ANNEXES

Annex I
Survey of Customs Reform and Modernization Trends and Best Practices

World Customs Organization

Introduction

Knowledge as to how the customs environment is evolving and how colleague administrations are managing change can help senior administrators better respond to the challenges ahead. So as to benefit from the collective experience of the membership, the WCO has recently conducted a survey and those results are now available. It is hoped that the results stimulate discussion and reflection on the issue of customs reform and modernization.

The results are an analysis of the responses from 38 countries, or 27 percent of the total WCO membership. This is considered to be a sufficiently valid sample from which to draw indicative conclusions.

We appreciate the contributions from the following members and wish them success in their endeavors to deliver world-class customs services:

Albania	Kazakhstan
Algeria	Latvia
Australia	Lithuania
Austria	Madagascar
Brazil	Malaysia
Canada	Malawi
Chile	Maldives
Cuba	Mexico

Cyprus	Morocco
Czech Republic	New Zealand
Denmark	Norway
Estonia	Philippines
France	Russia
Finland	Senegal
Germany	Turkey
Hungary	United Kingdom
Indonesia	United States
Ireland	Uzbekistan
Italy	Zimbabwe

The experiences and best practices included in this report are those made available by the members for the purpose of this survey.

Trends

Some of the trends described are already emerging; others can be foretold from certain signs. All are supported by experiences and best practices shared by the different members. First, a backdrop against which to view these critical trends for customs executives and officers alike. Three major forces—the proliferation of free-trade agreements, government performance review and rapid technological advances—have profoundly changed, and will continue to change, the nature and content of customs work.

Almost 75 percent of participants indicated that economic integration within the framework of free-trade agreements or customs unions has been a major force in reform. It is noted that the number of regional trading agreements is proliferating. The WTO lists no fewer than 76 free-trade areas or customs unions set up or modified since 1948; more

[1] Reprinted in part from the World Customs Organization Web site (www.wcoomd.org) dated October 7, 1997.

than 50 percent have been established in the 1990s.

International liberalization has resulted in booming trade volumes. The WTO estimates that world trade grew by 8 percent in 1995—four times the growth of world GDP. In fact, during the 1990s trade has grown far faster than world output, which indicates that national economies are becoming ever more closely linked. This has been a significant influence in promoting customs modernization particularly in developing/emerging countries where it has been an important driver for 71 percent of the members.

Many governments—66 percent of developing/emerging countries—are considering diversifying existing indirect tax regimes to find other ways of maintaining revenue yield. Increasingly, customs administrations are assigned the responsibility for the administration of all indirect taxes including VAT and excise duties.

Government performance review has pushed up to 60 percent of respondents toward reform and modernization. Budgetary concerns continue to be a major factor in streamlining and "customizing" services.

Increased drugs and security threats are a main issue for 55 percent of developed countries compared with 26 percent for developing/emerging countries.

What Areas Have Been Reformed or Modernized

Change is a continuous process, but in the last five years the pace of change has led to extensive reform and modernization in the customs community.

Eighty-two percent of administrations have been confronted with difficulties caused by archaic legislation. They have reviewed them and sometimes introduced new customs legislation to reflect new priorities and methods of carrying out the customs function.

Information management is also of critical importance for 71 percent of the members surveyed. Technology is now playing an increasing role in the management of information. IT is currently utilized in some countries to assist in customs data management and electronic data interchange.

Sixty-four percent of all administrations surveyed and 89 percent of developed countries have modernized their enforcement strategies and working methods. The changing face of customs enforcement with emphasis on flexible, risk-based and targeted operations accentuates intelligence as the principal weapon to identify fraud and smuggling and the effective deployment of limited resources.

Human resources policies have also been under scrutiny by 61 percent of the members surveyed. Reforms include: recruitment policies, training services role and performance appraisal systems. Many customs administrations have increased the proportion of university graduates in their recruitment programs to support, among other areas, the increasing emphasis on systems-based audits and the use of information technology.

As a result of government performance reviews and changes in the operating environment, more than half of administrations (57 percent) have streamlined their organizations, removed layers of management, gotten closer to their customers. An increasing number of administrations have indicated that they are moving in the direction of a revenue authority (an integrated tax and customs administration).

To aid trade facilitation 57 percent of customs administrations are developing procedures which will expedite clearance of legitimate shipments while accurately targeting irregular transactions.

Thirty-five percent of the members surveyed and almost half of the developing/emerging countries have reviewed their tariffs. According to a recent WCO survey, 77 countries have implemented the 1996 amendments to the HS. These represent 87 percent of the contracting parties.

What Change Management Methods Have Been Successfully Used?

Everyone faces change—the challenge is to manage that change. Those administrations that employ change management principles will have an advantage in implementing wider changes within their organization.

Maintaining two-way communication both inside and outside is a critical success criterion for 76 percent of the members surveyed. Some members even used in-house broadcasts where employees could take part in live television discussions with the Minister and Director General.

Fifty-nine percent of members use outside consultants (65 percent of developing and emerging countries and 44 percent of developed countries). One member pointed out that outside consultants were successfully used only when the customs administration had a clear understanding of what they wanted them to do.

Internal and external focus groups have been the primary methods of defining change requirements for 51 percent of the members surveyed. Many have established permanent structures for consulting stakeholders (groups and individuals who have a specific interest in the business of customs).

Customs role in international trade can be encouraged to combat drug trafficking and other commercial fraud activities. Developing partnerships with trade and other government agencies and closer cooperation between customs administrations themselves have been put in place by 44 percent of members surveyed.

Business process reengineering has been thus far most widely used by developed countries. Sixty-seven percent have reengineered their business processes to enable them to become more efficient and effective, taking into account the impact of their activities on the trading community and the traveling public.

What Are the Future Challenges?

There are still more challenges to come. Here is an outline of what WCO members see as the main influences of customs in the future.

A striking 93 percent of the customs administrations surveyed will try to achieve further gains in efficiency and effectiveness. Some are actually able to operate successfully at costs less than 1 percent of revenue collected.

Attitudinal and organizational cultural change will be necessary. Customs administrations are changing the way they conduct business. More are taking the position that importers and exporters are customers and must be treated as partners, not adversaries. Improving service to customers is for 93 percent of members a major challenge.

In the future, 86 percent of customs administrations will extend their use of technology to include items such as artificial intelligence, bar coding, document imaging. A number of customs administrations are looking at the possibility of further developing electronic communication between customs and business. This will have very significant benefits for customs, as the administration of the future will rely on accurate and timely information in order to carry out its function. Ultimately it is hoped that this could lead to the practical implementation of a "seamless data flow" or, as it is sometimes described, an "integrated data transaction."

According to 82 percent of the members surveyed, the increase in the demand for new skills will lead to the increase in the need for training staff to do new jobs and retraining staff to do jobs differently.

Combating transnational crime is seen as a challenge for 75 percent of the members surveyed, 100 percent for developed countries. The G7 + 1 is alarmed by the growth of organized transnational crime, including money laundering, and have urged countries to adopt necessary legislation.

Success is achieved by those with access to the most accurate and timely statistical information, according to 68 percent of the respondents. Some are striving to become the main repository of trade data for compiling trade statistics and formulating trade policy.

Integration into free trade and/or customs unions, and thus the development of common tariff and origin rules, will remain a challenge for 75 percent of developing and emerging countries.

What Techniques and Implementation Approaches Are Likely to Play a Pivotal Role in Improving Future Customs Managerial Practices and Performance?

As customs administrations seek to maintain and increase their efficiency and effectiveness, 77 percent favor risk management, which allows for better targeting their resources toward those areas that most warrant attention. By using the principles of risk management, customs administrations will also be able to demonstrate to the government that they are ensuring the best available outcomes for the country within the constraints of the resources they are given.

Seventy percent of the members surveyed intend to use strategic intelligence to support the effective achievement of organizational objectives. In the enforcement context, strategic intelligence will provide executives and senior managers with timely insight into current and emerging trends, threats to public safety and avenues for change in policies, strategies and legislation.

In the past, changes have been brought about by process improvement simplification. Sixty percent of members have indicated that they could go a step further using business process reengineering and examine whether existing processes and structures are really the best way to meet objectives.

Customs administrations are also embarking on a new era of performance measurement (60 percent of members surveyed) as a way of guiding the effectiveness of their initiatives and efforts. More administrations are going beyond cost-based measures to include quality and time-based measures. Some are developing compliance measurements.

Fifty percent of the customs administrations surveyed have or will introduce management audit as a means of quantifying the movement of goods and travelers to aid in allocating resources and to measure results.

Forty-five percent of the respondents are of the opinion that Total Quality Management philosophy and practices will play a pivotal role in customs managerial practices in the years ahead. Some have or will join a National Quality Council; others will go a step further and seek ISO 9000 accreditation for the quality of service that they want to attain in their service function.

