

Philippine Bureau of Customs

CUSTOMS COOPERATION COMMITTEE CONFERENCE

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CUSTOMS REFORMS AND MODERNIZATION (The Philippine Experience)

In the early nineties (1991) we, of the Philippine Bureau of Customs (BOC), were challenged to modernize and institute reforms, to shed off as many manual operations and adopt new methods and techniques in customs administration, at the core of which was computerization.

- **Role of Customs Administration in Economic Development and Services in the Trade Community in Particular**

The rapid advances in the fields of transportation, communications and information technology make the world a lot smaller. It has also eased the flow of information, goods and people across borders, which, in turn, have become increasingly porous. This development has led to a progressive rise in the level of trade. The free flow of information has enabled the suppliers of traded goods and services to more easily discern

emerging global patterns of demand, and the growing ease with which goods could be transported to major markets in the globe. This has enabled them to meet these demands in a timely fashion. The increasing importance of international trade to the economic well-being of nations has led to the founding of the World Trade Organization which is mandated to seek the establishment of a global environment conducive to its free flow.

All of these developments converged to pose a unique challenge to customs administrations. The increased level and rate of trade flows impose work burdens that would be close to impossible to address without the use of the modern techniques and technology. This has given rise to a strong impetus for many to modernize, despite of having to face tight budget constraints.

The Philippine Bureau of Customs (BOC) is no exception. Financial difficulties occasioned by years of moribund economic growth, have forced government agencies to make do with less in the face of steady workload increases mainly resulting from having to service the growing needs of a population that expands at a rate that is one of the highest in the region. Modest economic growth coupled with rapid population increases inevitably gives rise to demand that results in increased trade flows which, in turn, translates into progressively increased workload for Customs. This puts the BOC in an unenviable position of being pressured from both ends of its client spectrum: The pressure of having to collect more revenue to support growing needs of an increasingly overburdened bureaucracy on the one-end, and the pressure of having to face increased workloads from the transacting public with virtually stagnant resources, on the other. Being faced with such a dilemma brings about a strong incentive to appreciate the merits of modernization. Having to squeeze the

last iota of output from tightly constrained resources tends to galvanize efforts towards efficiency and cost effectiveness. The virtues of automation become starkly evident when viewed in contrast with the lack of skilled personnel for highly technical complex tasks.

However, modernization in this case is not just a matter of adopting modern technology and efficient streamlined procedures, as it has to be undertaken in an environment defined by changes imposed by the coming into force of WTO agreements on trade, the most dominant of which is the Agreement on Customs Valuation. Since the focus of these agreements is the free and untrammelled flow of trade, the changes that they mandate provide a solid foundation for BOC's modernization efforts. The shift to a valuation system that is based on the transacted price between the importer and his supplier has mandated a paradigm shift in the way BOC carries out its import assessment tasks: the focus of control is now shifted from the border at pre-release to the importer's premises at post release and is carried out in an audit mode. This plan therefore seeks to recast the BOC into an organization that is well equipped with latest technology and skills to pursue its goals, in a client-focused manner, through effective partnerships with business and its other stakeholders, and with transparency and accountability as its main hallmarks.

Against this backdrop, BOC crafted a VISION of what it wanted for itself.

- **Vision Statement :**

A World-Class Customs Service more responsive to client's needs, supportive of government goals, adhering to world's best practices, and fostering cooperation with the private sector in building a dynamic organization that every Filipino can truly be proud of.

