedures for Customs operations
- 13:30 **General Annex Guidelines on Duties and Taxes
(Ch. 4), Security (Ch. 5), Customs Control (Ch. 6)**
Continuation of the preceding lecture
- 14:30 **General Annex Guidelines on the Application of
Information Technology (Ch. 7)**
*Continuation of the preceding lecture, with specific
attention to the use of IT where it is cost-effective*
- 15:30 **Coffee Break**
- 16:00 **General Annex Guidelines on the Relationship
between Customs and Third Parties (Ch.8);
Information, Decisions and Rulings supplied by
Customs (Ch.9), Appeals in Customs Matters (Ch. 10)**
Final lecture on the General Annex

Wednesday, 19 February

- 9:00 **Guidelines to Specific Annexes on Customs Clearance
Branches that may be added as required by Customs
(Arrival of Goods in a Customs Territory, Importation,
Exportation, Customs Warehouses and Free Zones,
Transit, Processing)**
- 10:30 **Coffee Break**
- 11:00 **Guidelines to Specific Annexes on Customs Clearance**
Conclusion of the preceding lecture (Temporary Admission,
Offenses, Special Procedures, Origin)

STANDARDIZING VALUATION PROCEDURES BASED ON THE WTO CUSTOMS VALUATION AGREEMENT

- 13:30 **Introduction to the WTO Customs Valuation
Agreement**
Overview, definitions, basic principles
- 14:00 **WTO Transaction Value and Alternative Methods
with Practical Examples**
*Definitions, conditions to be fulfilled, adjustments to
transaction value, and the use of alternative methods*