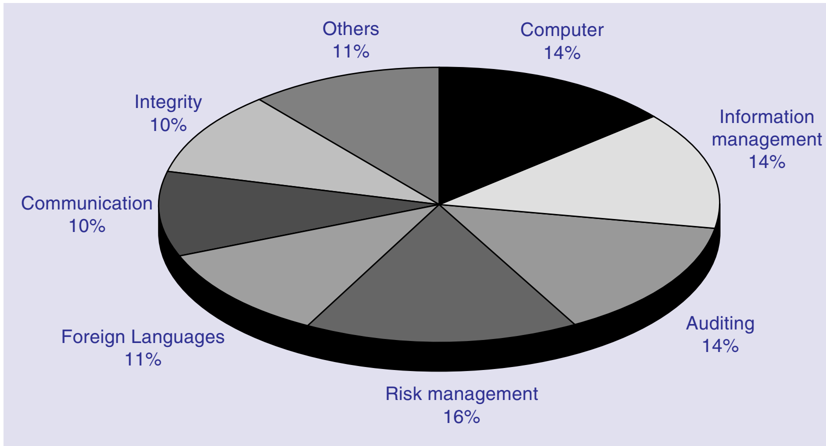
Forty percent of the members surveyed say that they are in the process of becoming a learning organization, with the capacity to learn, adapt and change.

The management task will also be different for 28 percent of the members—the focus is increasingly on leading and coaching people toward achieving outcomes, rather than just managing tasks.

What Skills Are Most Likely to Be in Demand

The key to successful future development of customs is to upgrade the professional know-how of its employees. Many of the customs administrations surveyed are creating broad-based skills development programs to enable current and future employees to function better in the customs environment and to equip them to better handle the new techniques and IT systems. More than just traditional training may be needed. Measures such as "apprenticeships," distance learning technologies and the establishment of networks are being considered (chart AI.1).

The increasing reliance on the use of intelligence as a



tool for greater selectivity will increase the demand for risk assessment skills.

Computer literacy will be essential for customs officers as information technology becomes an integral part of the workings of the administration and as most of the day-to-day operation becomes dependent on computer-based systems. In addition, personal computers will be used for accounting, word processing and, where the personal computer is connected to a network, for electronic mail.

As customs places greater reliance on postrelease audits, audit skills are going to be required. These skills will need to be incisive and effective to ensure proper compliance.

As more administrations become knowledge-based, information management skills will be increasingly in demand.

Foreign languages will continue to be important with increased internationalization and 55 percent of administrations will enhance their language skills.

Forces That Have Compelled Customs to Reform and Modernize

- People, processes and partnerships (USA)
- Building bridges over turbulent waters (Algeria)

Areas Reformed and Modernized

- EDIFACT (Norway)
- New legislation (Cuba)
- "ACROSS" (Canada)
- Client/server Network (Finland)
- Introduction of a system of guarantees for internal transit of goods (Albania)

Successful Practices

- Hybrid Benchmarking (United Kingdom)
- Personnel Analysis Group (Germany)

Challenges

- Service with a capital "S" (New Zealand)
- Toward world-class service (Philippines)

Techniques and Implementation Approaches

- Risk management (Mexico)
- INGRID (Indicator of Customs' Internal Resources Management) (France)
- Project management (Morocco)

Skills Most Likely in Demand

- Information and training (Czech Republic)

People, Processes and Partnerships (United States)

In October 1993, Commissioner George Weise established a Customs Reorganization Study Team and endowed it with a broad and simple charter: to develop an organizational structure that would enable the US Customs Service and its employees to make their maximum contribution to the nation. In response to that charter a report was produced which recommended management approaches and an organizational structure that would enable Customs to meet the challenges of the 21st century as a more efficient and adaptable organization with high employee involvement.

Being fully aware that demand for service from its customers would continue to increase, and that increases in resources would not keep pace, the study team sought to find ways to move staff from support functions to operational functions. This emphasis on cost avoidance, rather than increases in appropriations, was especially well suited to the national need for deficit reduction balanced with customer service. To that end, the concept of reinvestment was accentuated.

The reinvestment strategy directed available resources toward the resolution of global trade issues, providing increased attention to ensuring voluntary compliance with trade laws through enhanced informed compliance efforts, improving the use of information technology by building on and enhancing Customs' Automated Commercial System, and providing the employee training necessary to enable us to implement process management and customer-focused approaches to the Customs missions.

It was concluded that the number and scope of mission challenges facing the Customs Service, combined with the numerous concerns expressed by employees about the existing management environment, made a compelling case for significantly changing the Customs management structure. In order to achieve the new vision for the Customs Service, to increase its service to the nation and to meet the challenges of the future, it would be necessary to transform Customs' culture to one focusing on people, processes and partnerships. The new culture would characterized by:

- managing essential core processes, a change that would require integrating the many disciplines within the Customs Service into more coordinated efforts to achieve Customs' mission goals;

- serving the legitimate needs of Customs' many customers as the focus of the organization's process management efforts, and forming partnerships with them as a means of meeting their needs and improving Customs' mission performance; and
- building a workforce for the 21st century, working cooperatively to develop strategies to tap the potential of Customs' employees so that, working together, they could meet the mission challenges facing the Customs Service.

To this end, Customs redefined its core processes and has moved to a management approach centered around these processes, identified its customers and their needs, developed methods for defining customers' needs as process goals, improved its workforce through empowerment of its employees and an elevated human resources management program, realigned the organizational structure to reduce layers and support the core processes and reinvested its resources in priority mission areas.

Building Bridges over Turbulent Waters (Algeria)

The new economic policies in Algeria (with, since 1991, a shift away from a controlled and centralized economy toward a market economy) and the globalization of world trade have made Algerian Customs aware that it might well find itself unprepared to face the new external trade rules based on a type of behavior unfamiliar to the vast majority of Customs officials in Algeria.

Thus, change has not been seen as a choice but as an absolute necessity for complete restructuring without which the customs administration was liable to impede economic development and at the same time lose ground with the sudden arrival of new operators and new techniques and rules for supervising international trade.

The administration's strategy for change was laid down in mid-1993. A modernization program was prepared on the basis of a whole series of diagnostic studies carried out by senior Customs staff, who adopted it at a national seminar. This program was presented to the authorities and accepted at an interministerial meeting in November 1993.

The approach decided upon by the Directorate General of Algerian Customs to develop its modernization strategy was centered on:

- identifying the fundamental agents of change;
- introducing strategic management techniques into Customs' management policy; and
- increasing internal communication with staff and social partners so that all shall become stakeholders in the plan to modernize human resources through a wide range of meetings and seminars.

However, the risk of resistance to change, whether internal or from the Customs environment was taken into account in the strategic plan. The Directorate General of Customs has therefore implemented an intensive communication policy aimed at:

- Customs officials, to convince them of the need for the modernization plan, for changes in behavior and culture and for openness to the external environment (universities and higher education/colleges, consultants and experts) on which real improvement in the Customs service and success in overcoming the problems that stem from the sudden liberalization of external trade largely depend;
- public authorities and certain institutions, so that Customs is repositioned as the main state instrument for

implementing the new fiscal, economic and trade policy; and

- public and private economic operators, so that they can be convinced of Customs 'new role as an economic partner and not just a fiscal agent.

EDIFACT (Norway)

The Norwegian Customs Administration implemented its EDIFACT declaration system as early as 1988, and by 1992 the system was available nationwide. Since October 1994, paper-based customs declarations had been manually entered into the electronic clearance system by local Customs authorities. Because of the advantages enjoyed by online users, by 1996, 5 percent of the customs declarations were paper-based and the rest passed through the EDIFACT system.

About 85 percent of the customs declarations pass through the system without being stopped for further investigation. The system is now available to the public on a 24-hour basis, and the average time for the system to clear the goods is 15 minutes. In addition, the quality of the declarations has improved drastically over the last few years.

New Legislation (Cuba)

In Cuba, the present customs organization is the result of a process initiated in 1990 and concluded in April 1996 when the legislation was enacted by the State Council of Cuba.

The legislation was drafted in accordance with universally accepted concepts and practices, including those reflected in the Kyoto Convention of 1973 as well as other World Customs Organization recommendations.

It also strikes a balance between the requirements of control and facilitation in order to ensure that genuine international transit of commodities and travelers is not subjected to unnecessary customs formalities. Risk analysis techniques now make it possible to guarantee facilitation to genuine travelers and consignments without unduly compromising enforcement against illegal activities.

At the same time, the legislation is in agreement with those conventions and agreements referred to under Facilitation for Travelers, Tourists and Temporary Admission of Commodities for exhibits and fairs.

"ACROSS" (Canada) Revenue Canada expands its use of Electronic Data Interchange

Revenue Canada is continuing to do research into new electronic data interchange (EDI) technologies to automate its existing manual, paper-based customs release system.