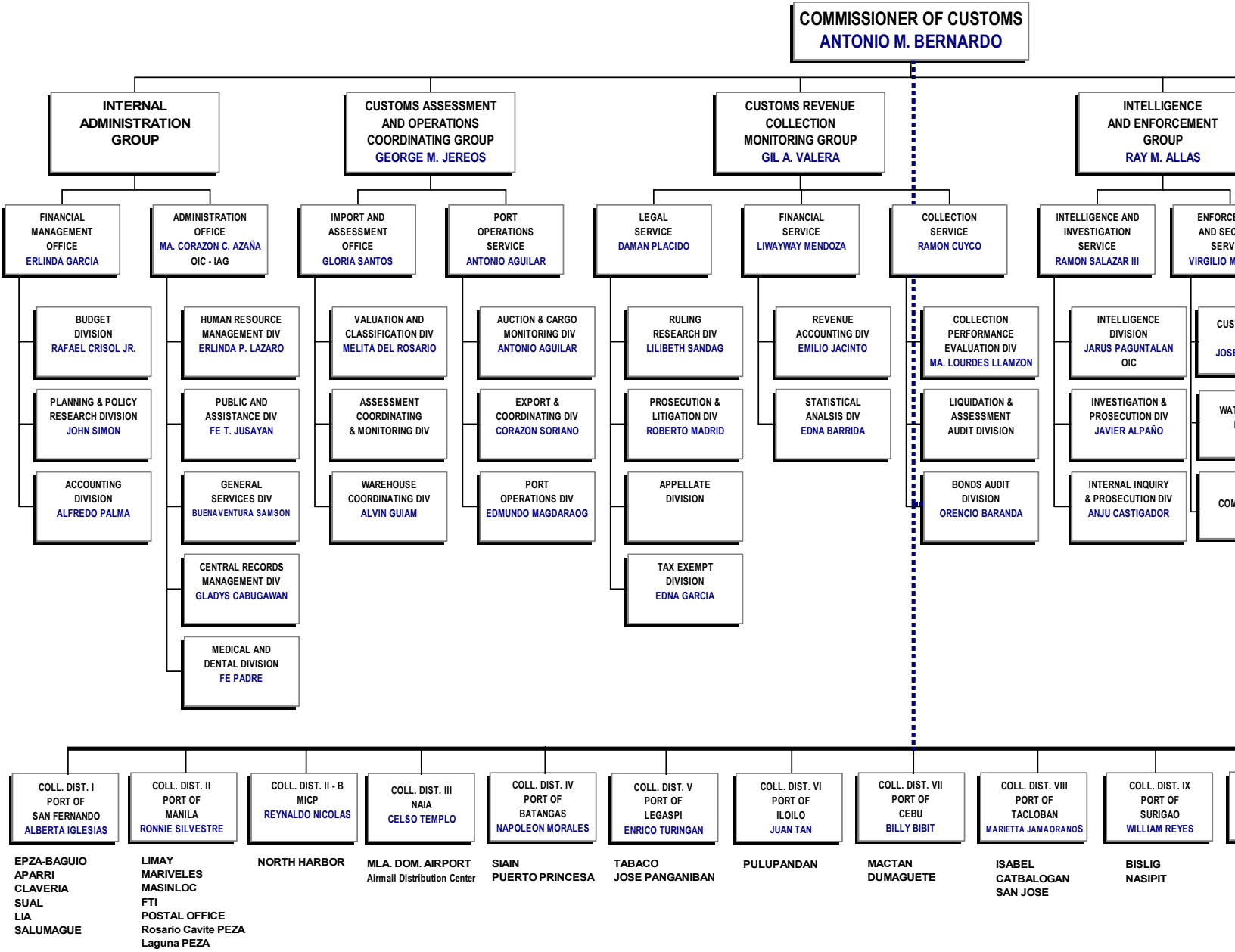
In order to achieve the vision we decided to focus on six (6) major objectives via a mission statement, viz :

- **Mission Statement**

- To maximize collection of government revenues
- To facilitate trade and commerce
- To prevent smuggling and enforce compliance with existing laws, rules and regulations on customs and tariff
- To implement international commitments on customs and trade
- To safeguard the general public/environment against the entry of hazardous and harmful materials and substances
- To support industry and work in partnership with the private sector to promote business in the country

- **Overview of the Philippine Customs Administration**

A) Organizational Structure



- B) Number of District Ports - 15
 Number of Sub-ports - 37

Collection District	Subports
I. Port of San Fernando	EPZA Baguio
	Aparri
	Claveria
	Sual
	Laoag International Airport
	Salumague
II.A Port of Manila	Limay
	Mariveles
	Masinloc
	FTI Customshouse
	Postal Office
	Rosario Cavite PEZA
	Laguna PEZA
II.B Manila International Container Port	North Harbor
III. Ninoy Aquino International Airport	Manila Domestic Airport
	Airmail Distribution Center
IV. Port of Batangas	Siain
	Puerto Princesa
V. Port of Legaspi	Tabaco
	Jose Panganiban
VI. Port of Iloilo	Pulupandan
VII. Port of Cebu	Mactan
	Dumaguete
VIII. Port of Tacloban	Isabel
	Catbalogan
	San Jose
IX. Port of Surigao	Bislig
	Nasipit
X. Port of Cagayan De Oro	Ozamis
	Iligan
XI. Port of Zamboanga	Zamboanga International Airport
	Jolo
	Tawi-tawi
	Basilan
XII. Port of Davao	Dadiangas
	Mati
	Parang
XIII. Port of Subic	-
XIV. Port of Clark Intl. Airport	-

