

## **II: Improving Service and Efficiency in Customs**

# 4

## The Role of the World Trade Organization

*Hans Van Bodegraven*

### The International Context

Over the last 50 years, we have witnessed a tremendous increase in international trade. Today we live in a global marketplace where optimal allocation of resources is a key activity. Unprecedented developments in transport, such as containerization, computerization, speed, and just-in-time delivery and other new logistic concepts have enabled companies to cope with this global marketplace.

Another important contribution to the enormous growth in international trade is the globalization of production and the steady rise in the international movements of goods and services within multinational companies; one-third of movements of international goods are intracompany transactions.

Present global trade patterns show that the business community, by engaging in international trade, is very aware of its possibilities. However, notwithstanding its enormous growth, international trade is far from being unhampered. Providing the data necessary for the movement of goods across borders, such as all kinds of certificates and documents, proofs of origin, and invoices, accounts for an estimated 2–10 percent of the final market price of the goods concerned in the country of destination.

It is the consumers who finally pick up the bill for these costs. Not only will they have to pay the extra costs, they

also cannot profit from the full benefits which an open market can give them. According to some estimates, reducing or eliminating these costs could mean a cost saving of up to US\$75 billion worldwide and could give an important boost to the world economy, particularly welcome in these times of economic crisis in Asia, Russia, and Latin America.

### **Relationship Between Trade Facilitation and Customs Procedures**

Customs procedures, in spite of the great efforts to simplify and harmonize them, are still the most visible barriers to international trade. At the same time, these procedures remain very important in the context of revenue collection and the protection of society.

Trade facilitation in general can be defined in many ways. According to one definition, which is incorporated in the mission statement of the United Nations–Centre for the Facilitation of Procedures and Practices for Administration, Commerce and Transport (UN CEFAC), trade facilitation consists of:

activities dedicated to improving the ability of business, trade and administrative organizations, from developed, developing and transitional economies to exchange products and relevant services effectively.

It is clear from this definition that (as also explained in the Introduction) the simplification and harmonization of customs procedures is an important part of this much broader aim. Since duties and tariffs have been reduced, customs procedures and practices as such are mentioned increasingly as the main remaining barriers to world trade. The initiatives taken by the customs community itself, especially revising the WCO Kyoto Convention, the main international instrument dealing with customs procedures, will only partly solve

the problem. The customs community cannot take away the underlying political and legal differences between states in the fields of trade, agriculture, safety, public order, etc. There we enter the much wider world of international trade policy.

I will therefore focus my presentation on the links between trade policy in general and simplification and harmonization of customs procedures. I will then turn to the question of which international organization the Netherlands considers to be best equipped to deal with these politically sensitive issues. This question is very topical because of the present discussions on the scope of the Millennium Round negotiations in the World Trade Organization.

I will first give you a brief overview of the existing barriers to international trade and the role of customs in trade facilitation and then turn to the WTO.

### **Barriers to International Trade**

After the substantive tariff reductions in earlier rounds of GATT negotiation, further reductions may be expected during the forthcoming Millennium Round. The more tariffs are reduced, the more attention will focus on remaining barriers to international trade. Whether clearly visible or hidden, these barriers still cover a very wide range.

Not all of them can, by the way, be linked to government regulations. For instance, some of the banking requirements, such as some forms of documentary credits dependent on original paper documents and insurance of international transport, can effectively discourage small- and medium-sized companies in particular from exploring foreign markets.

International business has over the years learned to cope with the remaining barriers. At the same time, we should realize that most of the small- and medium-sized companies do not have the resources needed to overcome these barriers. They are therefore forced to compete in foreign markets at substantially higher cost than local competitors and will

very often simply refrain from going beyond their local market. To put it in simple terms: international trade is at present so much more complicated than national trade that many companies simply do not bother to look beyond national borders. This is particularly true for companies from least developed and developing countries and for small- and medium-sized companies.

### **Possible Role of Customs**

The role of customs is important, but limited by its nature. Customs does not make policies, but enforces laws regarding the cross-border flow of goods. By the nature of this task, customs is often blamed for the delays caused by government regulations. To make things more complicated, in practice import/export legislation is often enforced by a range of specialized control agencies which require completely different data sets, procedures, and practices. This uncoordinated government intervention sometimes leads to extreme holding times at the border crossing points.

Within its limits in the recent past, customs has contributed a lot to reducing the barriers. As examples of measures that have facilitated international trade considerably I would just like to mention the harmonized system for the description and coding of goods and the Kyoto Convention on the simplification and harmonization of customs procedures. The use of electronic data processing techniques has also helped traders to deal with customs procedures.

In the future, customs can play a role in lowering the barriers, first by introducing the new Kyoto Convention as soon as possible and by starting new initiatives in the field of international cooperation. But customs might, for instance, also get the primary responsibility for dealing with cross-border traffic of goods (front-line agency). Customs should therefore be consulted whenever new legislative measures in respect of cross-border traffic are being considered.

Customs might also be given the role of coordinating the activities of other control agencies involved in order to avoid accumulating handling delays for a single consignment (single-window/one-stop clearance). This presupposes that customs also has to be the central agency to receive the data concerning this international traffic of goods prior to the arrival of the goods for risk assessment. This would enable customs to clear goods before their arrival in the customs territory. Benefits may also be derived from prototype projects wherein export data may serve as import data in the country of destination.

The efforts of customs in trade facilitation will, however, always be limited to issues in their area of competence. Many of the barriers to international trade are controlled or enforced by customs, but not decided upon by customs. As a first step toward removing these barriers, the whole range of obstacles should be reviewed from a political standpoint. Therefore, an international political framework is urgently needed.