A new system called the Accelerated Commercial Release Operations Support System (ACROSS), has helped Revenue Canada tailor its programs and services to particular industry sectors and businesses by amalgamating and broadening some of its existing systems to form an integrated EDI system.

ACROSS stems from the Department's New Business Relationship initiative, where programs and services are tailored to particular sectors and business. The system was implemented nationally at all automated customs offices in April 1996.

ACROSS handles customs' reporting and processing needs 24 hours a day, seven days a week. It analyzes release data from clients and recommends whether or not a commercial shipment should be released or examined on the basis of importer compliance profiles and the type of goods. Some of the basic features of the system are :

- EDI release transmission;
- flexible service options for doing business;
- new ways to manage customs' workload between offices across the country;

- automated decision support on the release of goods; and
- capability of identifying high-risk shipments.

EDI systems leading up to ACROSS

ACROSS is not the first EDI system Revenue Canada developed to streamline its customs processes. There are also the following:

- Customs Automated Data Exchange System (CADEX) Customs Declaration Message (CUSDEC), which allows importers and brokers to electronically transmit their accounting data. CADEX\CUSDEC now serves more than 270 clients, making up 86 percent of Canada Customs' commercial business.
- Release Notification System (RNS), which is designed to electronically advise clients that Customs has released their goods.
- Pre-Arrival Release Notification System (PARNS), available 24 hours a day, which allows the carrier to electronically provide Revenue Canada with customs data on shipments in advance of the goods arriving in Canada, permitting pre-arrival review and processing of the data and electronic transmission of a release or refer for examination notification once the goods arrive.
- EDI Cargo System, which allows clients using marine and rail transportation to send their cargo data to customs electronically before the goods arrive. With this system, importers no longer have to present the paper documents with the goods.

ACROSS is being built to move Revenue Canada into the next century. It will be easier and faster for importers who comply with customs laws to have their goods released. At the same time, customs inspectors will be able to target those goods and importers who are high-risk.

Client/Server Network (Finland)

Multilevel organizational structures have been replaced by simpler ones. At the same time activities have become globalized and the organizations form cooperation networks. By using data networks organizations can function irrespective of time and place.

In the customs area in Finland, there will be cooperation networks at least in the following spheres of activity: control of international transport systems, cooperation with police authorities in criminal investigation, sharing of databases of customs administration and agricultural authorities, data interchange between shipping companies, haulers, harbor operators, forwarding agents, importers, exporters and the customs administration.

Within the Finnish Customs administration the solution is a client/server network. The terminals of the Customs personnel are connected to a common network and the Customs officers have access to the systems they may need. It concerns all Customs work including word processing, use of databases, Customs clearance data, payment data, license management as well as common personnel and financial administration systems, management systems and electronic files.

System of Guarantees for Internal Transit Of Goods (Albania)

Prior to 1994 the Customs administration experienced considerable difficulties in accounting for transit consignments. Since then a system of guarantees for internal transit of goods has been introduced. Under this system internal transit consignments must be covered by any one of the following guarantees:

- personal guarantee (cash guarantee);
- Customs broker guarantee consisting of a letter of guarantee lodged with Customs by a licensed broker (to be licensed for this purpose a broker should lodge a blanket bank guarantee in favor of Customs to cover all its operations);
- banking guarantee, which means that a bank, or any third party authorized by the bank, gives a written guarantee in respect of an importer of exporter;
- insurance guarantee, which means that an insurance company guarantees that an operator will make Customs clearance at the place of destination.

This approach suits the country very well. At present, there are few Customs offenses in dealing with internal transit.

Hybrid Benchmarking (United Kingdom)

Benchmarking is a systematic method to improve performance by measuring and comparing products, services and processes against the best. It is used widely in the private sector for competitor analysis; as a quality tool; to drive down costs; and as an efficiency tool. However, HM Customs and Excise interest lies in its use as an efficiency tool to deliver value for money services.

It was decided that the way forward was to develop a technique that utilized a high level approach to benchmarking within a structure similar to that of a market test. We named the new technique "hybrid benchmarking" and defined it as:

> An efficiency technique which compares departmental performance in chosen areas with public and private sector performance in similar areas using a structure similar to that of a market test.

The hybrid benchmarking technique provides a structured approach focused on the delivery of efficiency savings and improvements to quality; a method of ensuring that efficiency improvements are put in place and delivered through Service Level Agreements; a method of comparing price and quality through the identification of best practice; access for private sector involvement through the use of consultants; involvement for all the staff concerned in the process without the fear inherent in market testing that jobs may transfer to the private sector and a process that can be used in core and noncore areas.

Results of hybrid benchmarking

In 1995 1996, exercises were conducted in all the departments regional units and headquarters. The activities examined included typing, personnel management, information technology support, accounts and finance, premises management and VAT Control Unit (processing returns).

In all, nearly fifty exercises were conducted covering 1,300 posts, with a total annual value of £ 30 million. The results of these exercises were remarkably similar to those using market testing with average savings of around 20 percent, with the standard of service being at least maintained and, in many cases, improved.

Personnel Analysis Group (Germany)

One of the main objectives of the customs administration is to make the administration more economical and efficient. The corresponding initiatives for the realization of the model of a “lean state” provide for creating larger administrative units and broader fields of work in order to facilitate concentration of tasks and a greater degree of specialization of the work force. Larger units, capable of specialization, are thus clearly accorded priority over small, “all-round” units.

At the same time, efforts to achieve greater economy in administrative action focus on the centralization of tasks, the optimization of work-flows and progressive utilization of informational technology (IT) as well as efficiency reviews of government activity including the possibility of transferring some tasks and functions outside the administration.

In order to optimize operational procedures and determine manpower requirements in line with the tasks to be done, in 1990 the customs administration created what are known as Personnel Analysis Groups. These groups have the job of conducting functional analyses for individual fields of work on the basis of recognized ergonomic methods, examining organizational structures and work-flows and producing work statistics, in order to lay down operational procedures and plan personnel requirements. The work of these groups therefore makes a significant contribution to ensuring and increasing the effectiveness and efficiency of administrative action.

Service with a Capital "S" (New Zealand)

It's a word that many organizations bandy about and, for a lot of people, seems to be no more than the latest nineties buzzword—especially if you've had bad service from a so called service organization.

But for New Zealand Customs, "service" has been taken so much to heart that it's soon to be known as the New Zealand Customs Service.

"That one word underscores our values," says Comptroller Graeme Ludlow. "Service to the Government as a collector and enforcer, and service to New Zealand business and individuals in terms of meeting their expectations. Our aim is to get a good fit between the two types of service, and to do the best we can for both Government and New Zealand.

"By having a client focus we will be able to develop initiatives that meet their needs within the limits imposed by the law. It will bring Customs into the late 20th Century, and is part of a whole revamp of everything we do. The new Act will help us use our customer focus, as will our modernization project, but we see client focus as involving everything from the Act to little things like redesigning public counter areas.

"For example, New Zealand is no longer an eight to five, Monday to Friday country. We need to reflect that. We also need to be more approachable—for us, service means giving people answers to questions rather than just telling them what the procedures are."

Mr. Ludlow says that putting the word "Service" in the name gets the message through to everyone—inside and outside the organization. That message is: Customs is only there to provide a service to New Zealand society.

Towards World-Class Service (Philippines)

As the Philippines Bureau of Customs[1] moves toward the 21st century, it sees for itself a Vision for its preferred future. Inspired by the common desire to make the Philippine Customs Service truly a world class Customs Service. Our concepts of a successfully implemented modernization initiative are the following:

- *Image*. Held in high esteem in the public view, its role for national development and international trade facilitation shall be imbued in the hearts and minds of every Customs official and staff as the Bureau moves forward in its other roles of promoting national security, justice, health and other objectives.
- *Stakeholders*. A truly professional relationship should exist between customs and industry. It shall attain a high level of cooperation and it sees itself even closer

[1] The Philippines' customs modernization program is described in detail in chapter 7.

to its clientele through the provision of appropriate machinery for communicating suggestions, complaints and other form of feedback.

- *Targets, policies and procedures*. It shall be capable of processing all documents electronically within minutes and be able to release goods in a matter of hours as its computerization moves forward to advanced state of electronic commerce. It sees itself adopting international standards for procedures, forms and coding and sees exceptionally good working relationship with the legislature so that laws are more responsive to the demands of modernization.
- *Organization and people*. It shall advance toward a streamlined organization characterized by decentralized management and control as well as a leaner but better paid staff.
- *Resources*. In order to provide quality service to the business community while generating maximum revenue for government, the Bureau shall be equipped with modern building facilities and office equipment. It shall have sufficient land, air and water transport resources to assist in its operation and it shall use state of the art technology to cope with the changing trade environment for the next millennium.