C. Personnel Complement

COLLECTION DISTRICT	PORT/OFFICES	PER PLANTILLA	ACTUAL
	Office of the Commissioner	1,404	1,004
I	District I - Port of San Fernando	64	49
II-A	District 2 - A Port of Manila	1,621	1,319
II-B	District 2 - B MICP	382	549
III	District 3 - NAIA	704	861
IV	District 4 - Port of Batangas	107	128
V	District 5 - Port of Legaspi	57	57
VI	District 6 - Port of Iloilo	55	47
VII	District 7 - Port of Cebu	167	208
VIII	District 8 - Port of Tacloban	69	51
IX	District 9 - Port of Surigao	69	32
X	District 10 - Port of Cagayan de Oro	168	150
XI	District 11 - Port of Zamboanga	85	72
XII	District 12 - Port of Davao	201	226
XIII	District 13 - Port of Subic	46	70
XIV	District 14 - Port of Clark	27	54
TOTAL		<u>5,226</u>	<u>4,877</u>

- **Size of Total Trade as a Percentage of GDP and Importance of BOC in Revenue Generation**

BOC accounts for 17% of National Revenue.

The recent trend of total trade to budget has been tracked from 2000 to 2003 to be slightly rising from 0.5% to 0.7%

- **Philippine Strategy and Experience in Customs Reforms/Modernization**

With the entry of modern technology and the advancement of science, countries which are only dreamt of or read about is now within reach. Travels of both men and materials across borders are in a much faster tempo than before. As a logical consequence, the traffic of both people and goods have likewise increased. With it is the demand for facilitative mechanisms to allow both people and traded goods to be cleared through the borders as efficiently as possible. For our clientele, speed in the clearance of imports and for BOC, the collection of correct duties and taxes for government.

All of such requirements weigh heavily on customs administrations which stands as a vanguard of its respective governments at the borders. The Philippine Customs Service found itself in such a situation in the early nineties. Coupled with the requirements of commerce was the desire of the personnel of the Philippine Customs Administration for improvement, the better to render its services efficiently and to be able to be counted in the ranks of modern customs administrations.

At that crossroad, BOC knew what it wanted but still had to find the “how” of getting about it. It was at about that same time when the World Bank – IMF and the Philippine Government decided to enter into an agreement for a soft loan package known as the Philippine Tax Computerization Program encompassing both the Bureau of Customs and the Bureau of Internal Revenue.

At that time, and even now, the answer was – computerize and computerize more.

While computerization is the logical action to take we thought that a hodge-podge approach will be less than ideal. In fact it may result in the waste of scant resources. In the end, a loan no matter how soft needs to be paid.

We thought then that a structured and organized approach to the problem must be launched. Therefore a group of about sixty senior and selected middle level officers of varied disciplines/specialization were selected to come out with an Information System Strategic Plan (ISSP).

The ISSP - Information Systems Strategic Plan

The Information Systems Strategic Plan (ISSP) integrates concepts and ideas from many sources. A substantial piece of collaborative work developed by a multi-disciplinary committee, totally composed of BOC personnel, the ISSP translated the dreams and aspirations of BOC (officials and personnel).

Many site visits of a private consulting group were conducted at the OCOM, POM, NAIA and even Cebu offices. Numerous mini-workshop sessions were conducted with members of BOC's senior and middle management in order to break down about twenty major business functions performed by the different units of the Bureau. A computer deployment survey was also conducted, alongside a survey of the transaction volumes of BOC.

This ISSP reflects three major orientations. It shows a top-down perspective representing the forward thinking of BOC management obtained through the visioning workshop. It represents a view from ground-up, reflecting the many years of BOC experience shared by the interviewees during the business function sessions. It also represents a lateral “don’t reinvent the wheel” view, as this ISSP represents a fair deal of recognition of the practices of other customs administrations and computer installations elsewhere in the world.

Acquisition of Hardware and Software

Computerization was not simply to digitized our procedures. We had to review and discard redundant steps and forms before these are approved to be computerized.

In tandem, a Bids and Awards Committee working with a foreign consultancy company prepared and went through the international bidding required for the project.

It was a long and tedious process but because the process was transparent and fair to all contenders in the bidding, the award was given without a hitch.

Creation of a Change Management Team

Understandably a lot of hesitations from BOC personnel and clients were identified. It was natural for BOC personnel not to embrace the concept of computerization and to approach it with hesitation and concern considering that they are being exposed, for the first time, to an environment they have hitherto not been exposed to.

Commonly asked was the question of whether computers will replace them. The change management team was tasked to allay the fears of our personnel and clientele. The change management team had to explain that no one will be replaced by automation. The most that will happen would be some redeployment. A lot of people were of the misguided perception that computerization will solve all problems and address any and every problem and therefore the walking, talking and human component of the Bureau will be out of work. Simply stated, it was fear of the unknown.