### **The Forum Best Equipped to Deal with Trade Facilitation**

Discussions on aspects of trade facilitation take place in many specialized or regional forums, such as G7, APEC, ASEM, ASEAN, NAFTA, and the possible future FTAA. Other international organizations like WCO, IMO, ICAO, ICS, IATA, ICC also deal with aspects of trade facilitation. Without a detailed analysis of the work programs of all of these organizations, I think it is true to say that their efforts result in many positive initiatives, but the overall effect is limited because the results are not coordinated and not universally adaptable or enforceable.

European experience in the past two decades shows that to eliminate international trade barriers effectively, a firm political decision has to be taken. One should recall that in

1986, in the so-called white paper on the completion of the internal market, an inventory among EU member states showed an impressive list of over 400 legislative or regulatory differences between EU member states requiring as many customs controls at their internal frontiers. These differences made it impossible to create a real internal market.

A firm decision was therefore taken by the European Council to harmonize the legislative measures concerned. By 1993, these differences had disappeared. Consequently, all customs controls at the internal frontiers could be abolished and the internal market, although not quite achieved yet, could at least function without physical controls on goods at the borders.

The lesson to draw from this is that genuine political commitment around the world is needed for the effective reduction of barriers to international trade. The present discussions, for example in the G7, on the reduction of data requirements in cross-border traffic of goods at best serve as a technical input in discussions at the global level. Trade facilitation is not a matter for just an élite group of seven economic superpowers; it can and will be achieved only when all states, including the least developed countries, see the benefits of further facilitation and agree to eliminate barriers.

The most likely forum for obtaining the necessary global consensus is, in my opinion, the World Trade Organization.

### **WTO Involvement in Trade Facilitation**

The Uruguay Round has brought about a fundamental change in international trade policy. After the earlier multi-lateral trade negotiations had only imposed rather limited commitments and had not engaged many developing countries, the Marrakesh agreements have strengthened the international economic institutional framework considerably.

In particular, the fact that the World Trade Organization has been given wide-ranging supervisory powers, an effective

procedure for dispute settlement, and the power to lay down binding rules, has changed the international environment considerably.

The WTO does have some experience in the field of customs. As an example, I would like to mention the GATT Valuation Code which was an important step forward compared with the classical method of calculating the customs value of goods. The code is being introduced by many countries and constitutes an important step forward in worldwide standard customs procedures. In 95–99 percent of cases (or even more), the invoice value will be used. Only in case of well-founded doubt can the invoice price be challenged. This means that the importers concerned can predict much more the amount of duties payable and that there will be less reason for disputes and resulting delays.

Secondly, carrying out the GATT-Uruguay agreement in this area, the WTO launched a process to harmonize the rules for determination of the nonpreferential origin which are used in the application of various trade-policy instruments. In view of the available expertise there, the technical discussion of this matter has been assigned to the World Customs Organization (WCO), in particular the Technical Committee on Rules of Origin (TCRO). Results reached by the TCRO (Brussels) are submitted to the Committee on Rules of Origin (CRO) in Geneva for political endorsement. The process is to be finalized before the Ministerial Conference which is planned for the end of 1999.

In sharp contrast to the deliberately low political profile of the WCO, the WTO is a highly political organization. It is now recognized as *the* international authority to discuss matters of international trade policy and has shown great influence in recent years.

Since the WTO is the only global organization dealing with trade policy matters in a broad sense and has a high political profile, it is in principle very well suited to dealing with trade facilitation issues. Of course, the organization does

not have the technical expertise to deal with the very wide variety of trade barriers under discussion. It should certainly be backed up with the technical expertise of other organizations such as the WCO for customs-related items.

Another organization that could, in my view, play an important supporting role is UN/CEFACT. This UN body deals in particular with the facilitation of procedures and practices in administration, commerce, and transport. There is an impressive list of UN recommendations that could play a role in the present efforts.

In a first informal symposium held in March 1998, a great number of topics in the field of trade facilitation were mentioned that could be tackled in the Millennium Round. I would like to highlight a couple of points most relevant to customs:

- reducing and simplifying documentation and data for export and import purposes;
- harmonizing documents and data requirements with internationally agreed standards such as those of the United Nations;
- allowing the electronic generation and submission of reduced and internationally harmonized trade documentation; and
- introducing modern customs procedures, including risk assessment, pre-arrival processing, audit-based controls, fast-track clearance for authorized traders, acceptance of export data at import, concentration of all official controls in the hands of customs (one-stop clearance), and customs integrity.

I would like to stress in this context that the present revision of the Kyoto Convention will be an extremely important step in the right direction as far as customs procedures in the strict sense are concerned. I should add, however, that the Kyoto Convention is not the panacea for all problems

related to customs that some people believe it to be. For example, the Kyoto Convention will not solve existing inefficiencies in the organization of customs administrations, rivalry between official control agencies, or problems of integrity. Only a well-balanced reform and modernization program, together with the necessary funds to implement the recommendations, will solve these more fundamental problems.

### **Upcoming WTO Ministerial Conference**

The Ministerial Conference of the WTO to be held at the end of 1999 will decide on the exact scope of the Millennium negotiations. Trade facilitation must be one of the topics for the negotiations. Given the close relationship between trade facilitation and customs-related topics, facilitation of customs procedures should be high on the priority list.

General support from the WTO for the worldwide acceptance and implementation of the revised Kyoto Convention would be most welcome. I can also see benefit in WTO support for broad initiatives in the field of reform and modernization of customs administrations and for the systematic examination of the range of barriers to trade, with the assistance of specialized agencies such as UN/CEFACT and WCO.