Risk Management (Mexico)

Mexican Customs uses an intelligent aleatory system which determines whether or not goods will be inspected. The system relies on data such as country of origin, importer, exporter, type of merchandise, tariff item number, etc., loaded into its database to determine whether a particular passenger of consignment must be inspected.

Upon completion of customs formalities in respect of a passenger or a consignment the system is interrogated by the pressing the appropriate button. In 90 percent of the time the green light flashes indicating that no further formalities are required. Consequently, only 10 percent of passengers or consignments are chosen for inspection.

Unlike with other systems, this system is not entirely at random as it uses information in its database to determine the level of risk. This kind of risk management system has proved to be very successful to Mexican Customs and has a good impact in public image as well as in revenue.

INGRID (Indicator of Customs Internal Resources Management) (France)

The French Customs Administration is going to set up a database accessible to the offices of both the Directorate General and the regional directorates. The server, called INGRID (Indicateur de Gestion des Ressources Internes de la Douane, Indicator of Customs' Internal Resources Management), contains data from two user programs. One program records, on a half-yearly basis, a number of indicators relating to Customs resources, the Customs environment and the results and activities of the various departments, while the other covers the use of the departments' operating funds, whose management is the responsibility of the regional director.

In bringing all this data together, INGRID constitutes a real management control system for evaluating the service's efficiency, the suitability of the organizational methods chosen and the cost of various missions.

The departments can consult some fifty tables on the most frequent studies. Using specialized software they can also conduct any specific studies as required.

Project Management (Morocco)

Since April 1995, the Ministry of Finance and Foreign Investment has been involved in a huge modernization program affecting several areas of activity.

This program revolves around the following four main strategic axes:

- achieving greater openness to the Ministry's clients and partners by taking account of their expectations and by promoting the concept of "public service";
- seeking efficiency in the areas of the Ministry's activity by optimization of human, material and financial resources in Ministry headquarters and external services;
- motivating all the Ministry officials to support the modernization plan by adapting the management plan and by progressively improving working conditions; and
- ensuring that the Ministry's working practices keep pace with developments in the national and international environment.

An action plan had been developed to attain these objectives, comprising not only short-term actions aimed principally at establishing a climate for change, but also reform projects which should in the long term result in the restructuring of the Ministry and improvements in its operation.

The structuring reform projects are as follows:

- clarifying the Ministry's missions and adapting the way it is organized;
- designing a system for evaluating client service;
- reforming the rules through process logic;
- upgrading procedures;
- drawing up a global strategic steering plan for the Ministry's information systems and for the organization of the ADP system;
- implementing forward-looking management of human resources and establishing a training plan;
- developing an internal performance evaluation system;

- improving and optimizing working conditions;
- preparing a communication plan; and
- adapting the styles of management.

The need for these reforms led the Administration of Customs and Indirect Taxation, as a Directorate of the Ministry, to adopt them and include them in its action plan.

A study was conducted to that end. It diagnosed the following seven strategic areas on the basis of which a general program was prepared:

- legislation and procedures;
- customs economic procedures;
- taxation;
- enforcement;
- organization and human resources;
- automatic data processing (ADP); and
- logistics.

To carry out this program successfully and to ensure that it is implemented in accordance with the commitments undertaken by each section of the Directorate General, a Programs and Evaluation Section was set up whose main task is to monitor and manage a system for programming and evaluating the administration.

This system has two pillars : a planning pillar and an evaluation pillar.

Planning pillar

For the seven areas of reform mentioned above, plans setting out the actions and tasks of each section were prepared and approved by the Management Committee comprising Directors and Deputy Directors from Headquarters.

For each activity or task chosen, the plan gives the start and finishing date and name the officer in charge.

Evaluation pillar

Once the action plan was defined, a very simple monitoring mechanism was put in place. It consists of sending the section heads a monthly table in which they mark a score for their action's progress.

Once the tables are completed by the relevant section heads, they are returned to the Planning and Evaluation Service which studies the results.

Evaluation is the responsibility of the services initiating the action.

The planning and evaluation pillars are managed using software installed in a PC.

Information and Training (Czech Republic)

In preparation for the Czech Republic's Membership of the European Union, the main priority is the establishment of efficient Customs Information System. Having been under development for the past six years, the CIS now incorporates the automatic processing of all basic Customs procedures in all Customs offices, daily data transfer for central processing via a satellite and a quick distribution of the integrated tariffs through its communication system.

Another important issue in the modernization process was the modification of the training system to reflect the changing needs of the Czech Customs Administration. The change was successfully implemented and produced very positive results.

Annex II
Compendium of Trade Facilitation Recommendations
United Nations Conference on Trade and Development (UNCTAD) UN/ECE Working Party on Facilitation of International Trade Procedures (WP.4)

Foreword

This Compendium has been compiled within the UNCTAD Special Programme for Trade Efficiency (SPTE) as a contribution to the work being done by the ECE Working Party on Facilitation of International Trade Procedures (WP.4) in preparation for the 1994 United Nations International Symposium on Trade Efficiency. It is intended to be used as reference material by those engaged, at the national, sectorial or international level, in the process of simplifying and rationalizing trade procedures in a broad sense, and also by trade operators which would be looking for model practices, agreed standards, etc., that could serve as a basis for improving their procedures and modus operandi.

The Introduction contains background information on the fundamental and practical issues that Trade Facilitation addresses; it is based on a study made by SITPRO, the Simpler Trade Procedures Board of the United Kingdom. The Introduction reviews the present situation in the field of the production, transfer and use of information required in the course of an international trade transaction, with a view

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Taken from UNCTAD, WP.4, July 1993, Geneva.

to identifying the needs for further harmonization, standardization and simplification for more efficient trade. Examples are given of some of the practical solutions which are the subject of Recommendations by WP.4 or other bodies, and of problems which still have to be solved.

For many years, in addition to specific Trade Facilitation Recommendations like those adopted by WP.4, international instruments being developed in areas connected with international trade and transport have incorporated provisions aimed at facilitating the movement of goods and means of transport or the provision of services by reducing information requirements, streamlining procedures, standardizing information elements and paper forms, harmonizing official and commercial practices, providing standard formats for electronic transmission. The objectives and scope of these various instruments are briefly presented in the sources page.

The Recommendations are listed by both group and index. They contain the complete or abridged text, or a paraphrase, as appropriate, of the Recommendations. These extracts from international instruments are given for reference purposes, and not as a substitute for the full text which constitutes the only valid source for official use.

Information Flows

Formalities, procedures and paperwork in international trade are generated by the need for both governments and trade operators to monitor and control the movement of goods and the transfer of services and by the necessity of safeguarding every party's legitimate interests. Closely related to this are the requirements for information and financial flows between the trading parties. Over the years, trade facilitation efforts conducted by international or national bodies in various countries or sectors have introduced improvements in the trade-related information flows, by simplifying the requirements, harmonizing the procedures and the documentation, standardizing commercial practices, introducing agreed codes for the representation of information elements. However, certain countries still maintain requirements which run contrary to these facilitation efforts, because of historical precedents, commercial inertia, difficulty in adjusting the methods of their control bodies, or ignorance of the solutions that have been developed elsewhere.

The systems developed to link the shippers, transport operators, port authorities, bankers, insurance companies, Customs, consignees and others concerned in the business of international trade are constantly being adapted to meet the changing needs associated in particular with the speed of modern transport and express freight deliveries and the convenience attainable through the use of containers, and also to take advantage of the possibilities that technology offers for improving information processing and transmission.

Today information flows are at a point midway between paper documents still often painfully filled in by hand, those produced by computer but still sent manually (and often re-entered manually into another computer) and the world of automatic data transmission where data are sent from computer to computer with minimal human intervention.

The timely arrival of information is a vital component in any international trade transaction; but frequently the goods arrive at the destination before the information needed by the operators to perform their function. Delays in information production and transfer can be reduced if agreement is reached to make the maximum use of modern information technology, e.g. computerizing the preparation of required documents, sending copies by facsimile transmission, or using Electronic Data Interchange (EDI). Where this is too far advanced, the use of standard aligned documents can provide a solution for simplifying document preparation. However more needs to be done to facilitate the information flows (i.e. how the data are collected, transferred and dealt with). While part of the answer may lie in the simplification of the official and commercial procedures themselves, there should be in addition some systematic way of handling information relevant to the technology available. The advent of cheap and reliable computers even in the least advanced countries offers enormous opportunities. So does the progress achieved in telecommunications facilities.

The problems created by trade documents and procedures fall into two categories: the supply of data; and the complexity of some of the procedures. As stated above goods often arrive before the information which should precede them and which is essential if they are to be dealt with expeditiously. Some companies take very expensive solutions, e.g. the use of courier services, to avoid delays due to missing documents at critical points in the transaction chain. However, this can be efficient only if despatches are adjusted to the speed of the best practical performance that can be expected in average international transactions. The complexity of some of the procedures may greatly increase the loss of efficiency if steps are not taken to minimize the amount of information required while goods are in transit. More generally, procedural requirements should be re-examined and manual systems tidied up before information technology can, with safety and economic advantage, be systematically applied.