The brokers were as well alarmed that the direct traders input or filing of entries directly from the offices of the traders to customs will put them out of job. It had to be explained to them that even while there will be computerization, as knowledgeable persons on customs matters the importers will still need them; that computerization will simply open them to be more efficient and competitive.

In order to keep tab on the progress of the computerization program, a project implementation team was set-up to work together with our private consultants and UNCTAD in order to track the progress of the efforts.

Being a third world country with 27 % of revenue expected by the national government from the Bureau of Customs, at that time, in order to meet the budgeted requirements of government, we chose to focus on our import procedures.

- a) **Electronic manifest system** - instead of shipping/airlines submitting bulky manifests which give details of cargoes laden on board, vessels for imports or transshipments, electronic copies were accepted and inputted into the customs systems against which are

cross-matched with the entries filed for shipments of a particular air (flight)/shipping (voyage) line.

b) The Electronic Entry into the Bureau's computers –

b.1 The traders directly inputted their import entries which then are remotely lodged into BOC's computers.

b.2 A third world country faces the reality of more medium or small enterprises present than of large. It was the general feeling that "investing an amount not less than P50,000.00" during that time was too much of an expense. Hence an Entry Encoding Center was put up to service such sectors and through which the entries of small and medium enterprises are lodged for entry into BOC's computers.

b.3 During that time it was already conceptualized that through EDI or Electronic Data Interchange, the broker/importer can prepare an electronic entry form in their office, fill it up and transmit it directly to customs computers. Due to certain capacity limitations of the BOC computers themselves, we are now allowing such system to operate, albeit through a Value Added Network (VAN), which receives such entries from the accredited provider on a 24 hour basis and which are then downloaded to customs computers.

c) **Assessment Module** -

As soon as the import data contained in the import declaration (such as the importers', exporters' and declarants' names, the description, weight and value of the goods, the tariff heading, carrying vessel, port of entry, currency used, bank's name, etc.) are entered into the Bureau's computers, ACOS' Assessment Module takes over in the automatic computations of taxes and duties to be paid. Since the bases for the automatic computations (such as the exchange and tariff rates applicable) are applied uniformly, accurately and consistently, both the importers and the government are assured that the Customs duties and taxes assessed and computed to be paid and collected are correct.

d) **Selectivity System** -

The Selectivity System determines the Risk Profile of shipments by subjecting the data of these shipments against some criteria as "screens" or "tests".

Through the Selectivity System, the Bureau is able to determine which shipments should be released without examining the goods physically and even prior to examination of the details of the documents; which shipments to be released after documentary examinations but without examining the goods; and which should be released only after both the documents and the goods have been examined.

The Selectivity System enables the Bureau to utilize to the maximum its limited resources, such as the deployment of personnel and equipment in the Designated Examination Areas, for faster release of cargoes. At the same time, technical and other forms of smuggling are minimized or prevented.

e) **The Collection System -**

The Bureau's Computerized Collection System covers all the steps from the time the importers pays advance Customs duties and taxes through any of the over 160 banks and branches all over Metro Manila, to the time these payments are matched against what the importers must pay as determined by the Assessment Module, up to the time these payments are determined to have been remitted to the National Treasury. The entire Collection System, therefore, is a combination of several computer sub-systems, among which are :

- e.1) Project Abstract Secure
- e.2) Automated Matching of Payments & Payables
- e.3) Project Reconcile
- e.4) On-Line Release System (OLRS)