### **WTO State of Affairs with Regard to Trade Facilitation**

Four informal meetings and the symposium mentioned earlier have been held so far, resulting in recommendations from the Council of Trade in Goods to the ministerial conference to be held at the end of the year.

The positions in Geneva are not completely clear. It looks like all developed countries are now convinced of the need to tackle trade facilitation in the Millennium negotiations and at least to lay down some guiding principles for trade facilitation and to create a framework in which trade facilitation

can be dealt with in a consistent and coherent way.

It is remarkable that some of the less developed countries seem a little hesitant to recognize that trade facilitation could be beneficial to all countries. It is generally accepted that the creation of an open-market economy allowing optimal allocation of resources is one of the best ways to contribute to and to profit from economic development.

Open markets can, however, function properly only if procedures designed to facilitate the flow of goods are put in place and the regulatory capacity of the country concerned is made effective. In particular, lowering the present threshold for engaging in international trade, caused by unclear procedures among other things, would likely benefit companies from developing countries in particular, and could lead to substantial growth in their exports. Similarly, lowering barriers to imports will inevitably lead to more competition and better allocation of resources on the local markets in developing countries.

Of course, any new WTO activities in the field of trade facilitation must also have an impact on existing agreements such as the agreements on import licensing procedures, on pre-shipment inspections, on technical barriers to trade, and on sanitary and phytosanitary measures. A critical examination of all these existing instruments should be part of the WTO activities in the field of trade facilitation.

### **The EU and Dutch Positions**

An important input so far in the inventory of possible trade facilitation issues for the Millennium Round negotiations has come from the European Union. The overriding message in the European contributions is that trade facilitation in the end benefits all states around the world and suits both international business circles and governments. It will open markets that are now in fact effectively closed, in particular for small- and medium-sized companies.

At the same time, reducing barriers will open up markets for business from developing countries because of substantially less investment needed to cope with procedures elsewhere. To quote the Ministerial Declaration on Trade efficiency of October 1994:

Greater participation in international trade is a prerequisite for development. Dynamic and healthy international trade is a major instrument for the economic growth and sustainable development of countries. It also contributes to the goals of poverty alleviation and employment creation on a worldwide basis.

In its latest contribution to the WTO debate, the European Union has stressed the need to include concrete commitments for capacity building in developing countries. In February 1999 there was a broad consultation of Dutch international business circles about their expectations and wishes in respect of the WTO activities in the field of trade facilitation. The meeting showed clear support for the view adopted by the European Union that, based on present status and past experience, the WTO is the best political forum to reach progress on a future strategy for trade facilitation.

## **Conclusions**

The key conclusions are as follows:

- Trade facilitation is an extremely important instrument for the further growth of the world economy, and presents a win-win situation for developed countries, developing countries, and countries in transition.
- The WTO is the international organization best suited to achieve real progress in the field of trade facilitation. Restricted, regional, or specific organizations can only play a supportive role.

48 *Simplification of Customs Procedures*

- The Millennium Round should cover the broadest possible range of topics.
- The WTO should be assisted in this challenging task by the WCO and UN CEFAC.
- The specific customs administrative input in the discussion on trade facilitation should focus on:
  - acceptance of the revised Kyoto Convention;
  - initiatives beyond the provisions of the Kyoto Convention (single-window/one-stop, prototyping, etc.);
  - the reform and modernization program; and
  - the principles of the Arusha Declaration.

# 5

## A Customs System for Improved Service and Efficiency

*Patrick Heinesson*

### Swedish Customs

Great changes have come over Swedish Customs in recent years.<sup>1</sup> New rules have been introduced in conjunction with Sweden's accession to the European Union (EU). To meet EU requirements, Swedish Customs has changed its work methods, chiefly through increasingly integrated IT operations. The goal is to be regarded as the most efficient in Europe, in both service and information to industry and in the fight against illegal imports of narcotics, alcohol, and cigarettes.

The business concept it has adopted calls for Swedish Customs to offer the following:

- flexible customs routines within the framework of foreign trade regulations;
- simple border passage for travelers and efficient border protection;
- constant improvement of customs routines to benefit the public to the greatest possible extent and to strengthen Swedish competitiveness; and
- cooperation with industry and other authorities.

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<sup>1</sup> From Kjell Jansson, Director-General for Customs, "New Swedish Customs," a report, January 1999.

Swedish Customs seeks to play a major role in border protection and to reduce by 25 percent the social costs of illegal imports of narcotics, alcohol, and tobacco. It also looks forward to collaborating with industry and to receiving high-quality declarations, 90 percent of which will not require manual handling. In the field of national and international cooperation, Swedish Customs wants to be known for progressive thinking, work simplification, and development of work methods.

The ten-point change program of Swedish Customs is summarized below:

- *Comprehensive view.* Swedish Customs must be organized and its work methods formulated to create a common approach that is conducive to public benefit, efficiency, and customer orientation.
- *Readiness for change.* Through systematic change, the organization and the work methods will be formulated and adapted to suit new global requirements and the demands of efficient operations.
- *Strategic work.* Organizational strategies and vision will be given high priority.
- *Development.* Development of work methods and IT- and technology-based procedures, as well as training, will be a main strategic task and an integral part of operations.
- *Cooperation and collaboration.* Central and regional units will cooperate within and among themselves, and will work in such a way as to facilitate and encourage collaboration with other nationally and international authorities.
- *Uniformity.* Regulations and work routines will be uniformly applied throughout the organization and operations of Swedish Customs.
- *Structure.* The organization will adopt a geographic and reporting structure that accords with the nature of its

business and the efficient distribution of its resources.