In theory, there should be nothing inherently too complicated in the systems and procedures for selling goods from one country to another. Indeed, apart from additional official requirements caused by the protection of national interests, this should replicate the procedures carried out in any domestic market. The difficulties arise in part from the sheer scale of the operations and in part from the vast number of people, interests, nations and languages involved. What may appear as a facilitation solution in one part of this network can, and often does, create difficulties in another. To take an example, Preshipment Inspection (PSI), which may be appropriate to solve a specific problem in the importing country, can impede the exporter, and the latter incorporates the costs incurred into his selling price; the resulting costs of PSI are finally borne by the final consumer of the goods in the importing country.

Buyer and seller want to see their agreement for the sale and purchase of goods accomplished with the minimum of complication and cost against the background of their total production control and marketing arrangements. The seller wants sure payment and a safe timely arrival of his goods so that a single transaction is not only satisfactory to both parties but also contributes to the possibility of future business. The buyer wants to receive the goods he has agreed to buy at the place and time provided in his contract in good condition and with no more formalities or exertion on his part than are reasonably necessary to obtain possession and make payment.

Carrying and handling interests want to be able to receive and deliver the goods on behalf of their clients with the minimum of complication. They also seek to fulfil this function in ways and under conditions conforming as closely as possible with their own requirements for the effective operation of their transport and handling resources.

The banker wants to finance and facilitate payment for his customers' trade transactions by means which, while meeting individual requirements as closely as possible, will give proper weight to prudent precautions against loss or misunderstanding. In this he needs the prompt presentation of documents which comply with the terms of the instructions he has received. Any variation in the documents, particularly when payment is made in the framework of a Documentary Credit, will result in delays for correction or verification.

However reasonable and economically justified such needs are, it is by no means uncommon for the requirements of one commercial concern or trade to conflict with those of another. Individual needs and incompatibilities must be identified before they can be reconciled and reconciled before they can be met. The best people to explain their needs will always be the commercial interests themselves, but this requires that they have ample means of expressing their views through a variety of organizations, including national trade facilitation bodies, as recommended by the UN/ECE Working Party on Facilitation of International Trade Procedures (WP.4).

As mentioned above, the requirements of both governments and commercial operators to monitor and control the movement of goods and payment thereof drive the procedures and paperwork generated in international trade. Whilst the ultimate destination of the information may be divided between the official and commercial sectors, during the transaction the data required by both sectors remain closely and inextricably linked. Commercial requirements are devised by the trading parties to meet their own needs and are therefore malleable and easily adaptable to comply with changing trade practices. By contrast, official requirements are enforced and controlled by governments and have diverse aims, such as fiscal, protective, trade control and health requirements. The facilitation of trade may not be the primary purpose so the possibility of change can be limited or at the best very slow.

Those asking for and those providing information each have certain responsibilities. The essence of the technical task is to move minimum information with maximum efficiency. The criterion should be the minimum information necessary to service the transaction and not the minimum that people would like to obtain for other purposes. This puts a special responsibility on those interests, especially governments, banks and other credit institutions, which are in a position to enforce their data requirements.

Regardless of the end use of the data, the timely arrival of information, certainly before the arrival of the goods, is a vital component in any international trade transaction. As world distances "shrink" and travel times are reduced, it is essential that information is transmitted using the quickest, most effective method available to the parties involved. If it arrives after the cargo, the best information in the world will still cause acute problems, especially in the port community. Whilst it is appreciated that the technology available in different parts of the world may differ, where possible the use of modern technology should be encouraged, and suitable conditions for such use (including the necessary legal or regulatory framework) should be established in the countries concerned.

Documentary Requirements

One of the arguments commonly stated against the paperwork and procedures in international trade is that they may give rise to avoidable costs, e.g., those concerning duplication and reproduction of data, a problem which is greatly accentuated when a transaction is not perfectly executed.

Costs in this crude sense may be an ambiguous and even misleading index. Effective overall control systems might be established which, while showing substantial advantages at the management center, could impose extra complications and costs on shipping and movement control functions taken in isolation.

Given that massive information is required in international trade, which can result in a mass of paper, there are attractions in any method which can simplify the production of the numbers and copies of documents. Many of the difficulties associated with information flows can be eliminated by the use of "aligned documents," i.e., documents printed on the same size paper and with common items of information set out in the same relative position on each form.

Although the range of documents aligned to a common standard, the United Nations Layout Key, is now fairly extensive, many companies do not avail themselves of this facility. They should be made aware of the benefits they could derive from using aligned documents, the more so if internal company requirements are also linked to the aligned system.

The basic system is very simple and can operate without modern technology. By typing the details of the transaction or shipment on a master document, the aligned forms can be prepared by what is known as the "one-run" system. Various methods of reproduction can be used-spirit duplicating, dyeline and, more commonly, photocopying. Items of information which are not required on individual forms for a particular procedure can be omitted by the use of plastic masks or other techniques, which blank out the data on the reproduced document.

Information can be added to the master document at any time during the preparation and printing of individual forms. These systems reduce the cost and time taken to prepare documents and, once the master has been checked, ensure that the information on all forms is accurate.

Software packages are also available for extracting the required information from internal databases and producing aligned documents using microcomputers. This enables the companies either to produce masters which are used for reproducing the required forms, to print information on preprinted forms, or to produce completed forms from plain paper by using a laser printer.

In considering reforms in documentation and procedures, commercial interests will be much influenced by likely effective reductions in the overall cost of financing, handling and moving goods from exporter to importer, seller to buyer. It should be realized in this respect that the direct costs of documents and procedures are only one part of the story. Indirect costs, such as fines, demurrage and loss of business because of inadequate documentation, which can be far more significant, are difficult if not impossible to cost in advance or quantify. Documentation and procedural costs in a particular transaction may be minimal yet any one of the many minor errors which are endemic throughout present systems, may result for example, in demurrage costs of thousands of dollars.

In this context, those asking for information, e.g., Customs, carriers, etc., should ask for the minimum of information at the best time and, if asking others to complete their documents (e.g. goods declarations), provide these in a standard format. Those providing information have a responsibility to provide accurate data at the right time on the agreed format. When these conditions are fulfilled, each party—both the provider and receiver of information—can operate efficient documentation systems and carry out their own procedures in the minimum time.

Electronic Data Interchange (EDI)

EDI is a product of the two most rapidly advancing technologies in modern times, namely computing and telecommunications. The convergence of these two technologies has made it possible for a structured string of data to be exchanged between business applications without human intervention. EDI revolutionizes business communications by removing a complete layer in business practices—the use and processing of paper documents. The rationalization of data flows within a company enhances the integration of business functions and hence facilitates the decision making process. EDI opens up potent strategies such as "just in time" manufacturing. In addition, it enables companies to forge closer and more effective links with their trading partners.

Paperless trading is growing fast in many countries, in particular because "just in time" stock control usually means more, smaller shipments with very tight delivery schedules that paper documents cannot cope with, and also because EDI is a natural evolution in the international trade cycle. Indeed, one of the principal reasons for using EDI is the mountain of paper documents produced, moved, handled, corrected, transcribed and copied in normal business transactions. EDI has none of the disadvantages of paper documents and brings substantial benefits and savings to companies which implement it, such as accuracy (data are received directly from computer files and are not re-entered manually), speed (data are processed by computer without manual intervention and are transmitted quicker than information sent by post or courier and reentered manually) and savings (it saves on the cost of mailing, copying, filing, distributing and capturing data).

EDI cannot function without standards. Among the standards necessary for doing EDI, those concerning message construction are similar to a language, consisting of a syntax, i.e. rules for structuring data elements in segments within a message, and a vocabulary of words (data elements directory). Differing EDI standards have developed to meet sectorial and national requirements for a speedy and successful implementation within closed groups, but implementation across national and sectorial boundaries (open EDI) is difficult, since partners have to be able to support, maintain and interpret several EDI standards at great expense and inconvenience.

To remedy this, for more than ten years the UN/ECE WP.4 has been developing essential standards covering data elements, codes and syntax rules for EDI. UN/EDIFACT, the result of this development, provides the world market with the necessary ingredients for constructing EDI messages, as well as with complete standard message types (UNSMs) for business data interchange.

It is obvious that replacing paper documents by EDI messages does not change the basic trade requirements between partners in international trade transactions. The same fundamental functions should be fulfilled, and the partners will still be, through EDI, sending and receiving a purchase order, or declaring goods to Customs, or reserving space with a carrier and arranging payments. For international trade information flows, it is the way in which data are transferred that will permit substantial procedural rationalization, and a more efficient trade, as is already the case, for example, in the framework of community systems largely based on the use of information technology, including EDI. In some countries, this may necessitate changes in laws and regulations, e.g., for permitting the replacement of traditional paper documents, Customs declarations, etc., by electronic messages, or for giving such messages the same legal value as that of a paper document.

Cargo/Goods Requirements

Each sector in the international trade cycle needs to identify consignments uniquely; for example Customs need to know precisely which goods have been declared for examination and control purposes; port authorities, container depot operators and wharfingers need to know exactly which goods they have authority to deliver from their charge; shipping lines need to itemize and account for goods which they carry; importers and exporters need to know precisely which of their goods are in transit and for which to arrange for carriage and handling payments.

Currently it is rare in ports and container depots for a single consignment reference to appear on both the cargo and the associated documentation as a unique identifier. It is important that those who handle or examine goods are able to recognize and separate one consignment from another. The marks and numbers together with the description and the number of packages fulfil the requirement.

As a result, regardless of the mode of transport, goods moved internationally by conventional methods still require physical markings which are also reproduced in related documents and transmitted as data elements in EDI. The purpose of a shipping mark is to identify cargo and help in moving it rapidly, smoothly and safely, without delays or confusion, to its final destination and to enable the checking of cargo against documents. However, in many instances marks have become so lengthy and detailed that the sides of packages themselves can no longer hold them or can they be understood. The result is unnecessary costs, mistakes, confusion and shipment delays.

Shipping marks differ widely between countries and between modes of transport. With the increasing volume of international trade, the advent of multimodal and combined transport, the growing need to manage such data (whether in paper based systems or using EDI) and with increasing costs consciousness, it is clear that simple and consistent standards should be applied for physical marking of goods. Such is the purpose of ECE/FAL Recommendation No. 15 "Simpler Shipping Marks."

Linked closely to the need for a Simpler Shipping Mark is the requirement for a single referencing system. In international trade the different parties involved in a transaction each create and receive numerous references on documents, in shipping marks and EDI messages. The current referencing systems, while being purposeful to the generator, mean little or nothing to a third party who in turn generates its own reference. In an international trade transaction, up to thirty or more references can be generated, all of which are usually held in some form of data base. With the development of EDI, it becomes obvious that these many references are expensive to store and transfer and a method has to be found to replace them.

To that effect, the UN/ECE WP.4 has developed in 1992 a (revised) ECE/FAL Recommendation No. 8, the Unique Identification Code Methodology (UNIC), which proposes a method for referencing a transaction or consignment for the totality of its existence. It can be generated by either the buyer, the seller or provider of service and can be used by both official and commercial organizations. It complies with UN/EDIFACT and UN documentary standards and has the specific function of becoming the only reference in international and, potentially, national trade. The current Recommendation relies on existing codes and references issued by commercial coding agencies, official bodies such as fiscal or statistical authorities, and trading companies themselves. The system is totally generic and can be bar-coded with the appropriate symbologies.

Official Requirements

Many of the documents and procedures required in international trade have been devised by commercial interests to meet their own commercial requirements. Even when they are out of date or inappropriate for changed circumstances (e.g., changes in transport methods), they are at least designed to facilitate trade, whereas government requirements, and the documentation and procedures which stem from them, have diverse aims and the facilitation of trade may not be their primary purpose. However, in many countries, the trade may be aware of an almost continuous process review, in particular by Customs, to meet the demands of new methods of trade and transport and to increase the efficiency and effectiveness of control services. This results in part from a progressive implementation of the provisions of the Kyoto Convention of the Customs Cooperation Council , and also from the introduction of automated systems like the UNCTAD ASYCUDA, or of Customs EDI facilities, in an always increasing number of countries.

Customs agencies tend to be responsible for the application of a wide variety of measures the basic policies of which are determined by other government departments. For instance, they enforce exchange control regulations and import and export restrictions and prohibitions; they ensure compliance with certain public health regulations; they compile trade statistics and collect certain levies on behalf of other agencies.

Willingness by Customs to modify their requirements in no way relieves exporters of their obligation to make accurate declarations for exported goods, and importers of their obligation to ensure the speedy release of the goods by meeting the necessary detailed Customs requirements for information and documents. In many countries now, Customs are willing to accept telex or telefaxed information, either in lieu of packing lists or as temporary substitute for an invoice, and will release imported goods accordingly. Nevertheless, errors by importers continually hinder the swift clearance of goods. Analysis of representative samples of import entries show that some 20–30 percent of them are incorrect in at least one respect. Typical errors are omission of essential information, incorrect tariff or statistical classification, and failure to produce supporting documents. Again, the use of the aligned system of documents and of EDI should ensure such occasions are reduced.

These errors can have a considerable effect on the service Customs are able to provide. For instance, trader performance is often taken into consideration by Customs for granting greater facilities and accelerated procedures. Such facilities include Customs clearance undertaken at the traders' premises, based on qualifying criteria of movement and trader performance, or simpler Customs documentation linked to audit based controls.

Harmonization of Customs data in the area of product classification has been achieved by the introduction of the CCC International Convention on the Harmonized Commodity Description and Coding System (HS). The HS was created to meet a vital and pressing need for a single classification system which would respond to the basic commodity description and coding requirements of the entire international trade community. Countries using the HS account for over 85 percent of world trade. However, one of the basic objectives of the HS, with its multi-purpose features, is to apply the classification code outside the Customs environment, i.e. to ensure its application not only by Customs and statisticians but also by commercial interests such as traders, carriers and producers. This objective is far from being attained, and every effort should be made to ensure that this genuine business opportunity is not lost.

Payment Procedures

Payment is an essential parameter in international trade. The method of payment and its efficiency is influenced not only by commercial practices but also, in some countries, by government policy.

Methods of payment are sometimes not as efficient as they should be because of exchange control regulations imposed by the government in the country of import, or because traders are not fully conversant with the implications of certain methods, or because they wish to over protect the payment. These restrictions are generally counter productive and result in deterring rather than encouraging trade.

One of the most widely used methods is the Letter of Credit (L/C). The Documentary Credit system which has been in use for over a hundred and fifty years was introduced to provide payment against proper presentation of documents. L/Cs are used for consignments of both very low and very high value, even though for low value consignments this method is not always economically justifiable.

The requirements for a L/C vary considerably throughout the world, the more difficult cases being associated with developing countries. For example, a credit from one of those countries could well be expected to consist of four pages of requirements, which must be strictly adhered to, and are often contradictory.

Research in the United Kingdom has also indicated that in over 50 percent of cases, the documents which had to be presented to secure settlement were rejected on first presentation because of defects or errors which made them unacceptable according to the terms of credit. Not surprising, this was found largely to be due to reliance on manual processing and the rewriting or rekeying of information.

Credit requirements are also affected by interpretation of language. This is especially evident where, under the terms of the credit, transhipment is prohibited. Although defined in the Uniform Customs and Practice for Documentary Credits (UCP) of the International Chamber of Commerce (ICC), the term transhipment is sometimes interpreted in different ways, and this can result in the credit being void. Similar difficulties may be caused by misunderstandings between buyer and seller. Frequently the buyer will specify a condition, e.g., "shipped on deck," which may have a particular interpretation to him whilst to the seller it has a conflicting meaning. If parties do not agree on the conditions beforehand, the discrepancy may come to light at the time of presentation to the bank when the possibility for amendment is limited. Although the ICC has produced the above mentioned UCP (recently revised and issued as "UCP 500"), (the UCP 500 are referred to on various occasions in group O) some countries insist on referring to their standard banking practice, which is specific to that country and often not definitive.

As well as methods of payment, the methods of remittance of funds are also important. These methods range from the S.W.I.F.T. Express Money Transfers (EMTs) to postal cheques, and delays in the system vary considerably. It is not untypical for a payment transfer to take up to thirty days and, in interest costs alone, it can amount to a considerable sum. From a buyer's standpoint remittance times are not beneficial as the sum has already been removed from his account. All major banks openly state that it is not their policy to retard money transfers nor retain traders' money any longer than absolutely necessary. Nevertheless, in almost all international trade transactions where money passes from buyer to seller, more than one bank is involved in the money transfer and delays occur, which are often caused by technological flaws or human error.

Delays can be reduced by using efficient and fast remittance systems such as EMTs, but the cost for using these systems could be prohibitive: At present it would not be economical to use EMTs for sums of less than USD 10,000 as the cost would exceed the benefits. This directly affects international trade efficiency and has particular implications for the smaller international trader who relies heavily on cash flow.