- *Management and control.* Strategic management and control of operations will be clear and coherent.
- *Work methods and work forms.* Swedish Customs will organize itself for its ongoing projects and devise new work forms to be able to use its resources efficiently, achieve flexibility and mobility, and muster strength.
- *Process orientation.* Swedish Customs will have a process-oriented organization and will operate in accordance with its two main processes, Managing the Trade and Border Protection.

### **Processes of Swedish Customs**

A process orientation is needed to reflect the importance of each part of the operation to the vision and the overall goals of the organization. The two main operational processes of Swedish Customs are Managing the Trade and Border Protection. There are two supporting processes: Analysis and Crime Investigation.

Managing the Trade is the handling of commercial goods traffic. It applies quality assurance in order to develop and sustain Swedish Customs as an efficient link in the foreign-trade chain and to promote revenue collection and foreign trade documentation within the framework of given restrictions. The process starts outside Swedish Customs when a company expresses interest in importing, exporting, or transiting a commodity and is completed when the correct revenue has been handed over to the government.

Border Protection is concerned with the handling of illegal traffic. Its purpose is to prevent unwanted goods from crossing the border. The process starts with the prevention of smuggling and ends when control and evaluation are completed and possibly a crime has been reported.

## **The National Risk Analysis Program**

For the past few years, the Swedish Customs has been developing a range of work methods to facilitate foreign trade and to rationalize its own procedures. Applying risk analysis to customs procedures, for instance, has proved useful in determining the facilities that may be granted to individual economic operators.

Thanks to the computerized Customs Information System (TDS), which has been adopted nationwide, over 70 percent of customs declarations are now submitted to Customs in paperless form (EDI). A computerized risk analysis system is also being developed to help identify, manage, and control high-risk areas, while allowing automatic customs clearance to low-risk entries.

In October 1996, the Swedish Board of Customs started a project named RISK to study and implement new working methods. The project was carried out in three stages: study (October 1996 to May 1997), design (April to December 1997), and implementation (January to December 1998). In May 1997, a plan was presented for the implementation of computerized risk analysis and new work methods. This National Risk Analysis Program involves the use of risk assessment in all aspects of customs work. The program is aimed at: (i) introducing the use of risk analysis; (ii) improving service to the legal trade; and (iii) allocating resources to areas of "high" risk.

The risk analysis system includes:

- a computerized customs clearance system;
- an automatic control system;
- a flexible profiling system with national and local profile facilities;
- an automatic, paperless results and feedback system;
- a follow-up system with detailed error and results management and statistics, as well as a management

- information tool to aid in planning and management;
- a random control system which selects a few low-risk entries for manual control (red route) to verify the quality of risk assessment and to detect new error trends;
  - a historical database with all the information from customs declarations, to provide a proper tool for risk assessment in the initial control and post control stages;
  - a data warehousing system to allow risk analysis specialists to make risk assessments based on errors from the profiling system and on strategic information from the historical database; and
  - an electronic communication and information system (Internet, Intranet, and E-mail) for risk analysis specialists.

A new concept is also now being explored and developed as part of a nationwide cooperation program involving customs, the government, and economic circles. This concept takes the experience gathered from the risk analysis program a step further. A “stairway” of facilities would be offered to economic operators who undertake to assume more active and professional roles in customs procedures.

### **The Stairway**

Through risk assessment and quality assurance of customs procedures, the stairway approach aims to match the level of customs services and facilities to the level and quality of input provided by economic operators. The objective is to improve the quality of customs performance and to simplify and rationalize customs procedures. The stairway approach is based on a number of principles:

- comprehensiveness—all foreign trade should be included;
- beneficial effects of participating in the effort;

54 *Simplification of Customs Procedures*

- optional level of service and benefits to individual companies; and
- better, higher-quality service and simpler customs procedures.

Thus, additional efforts made by an individual company, in cooperation with customs, would be rewarded. At the same time, customs administrations would achieve greater rationalization. The intent is for customs as well as economic operators to benefit from the approach.

Figure 5.1 shows the various steps on the stairway. Steps 1 and 2 on the stairway are based on the traditional customs controls (physical examination, documentation, audit, random control, etc.). In steps 3 and 4, the individual company will carry out these types of controls as agreed with customs. The latter will then administer the process and check the quality of, for example, an import declaration according to conditions in the agreement. The exercise of customs authority in the future will depend on which step the individual company has reached on the stairway. By being on steps 3 and 4, a company can avoid undesired interruption in the flow of goods.

**The Stairway**

OPPORTUNITIES	REQUIREMENTS
<ul style="list-style-type: none"> <li>- Certificate of quality</li> <li>- Automatic clearance</li> <li>- No interruption in flow of goods, etc.</li> </ul>	<ul style="list-style-type: none"> <li>- ISO-certification</li> <li>- Quality Random Control (QRC)</li> </ul>
<ul style="list-style-type: none"> <li>- Periodical declaration</li> <li>- Priority compliance, etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Quality of all customs routines</li> </ul>
----- "Quality approved" company -----	----- "Quality approved" company -----
<ul style="list-style-type: none"> <li>- Approved importer</li> <li>- Limited automatic clearance, etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Quality of some Custom routines</li> <li>- EDI-permission</li> </ul>
----- "Reliable" company -----	----- "Reliable" company -----
<ul style="list-style-type: none"> <li>- Import/export and transit</li> </ul>	<ul style="list-style-type: none"> <li>- Declaration of acceptance quality</li> </ul>

To derive maximum benefit from the anticipated change, Swedish Customs is introducing a new organization with the following basic features:

- one authority, one Swedish Customs;
- process orientation;
- the same resources but more officials in operational roles;
- a new central organization for strategic management; and
- six new customs regions.

The new Swedish Customs will push vigorously for simplified rules and procedures in accordance with the Stockholm declaration. It will prepare for and carry out its responsibility for Sweden's chairmanship of EU 2001. With its new organization, it expects to coordinate international matters more capably and contribute actively to various development projects in the customs field.

# 6

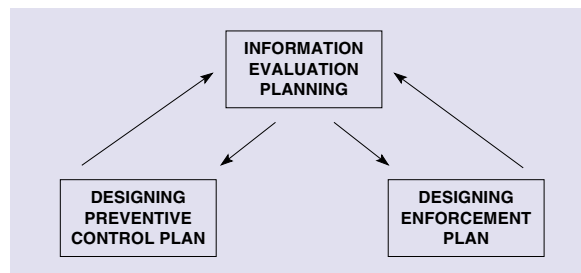
## Risk Analysis: A New Tool for Customs Efficiency and Enforcement

*Rafael Arana*

The objectives of risk analysis are to bring greater returns in enforcement, and to reach maximum administrative effectiveness. Preventive risk analysis is necessary to ensure rapid and efficient customs procedures such as:

- control of ships and other means of transport;
- container control within customs facilities;
- control of expeditions to free areas and deposits;
- transit control; and
- control of customs clearances.

For risk analysis, it is necessary to define the risk and to evaluate it. Risk evaluation affects customs procedures, and vice versa, as shown below:



Note: Many details of implementation are not suitable for publication and are not included in these pages.

Risk analysis needs information. The customs offices, especially the customs headquarters, are responsible for gathering the information needed. Both internal and external information has to be obtained automatically, without affecting the smooth flow of procedures or disrupting the day-to-day operation of the office. Risk analysis should not be a reason for delays and should not interfere with customs procedures. Preventive risk analysis has to be efficient to make efficient automation and computerization possible.

The evaluation and planning of risk analysis has two phases. The first one, the design of the preventive control plan, deals with clearance of goods (e.g., using an automated system with filters) and detection of customs infringements (e.g., using programmed container control). The second phase is the design of the enforcement plan—how the details of the first plan are to be implemented.

The analysis of import consignments uses a “filter” program which, on the basis of various criteria (operator, tariff heading, origin, value, etc.), classifies consignments into one of three channels: green (automatic passage), orange (document check), or red (physical check). These filters facilitate the dispatch of goods.

There are two types of filters: objective and subjective filters. Objective filters are established by the Department of Customs and Excise Duties to conform to legal measures or central criteria. They are generally applicable and cannot be amended by the local customs authorities. Subjective filters are established at the local level and apply only to the office where they have been developed and only for a limited time. There are also two levels of uncertainty: those that go with the filter and those that arise when the circuit is modified. The shape of the filters is summarized below:

**Description:** general definition of the specific filter.

**Circuit:** green, orange, or red, indicating the rate established for the color.

**Orders:** in the form of digits of two figures or a figure and a letter, indicative of the measures to be taken by the customs officer for declarations affected by the filter.

**Date of Entry:** day, month, and year in which the filter was created.

**Date of Consolidation:** day, month, and year of acceptance of the filter by the system. Normally, it corresponds to the date of entry.

**Date of Expiration:** day, month, and year in which the filter will cease to be valid.

**Parameters (export)**

- statistical position
- country of destination
- customs procedure
- exporter
- declarant
- statistical value

**Parameters (import)**

- statistical position
- country of origin
- tariff preferences
- tariff reduction
- customs procedure
- importer
- declarant
- statistical value

Spain's Central Department has so far created 78 filters for exports and 308 for imports.

The filters' level of access works as follows. First, documents are assigned to customs officers through a filter program. The officers enter the details into the system, which has two levels of access: first, the local director, and second, the customs officers. The first level is responsible for the following tasks: checking objective and subjective filters, determining the need for additional subjective filters, and ensuring

randomness control. The second level is responsible only for checking objective and subjective filters for a particular consignment.

The filter system includes special procedures. Rapid withdrawal of goods is not explicitly provided for in the system, but decisions in this regard can be made on the basis of risk parameters. Previous import declarations are partially implemented in the system, but can be rejected according to risk parameters. Customs clearance on operators' premises is integrated in the system. Subjective filters are applied with great effectiveness.

To maintain, update, and improve the filter system, a special working group at the customs central headquarters performs scheduled and specific updates of the system, progressively transforming the subjective filters into objective filters as the system improvement plan is implemented.

The Customs Infringements Detection Plan, a new program which deals with containers, has been considered as a model by the "Fight Against Fraud in Containers" seminar in Paris. Its objective is to follow up specific containers and the preparation of container profiles, which may not necessarily be consistent with the goods. The program derives its information from computerized summary declarations as shown below:

- The declarant must send the data on the declarations through teleprocessing.
- The electronic message will include all the data on the paper declaration, that is to say, a complete image of the declaration. Compulsorily, for each declaration, information about the commercial invoice with its number will be included as well as the name of the transport and other additional documents that may be required. Missing requirements will cause the rejection of the declaration and, therefore, nonadmission.
- The inclusion in the message of a reference to a certain

document means that the document is in the hands of the declarant.