An additional and very frequent cause for delays stems from strict Exchange Control regulations in a number of countries, which impose certain payment methods (like the compulsory use of L/Cs whilst other more flexible methods such as bills of exchange or open accounts could be used in many instances, e.g., when the transaction takes place between established and trusted partners). Mandatory requirements in letter of credit payments, e.g., the requirement for PSI, may result in additional delays when the Inspection Certificate is not issued or transmitted in time by the Inspection company. In practice, such official requirements may be particularly onerous to the trader and do impede trade information flows. They can actively discourage trade with certain countries where the requirements are too stringent. It would obviously be beneficial for these countries to study how their legitimate objective, i.e. to protect their scarce resources in hard currencies and, in some instances, to control the repatriation of export proceeds, could be attained through methods that would not delay normal payments between trade partners.

Conclusion

In the same manner as the speed of a convoy is determined by that of the slowest truck or ship, or the strength of a chain by that of its weakest link, trade efficiency cannot be reached if one operator in the transaction chain does not operate efficiently. This goes for both private parties and government agencies controlling the movement of goods in international trade.

It is therefore essential that trade procedures and practices are governed by universally agreed basic principles and norms that could be applied by all participants in the transaction, irrespective of their methods of intervention and the degree of sophistication of their information management systems. There is no doubt that the use of electronic techniques for information transfer, and in particular EDI, will significantly contribute to a more efficient trade; however, it should be realized that this objective will be attained only if the basic procedures are in order in the exporting as well as the importing country.

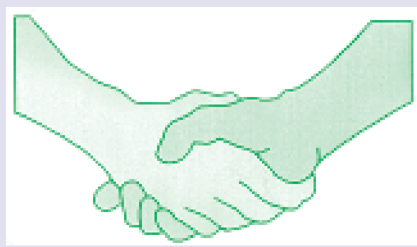
Tools for devising efficient procedures are available in the form of standards, recommended practices, model procedures, etc. The Compendium of Trade Facilitation Recommendations includes a comprehensive list of such practical measures. Although there are no recent indications concerning the extent to which they are actually implemented in the individual countries, it is well known that most of these tools are extensively used in a large number of countries at various levels of development; they have proven their efficiency. Many of them are fundamental for the streamlining of international trade procedures; their generalized application would be a formidable step forward towards more efficient trade through better practices.

Annex III
Summary of Efforts by ASEM & Japan Towards Trade facilitation

PRESENTATION BY
Hiroshi Arichi

ASEM

- European Commission
- 15 member states
- ASEAN
- China
- Korea
- Japan



Source: Customs and Tariff Bureau, MOF, Japan

TFAP
Trade Facilitation Action Plan

- Framework agreed at ASEM EMM at Makuhari, Japan in September 1997
- TFAP adopted at ASEM II in London, April 1998

Source: Customs and Tariff Bureau, MOF, Japan

TFAP (Customs area) (1)

- Accelerated alignment and harmonization of tariff nomenclatures with the WCO standards
- accelerated implementation of obligations under the WTO Customs Valuation Agreement
- endeavour to start negotiations on customs cooperation and mutual administrative assistance agreements between the European Community and the interested ASEM Asian partner

Source: Customs and Tariff Bureau, MOF, Japan

TFAP (Customs area) (2)

- promotion of transparency through mutual access to each ASEM partners' existing databases such as customs duties and nomenclature, tariff quotas, import and export procedures and formalities, rules of origin, customs legislation, etc.
- Improvement of predictability for the business community through publication and clarification upon request, of customs regulations and procedures in force taking into account, where appropriate, the relevant international customs conventions, such as the Kyoto Convention

Source: Customs and Tariff Bureau, MOF, Japan

TFAP (Customs area) (3)

- organization of ASEM seminars for customs and business representatives, in close consultation with the Asia-Europe Business Forum (AEBF), and including, for example, key issues such as risk analysis, EDI, paperless systems and speeding-up of the customs handling
- promotion of standardized and simplified documentation taking into account the existing international standards and the on-going duscussions in various international fora

Source: Customs and Tariff Bureau, MOF, Japan

TFAP (Customs area) (4)

- where appropriate, the exploration of possible common positions of ASEM partners in WTO and WCO
- taking into account resources available, provide possible technical assistance and training programmes related to customs simplified procedures that will contribute to ASEM expertise and experience

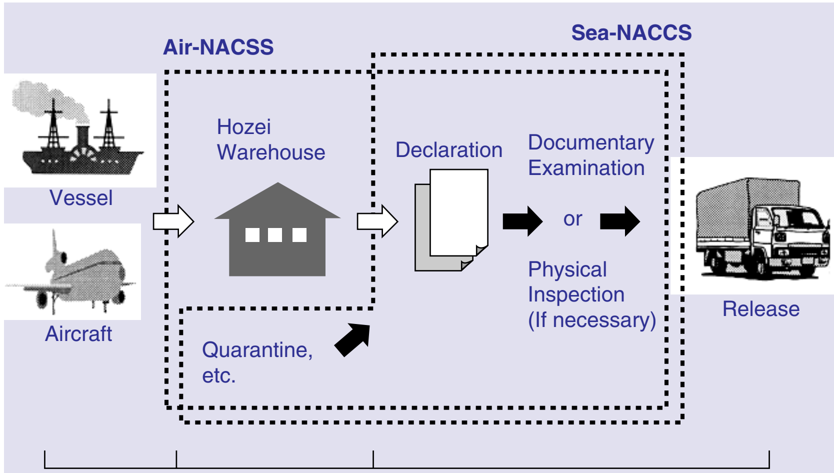
Source: Customs and Tariff Bureau, MOF, Japan

The survey on the time required for the release of goods

Purposes
- To identify cause(s) of delay in the entire clearance process.
- To examine the effects of mesures taken for improvement/facilitation.

Source: Customs and Tariff Bureau, MOF, Japan

Flow Chart of Import Procedures



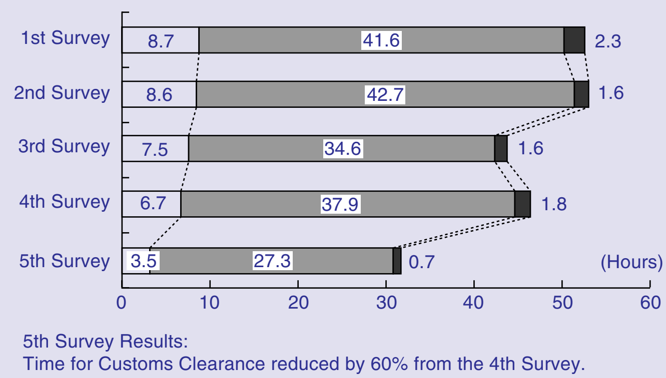
Source: Customs and Tariff Bureau, MOF, Japan

Time required for the Customs clearance

Survey		*Reduction in time* (Air)	(Sea)
• 1st: February	1991	2.3h	26.1h
• 2nd: February	1992		
• 3rd: March	1993	(–70%)	(–79%)
• 4th: March	1996		
• 5th: March	1998	0.7h	5.6h

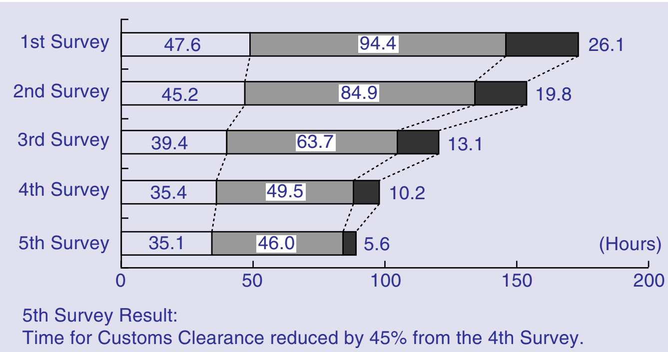
Source: Customs and Tariff Bureau, MOF, Japan

Changes in the Time Required (Air Cargo)



Source: Customs and Tariff Bureau, MOF, Japan

Changes in the Time Required (Sea Cargo)



Source: Customs and Tariff Bureau, MOF, Japan

Reasons for reduction in Customs Clearance Time

Air Cargo:

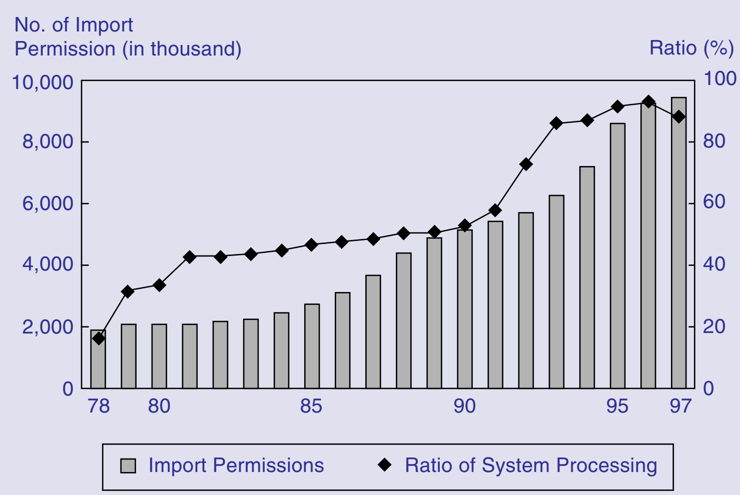
1. Introduction of a Special Customs Procedure for Immediate Release on Arrival.
2. Computer Networking with other Agencies, such as Quarantine, etc.