- Customs has the option to set the final time of transfer of documents for the day.
- Coherence verification:
  - rejection of Single Administrative Document (SAD) that do not comply with computer validation;
  - numbering of valid declarations;
  - allocation of admitted declarations to the red or orange circuit; and
  - provisional allocation of the rest of the admitted declarations to green.
- A reply is transmitted to the declarant specifying:
  - rejected documents and the reason for rejection;
  - numbers of declarations that have been assigned provisionally to the green circuit. Customs may change the allocations to the red or orange circuits within a few hours. No action from customs within a given period will imply confirmation of the green circuit and, therefore, automatic release of the merchandise.
- An automatic clearance message is sent to the declarant.

Operators transmit data to the respective seaport authorities who send the data online to the customs authority. Other programs, mainly in the enforcement area, complement the analysis, making it possible to check containers that are already suspect. Besides five peripheral units of analysis in the ports of Barcelona, Valencia, Bilbao, Algeciras, and Las Palmas, a Container Control Center, based in Madrid, handles the following tasks:

- coordination of peripheral units;
- establishment of risk profiles;
- management of the Sea Info system;

## 62 *Simplification of Customs Procedures*

- follow-up of containers under alert; and
- exchange of information with other countries.

The computerized container system is centralized for online consultation. It includes several databases on taxpayers, excise tax, imports, exports, transit, and summary declarations. Different applications link all the databases.

The Summary Declaration computer program is another new initiative. It controls all merchandise at customs premises. Electronic data transfer allows customs officers to obtain online information regarding a specific summary declaration. Customs staff can thus make use of the experience of their colleagues to improve the efficiency of their own procedures. The search for specific summary declarations is assigned priority in accordance with factors such as the status of the declaration. A risk analysis application within the Summary Declaration program applies risk profiles to consignments. This work is done either before or at the same time as the normal (filter) customs clearance process.

As stated above, the program allows customs authorities to search for summary declarations according to one or more criteria. The result of the search is then shown in a summary declaration, which contains the following information:

- number of the summary declaration;
- status;
- date of presentation of the summary declaration;
- responsibility for transportation;
- number of consignments;
- means of transport;
- port of destination of the means of transport;
- regular/nonregular line; and
- simplified procedure applied.

Specific container search or selection is possible. The search criteria are: the customs office, the date, and the con-

tainer identification code. Once the container is selected, the following information is available: container details, consignments, summary declaration, and customs declaration.

Risk analysis of consignments permits selection of consignments with given risk profiles. Various criteria can be combined:

- customs office;
- origin of the goods;
- country and port where goods are loaded;
- tariff heading;
- weight;
- number of bulks; and
- risk index (for smuggling of tobacco and drugs).

Through different screens the following information is obtained:

- number of the summary declaration;
- consignment number;
- status of the summary declaration;
- date of admission of the summary declaration;
- means of transport;
- origin of the goods;
- point of loading;
- destination;
- tariff heading;
- number of bulks;
- weight;
- risk index for tobacco and drugs;
- transport representative;
- number of the container;
- description of the goods;
- clearance declaration; and
- location within the customs area.

The program automatically allocates a risk index for cigarettes and drugs (from 0 to 3). The calculation is based on the information and profiles previously established, taking into account various criteria such as origin and type of goods. The customs officer may decide to investigate only beyond a minimum risk index.

The Container Control Center, fed with data from specific sources, can keep track of suspicious containers. Summary Declarations entering the system are cross-checked against the list of “risky” containers.

Through the system described above and the application of risk analysis, enforcement activity yields greater returns while facilitating trade for the vast majority of transactions.

# 7

## The Role of Information Technology in Customs Modernization

*Buenaventura Maniego*

### Introduction

This paper relates the experience of the Philippine Bureau of Customs with information technology, particularly with a computerization and modernization program that has been touted as “the gateway to efficiency in customs processes.”

Some Philippine customs employees used to be awed by computers and were afraid of computerization. They were apprehensive about touching the keyboards, afraid of making mistakes. Yet they went ahead and conquered their fears. Now these very same people have quickly learned how to work with computers. Now, they manipulate computers and check customs documentation quickly and with ease.

Computerization in the Bureau, as in the rest of the Philippines, did not happen overnight. It took us several years to arrive where we are now. Way back in the late 1970s we first attempted to use electronic data processing. But when the gigantic computer broke down in the late 1970s, that was the end of computerization for us at the time.

The first serious attempt to computerize the Bureau took place in the late 1990s when Guillermo L. Parayno Jr. took over as Commissioner. He instituted reforms and strengthened

systems and technology use in the Bureau. Our computerization and modernization program, he said, was our “quantum leap into the future.”

### **Milestones**

To implement the computerization program, as part of the broader Philippine Tax Computerization Program, Unisys Philippines was contracted to integrate the ASYCUDA++ (Automated System for Customs Data Management) software developed by the United Nations Conference on Trade and Development (UNCTAD) with the Bureau’s computer-based activities. ASYCUDA++, a computerized application system that conforms to international codes and standards, is used in more than 65 countries worldwide.

In 1995, ASYCUDA++ was adapted to Philippine requirements. The result was the Automated Customs Operations Systems (ACOS). The introduction of ACOS in the Bureau and the use of information technology in providing service to the trade community have helped facilitate the flow of cargo.

Starting in 1996, and at a hectic pace, we introduced electronic lodgement facilities, including the following:

- *Entry Encoding System.* Importers/brokers in all major ports in the Philippines can now have their import entry declaration documents digitized at this service center, which is managed by the Philippine Chamber of Commerce and Industry.
- *Direct Traders Input.* This is one of the first remote electronic lodgement facilities. Importers and brokers can lodge their entries from their offices using a dial-up facility.
- *Data Warehouse System.* This was installed in 1997, pushing the Bureau to the forefront of information technology use. The system provides timely and accurate trade information on trade balances and trends.