Sea Cargo:

1. Wider use of Pre-Arrival Examination System.
2. Computer Networking with other Agencies, such as Quarantine, etc.

Source: Customs and Tariff Bureau, MOF, Japan

Trend of Usage of NACCS Systems (Import by Sea/Air)

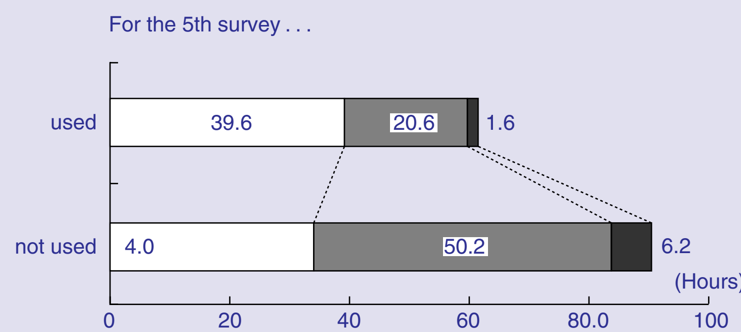


Source: Customs and Tariff Bureau, MOF, Japan

Effect of the Pre-Arrival Examination System (Air Cargo)

Source: Customs and Tariff Bureau, MOF, Japan

Effect of the Pre-Arrival Examination System (Sea Cargo)



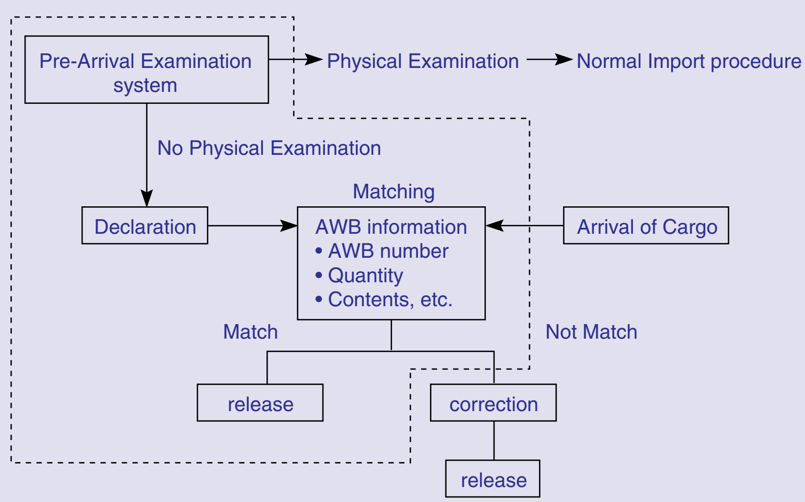
Source: Customs and Tariff Bureau, MOF, Japan

Special Customs Procedure for Immediate Release on Arrival (Air Cargo only)

- This procedure applies to goods:
  - that are required to release urgently;
  - for which declaration has gone through the Pre-Arrival Examination System;
  - that are not subject to physical inspection; and
  - for which Arrival is confirmed.

Source: Customs and Tariff Bureau, MOF, Japan

Flow of Special Customs procedure for Immediate Release on Arrival (Air Cargo only)



Source: Customs and Tariff Bureau, MOF, Japan

Annex IV
A Technical Assistance to Kingdom of Nepal for Efficiency Enhancement of Customs Operations: An Example of Asian Development Bank Assistance [1]

Introduction

Discussions of the Automated System for Customs Data (ASYCUDA) began in 1991 in Nepal. It is to be used as the core of the computerization program of the Department of Customs (DOC). It was proposed to be installed initially at the Tribhuvan International Airport, pending approval from United Nations Development Programme (UNDP). However, UNDP had subsequently advised that the budget for Nepal has been cut and priority was for rural development and livelihood projects. The government then requested the Bank to provide a grant for installing the system. A Fact-Finding Mission was fielded in April 1995 while the government committed to computerizing the DOC as required for implementing the system.

Background and Rationale

In June 1992, the Government embarked on a program of economic liberalization as embodied in Nepal's Eighth Five-Year Plan. They introduced new trade and industrial policies to open the economy to international trade and

[1] Taken from ADB, TA 2459, October 1995.

investment and to increase international competitiveness. Although there had been progress, the government still wants to improve government finances. Because customs collections are a major source of government revenue, they realized the need for improving the handling of transactions and remove impediments in its customs procedures.

The existing customs procedures, formalities, and documentation requirements are inefficient and complicated and are usually the cause of delay in the movement of goods. These inefficiencies contribute to the difficulties of foreign investments and ventures. The government also loses revenues and trade statistics are distorted because imported goods are often undervalued under the existing system. The lack of accurate and timely trade data hampers the progress of tariff administration and policy formulation.

The government has computerized clearance procedures and data processing as improvement of customs functions and procedures. The heart of the computerization system is the ASYCUDA, which was developed by the United Nations Conference for Trade and Development (UNCTAD). The system, which has several modules for different customs procedures, is aimed to provide a cost-effective solution to modernization of customs administration in developing countries. The government agreed to install ASYCUDA, rather than a tailor-made system which is more expensive. The system will be installed in phases, with the Bank-funded first phase limited to the Tribhuvan International Airport and DOC headquarters and will serve as the model for the applications at the border ports, and subsequent phases covering the dry ports at the India and Tibet borders. Depending on the success of the system's implementation under the Bank's technical assistance, the World Bank has proposed to integrate in its projects in Nepal the installation of ASYCUDA at Birgunj, the main border post to India.

Financial and economic benefits are expected to be very substantial. An indication of potential benefits in quantitative terms may be gauged from the experience of other countries using ASYCUDA.

The implementation of the recommendation for improving customs procedures and establishing a proper and transparent valuation system is one of the conditions for the second tranching of one of the Bank's projects.[2] The government has agreed to move toward a system in accordance with the Valuation Agreement of the World Trade Organization.

In light of the importance of reforms in the customs operations and administration and in support of the ongoing ISPL, it is desirable for the Bank to provide TA for implementing ASYCUDA and adopting a new valuation system based on the GATT Valuation Agreement. The proposed TA will promote the strengthening of the macroeconomic management in Nepal.

The Technical Assistance

The primary objective of the TA is to assist the Government in improving the efficiency and effectiveness of customs operations and increasing the yield of customs revenues, and to provide the government with better information needed to formulate and conduct economic and fiscal policies.

The TA has two components: automation of the data processing by installing ASYCUDA in the first phase, and capacity building of the DOC for a new system based on the Valuation Agreement. The first component includes configuring the ASYCUDA software package to the needs of DOC, and introducing rationalized and simplified customs procedures. Training of staff and other people involved on the new procedures will also be provided. The second component will focus on setting standard values for valuation and preparing a handbook of the procedures and guidelines for implementing the system. A training program on customs

[2] Loan No. 1229-NEP (SF): Industrial Sector Program Loan (ISPL).

valuation will be provided for customs officials and a publication on the procedures will be prepared and disseminated to concerned parties.

The TA is estimated to cost $1,454,000 equivalent. The Bank will provide $1,168,000 to cover the entire foreign exchange and part of the local currency cost of the TA. The government will bear the remaining cost of the TA, estimated at $286,000, of which a substantial amount will be used to refurbish the DOC offices.

The DOC will be the executing agency for the TA. The first component is expected to be completed in 18 months and the second one in 7 months. The TA is scheduled to complete in November 1997.

UNCTAD will be the consultant for the first component of the TA, as ASYCUDA is a proprietary software of the UNCTAD and can only be implemented by a team of experts from UNCTAD. All experts will perform their tasks in Kathmandu, except the international computer programmer who will be based in Switzerland, and the international electronic data processing expert, who will be based in Malaysia. Both will visit Kathmandu twice during the implementation. The second component will require a customs valuation expert, who will work with the UNCTAD experts.

The consultants will prepare an inception report, a draft final report, and a final report for each component. UNCTAD will submit a midterm report for the first component, and their final report will include an evaluation of the computerization program. The final report which will incorporate comments from the government and the Bank, will be submitted after the tripartite meeting on the draft final report.

All TA equipment financed by the Bank will be procured by the Bank with assistance from the Nepal Resident Mission.

The President's Recommendation

The President recommends that the Board approve the proposed technical assistance, on a grant basis, to His Majesty's Government of Nepal in an amount not exceeding the equivalent of $1,168,000 for the purpose of Efficiency Enhancement of Customs Operations.

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