It has since been enhanced by a user application system, the *Customs Decision Support System (CDSS)*, which has become the knowledge base for post-audit, economic intelligence, and other customs processes.

- *Customs Web Site*. This was developed and installed in 1998 and is being enhanced this year.
- *Electronic Data Interchange*. Launched in June 1998, this has made possible the electronic lodgement of warehousing entries.

All the information technology initiatives of the Bureau have been integrated under its computerization and modernization program.

## **Main Systems Modules**

### *Electronic inward manifest*

Shipping lines and airlines submit to the Bureau all cargo manifests in electronic format through the worldwide facilities of the Société Internationale de Télécommunications Aéronautiques, as well as through the Consolidators Data Exchange Centre.

### *Electronic lodgement of import entries*

Importers use the Entry Encoding Centers (EECs) at the customs houses which are operated by a private entity, the Philippine Chamber of Commerce and Industry. The paper declarations are digitized in the EECs so that they can be electronically processed in ACOS.

For paperless transactions, the Bureau's first major effort is the Direct Traders Input facility, or DTI. Importers or brokers key in data on their import entries into their office computers using a set format. The data are lodged remotely in the Bureau's computer system. The use of the DTI facility has

cut processing time. It used to take several days to clear shipments from customs; now it takes only a few hours.

The Bureau has also implemented the use of Electronic Data Interchange (EDI) in ACOS. The system offers a full range of communications and messaging protocols and data transmission options.

The EDI Gateway System provides UN EDIFACT vans with translation capability. Web-page forms are provided by the General Electric Information System (GEIS).

#### *ACOS SELECTIVITY System*

The implementation of ACOS drastically changed the clearing of shipments through customs. At the heart of ACOS is a computer program called SELECTIVITY. It is an intelligent system that analyzes the risk profiles of shipments. It does this by comparing the shipments' particulars with about 18 reference files or screens, and then categorizing the shipments into high-, medium-, and low-risk transactions.

SELECTIVITY in ACOS enables the Bureau to focus its limited enforcement resources on a more manageable number of shipments, thus making customs intervention more intelligent and effective. The automated assessment in ACOS, on the other hand, improves revenue generation by ensuring the consistent and accurate application of tax rules and the availability of updated reference tables and files. By the way, the Philippine customs service collects 25 percent to 30 percent of the total revenue intake of the government.

#### *Data Warehouse System*

SGS developed and implemented the Data Warehouse System of the Bureau. The application has revolutionized the way in which the Bureau defines, analyzes, and accesses trade data. The Data Warehouse System is, as the name implies, a dedicated storage facility for information during the process-

ing of transactions. The Data Warehouse uses import transaction data from SGS CRFs, ACOS, the Bureau's Valuation and Classification Library, and other external sources.

The information is used for a number of customs purposes (e.g., valuation, audit, intelligence, trade statistics). It can also be made available to the public once it has been suitably edited to prevent breaches of security and commercial confidentiality.

The Data Warehouse System does not only provide easy access to relevant and trade data and statistics, but, most importantly, it builds a knowledge base for the future.

The Bureau's Assessment Division, Intelligence Enforcement Group, and the office of the Commissioner can access the Data Warehouse through the Customs Decision Support System (CDSS) application.

To summarize, these are the dramatic changes brought about by computerization in the Philippine Bureau of Customs.

	<b>Before Computerization</b>	<b>After Computerization</b>
Required signatures	79	5
Cargo release time	6-8 days	4 to 6 hours for green lane 48 hours for yellow and red lanes
Shipments examined	All	15% physical examination (red) 15% document examination (yellow) 70% no examination (green)
Supporting documents required	Payment orders, official receipts, and proof of bank payments	Payments are made to banks and electronically transmitted to Bureau of Customs by computer
Place of examination	Anywhere in the port	Designated examination areas
Accountable forms required	Many forms	Single Administrative Document (SAD)
Inward manifest documents submitted to Bureau	13	3 copies in electronic format

*Partnerships with the Private Sector*

Large organizations, such as the Philippine Chamber of Commerce and Industry, Philippine Federation of Industries, Port Users' Confederation, and Chamber of Customs Brokers, Inc., have observed the following advantages resulting from the computerization of the Bureau:

- faster release of cargoes (selectivity; imports delivered more quickly to manufacturers/industrialists; paperless; queueless; cashless);
- lower customs cost (hassle-free; less contact with customs);
- reduced pilferage (faster turnover; less time for pilferage); and
- less corruption at the pier (much red tape has been eliminated; paper processing has been reduced to a minimum).

All of these benefits gained in the computerization program are the result of the partnership between the Bureau of Customs and the private sector, including, among others, the following:

- Philippine Chamber of Commerce and Industry;
- SGS;
- UNCTAD;
- Unisys;
- Asian Terminal Incorporated;
- International Container Terminal Services, Inc.;
- Port Users' Confederation;
- Chamber of Customs Brokers, Inc.; and
- Brokers and Importers Data Access.

## **Conclusion**

The government and the private sector share the following vision:

A customs service more responsive to clients' needs and supportive of government goals, adhering to the world's best practices—a customs service that all Filipinos can be truly proud of.

Compared with other customs administrations not only in the Asia-Pacific but also in other member countries of the World Customs Organization (most of which have over 20 years of experience in the use of information technology), the Philippine Bureau of Customs' use of information technology is in its infancy. But during the last three years and especially in 1998, the Bureau finally went down the road that other countries have traveled for many years. The Philippines is ready to learn and willing to do its part in extending the boundaries of knowledge in the field of electronic governance.

The success of its computerization program has earned for the Bureau of Customs praise and recognition from local and foreign organizations including the WCO, the UN, the IMF, and foreign visitors from all over the world.

A UN report stated:

The Review team was greatly impressed with the progress achieved in modernizing the cargo clearance operations. In a very short time, new systems and procedures implemented have significantly improved revenue collection, considerably speeded up the clearance of cargo and led to a marked improvement in staff morale and image.

72 *Simplification of Customs Procedures*

Another report by the UNCTAD Audit Team said that,

Among the developing countries, you rank no. 1 in computerization. Industrialized countries which had 20 to 25 years' experience did not accomplish what you achieved in so short a time.

Unquestionably these international accolades heaped on the Bureau and the compliments from people who have dealt with the Bureau for many years have bolstered the agency's morale. But the journey is not yet over. We still have to improve some systems and programs as part of our modernization.

Our biggest dream now and our deepest concern is to become not only a world-class customs service but also a world leader in electronic governance.

# 8

## Relations Between Customs and Private Operators in Finland

*Leo Nissinen*

### **New Role of Customs in International Trade**

**F**ormalities, procedures, and paperwork in international trade arise from the need for both governments and trade operators to monitor and control the movement of goods and the transfer of services, and to safeguard the legitimate interests of all parties. Over the years, trade facilitation efforts made by international or national bodies in various sectors (e.g., the World Customs Organization and the European Commission) have improved trade-related information flows by simplifying and harmonizing the procedures and the documentation, and standardizing commercial practices. Without cooperation between customs and the business sector, trade facilitation efforts cannot succeed.

The systems developed to link shippers, transport operators, port authorities, bankers, insurance companies, customs, consignees, and others in the business of international trade are constantly being adapted to meet changing needs associated in particular with the speed of modern transport, express freight deliveries, and containerization. Today, information flows are at a point between paper documents still often painfully filled out by hand, those produced by computer but still sent manually over the Internet, and other automatic data transmission possibilities. The solution to customs logistics problems with the business sector is to use

simplified customs procedures combined with EDI customs clearance systems.

### **Relations with the Trade Community in Finland**

In Finland, good cooperation with traders consists of the following elements:

- customs' client strategy;
- customer orientation in customs work;
- organizations for cooperation with the trade community;
- tailor-made customs procedures;
- ADP cooperation with EDI customs clearance system; and
- customer information and training.

The strategies and objectives are summarized in below:

#### **Strategies and Objectives of Trade Relations in Finland**

Level	Target-Centered	Customer Orientation	Management
National	–Risk analysis model –Resources model	–Model of customer-related simplified procedures	–Central values –Management methods
District	–District-related application and allocation	–Coverage of consulting –Coverage of tailored procedures	–Process management –Values adoption
Office	–Assignment and results	–Customer management and customer feedback	–Progress of authorization –Process control
Individual	–Multiple skills –Competence	–Multiple skills –Competence	–Discussions –Commitment –Team work

*Customs' client orientation*

The main goal of the strategy is the smooth flow of foreign trade. Clients fall into three categories:

- Group A – registered contracting customers;
- Group B – average customers; and
- Group C – risk customers.

Customers in group A apply tailor-made, simplified, computerized customs procedures; their customs clearances are accurate, and their securities in proper order. Risk customers are always submitted to stricter control: the logistics of the customs clearance process are more complicated (no simplifications, stricter control of documents and goods, higher securities). The control of registered contracting customers (group A) consists only in tax audits and spot-checks on goods.

*Organizations for cooperation between Finnish Customs and traders*

A variety of organizations exist to foster public/private cooperation in customs:

- Customs-Trade Consultative Committee. The main goal of this cooperation group is to improve cooperation and understanding between customs and the business sector. Among its members are:
  - Director-General of the Finnish Customs and some other directors;
  - Central Chamber of Commerce of Finland;
  - Federation of Finnish Commerce and Trade;
  - Confederation of Finnish Industry and Employers;
  - Federation of Finnish Enterprises;
  - Finnish Freight Forwarders Association;

## 76 *Simplification of Customs Procedures*

- Finnish Trucking Association; and
- Finnish Shipowners Association.
- Customs Clearance and IT Cooperation Group. This group gives guidance in the use of customs procedures, especially simplified procedures, and in the electronic transmission of customs clearance information to customs through EDI (Edifact messages) or magnetic disks. Its members are the Board of Customs, forwarding agents, and major Finnish companies in industry and wholesale trade.
- Sea Traffic Customer Cooperation Group.
- Customs Cooperation Group concerning Logistics and Trade with Russia.
- Ad hoc group meetings with industry, trade, or forwarding agents concerning customs procedures and IT questions, etc.

### *Tailor-made customs procedures*

Procedures are tailored to three categories of registered customers:

- industrial enterprises, i.e., “bulk model” (raw oil, chemicals, ore, scrap metal, raw wood), and “factory model” (electronics, machinery parts, etc.);
- wholesale enterprises, i.e., “wholesale model” (technological goods, investment goods), and “central-company model” (all kinds of consumer goods); and
- forwarding agents, i.e., “forwarding agents model” (all kinds of goods and customers) and courier transport enterprises (express freight goods).

In addition, cash customers include both enterprises and natural persons, and service processes for minor customers.

## **Conclusion**

Customs plays a key role in international trade. It is clear that the manner in which customs conducts its business has a substantial impact on the movement of goods across international borders. On the other hand, if traders expect greater facilitation of import and export procedures by customs, then they themselves must be willing to contribute to the building of an environment of trust and cooperation which will enable that facilitation to become a reality.