• **Recent Enhancements :**

Status of BOC Application System

Status of BOC Application Systems

APPLICATION GROUPING	APPLICATION SYSTEM		DESCRIPTION	STATUS
AUTOMATED CUSTOM S OPERATIONS SYSTEM (ACOS)	IMPORT ENTRY PROCESSING SYSTEM	Bonds & Liquidation System	Application of bonds, aging, demand letters or cancellation of bands	Implemented / for further enhancement
		Manufacturing Warehouse Liquidation System	Tracking of importations under bond to be manufactured are re-exported and monitoring the process of liquidation	To be Developed
		Informal Entry Processing System	Automated processing of informal entries (with assessment, manifest clearance, selectivity, collection and online release)	To be Developed
		Transshipment & other Transfers Processing System	Tracking of cargoes for transshipment	Implemented / for further enhancement
		Licensing and Clearance System	Data entry of licensing information i.e. Tax Exempt Certificate, Import Permit, etc, that can be accessed by ACOS while processing the documents (import & export)	To be Developed
	EXPORT ENTRY PROCESSING	Assessment / Selectivity/ Automated Release System	Manages the inverse operation of import entry for export declarations (e.g. generation of authority to load, certificate of loading and inspection, and database for retro-check of certificate of origin)	Implemented / For further Enhancement
	PASSENGER ENTRY PROCESSING	Passenger Database Assessment Module / Collection System / Baggage Handling Monitoring System	Handles incoming airline passengers and their baggage, provides electronic submission of passenger manifest, links with the Bureau of Immigration and Deportation for risk management of passengers, and the automated processing of baggage declaration, assessment and payment of duties and taxes, monitors held / seized baggage.	To be Developed
	CARGO & BAGGAGE TRACKING	Gen Purpose Cargo & Baggage Handling System	Tracks movement within a storage area from entry to customs jurisdiction to the release or disposal of seized cargoes.	To be Developed
OPERATIONS SUPPORT MANAGEMENT SYSTEM (OSMS)	WTO VALUATION SYSTEM	. Value Reference Information & Statistical Analysis using Data Warehouse	Provides a set of automated tools / systems to customs officers involved in valuation to enable them to come up with vital information (e.g. range of values, price reference import volumes) in making decisions for the correct customs values.	Implemented / for further enhancement
	TRADE COMPLIANCE SYSTEM		Empowers post entry audit to check valuation	To be developed

	INTELLIGENCE SYSTEM	Intelligence Database	Provides comprehensive set of tools for intelligence authorities to detect fraud. It uses ACOS transactions using statistical tools and other reasonableness tests.	To be developed
		Client Registration Profiles Systems		
		Goods Intelligence System		
		Risk Management		
	STATISTICAL ANALYSIS & REPORTING SYSTEM		Consolidates import and export transaction data and converted into usable file from which various analysis programs on trends	For selection of appropriate package
	LEGAL MANAGEMENT SYSTEM	Legal Database System	Provides indexed text and annotations to TCCP, CAO, CMO, Legal Opinions and other related laws, rules & regulations, and monitors status of cases and claims.	For selection of appropriate package
Cases Tracking System				
RESOURCES MANAGEMENT & INFORMATION SUPPORT SYSTEM (RMISS)	HUMAN RESOURCES MANAGEMENT SYSTEM	Human Resources IS	Provides automated systems to handle the complex tasks of HR management	For selection of appropriate package
		Leave Monitoring System		
		Payroll System		
		Career Path System		
	FINANCIAL MANAGEMENT SYSTEM	Accounting System	Provides integrated set of applications to handle financial transactions	For selection of appropriate package
		Budget Monitoring		
	GENERAL SERVICES MANAGEMENT SYS	Fixed Asset Management System	Includes procurement, inventory control, fixed assets management, building maintenance, and motor pool management	For selection of appropriate package
		Equipment Inventory & Control System		

- **Sustainability**

The computerization project is hard to do and harder to sustain.

The project completion in computerization does not write finis to the entire project. It is in fact only a milestone to mark the start of modernization. It must be sustained beyond the lifetime of the hardware initially procured. For another, to really address the needs of our clients our computers must maintain a high level of efficiency and speed in processing data, such that when our computer system has reached the end of its economic life or near to it customs must have the resources to acquire replacements with those in the cutting edge of technology.

- **New Challenges :**

Global trade is dynamic. There is an ever changing global trade environment to which customs must always be aware of. Bilateral and multilateral trade arrangements are being hammered out to facilitate trade and grant preferential treatments. Competition has become stiff. The race to the market place in order to reap advantages for such positioning is strong. Protection for legitimate imports and local producers against illegal imports are at a level high.

To all these, Customs and its processes must be responsive to. And to be responsive, Customs must have its ears on the ground and develop an anticipatory quality of addressing such emerging problems.

In keeping with our vision statement of “more responsive to client’s needs” we can only be in step with the needs of our client by having regular and frank discussions with our stakeholders, so that we can respond to their complaints and to prepare ourselves to address their emerging needs arising out of changes occurring in the market places of the world. Thus the regular dialogues with the private sector which we have been doing these years will continue.

How to address the requirements of bilateral and/or multilateral arrangements/commitments in the most expeditious manner must be given due consideration and responded to. This could affect some changes in the databases. So also must the Rules of Origin whether for GSP and/or inter regional tariff preferences. Intellectual Property Rights protection and effective enforcement must likewise be addressed. In all of these endeavors, the cooperation of the clients will truly be invaluable.

- **Programs and Experiences in Regional Customs Modernization**

There is a Common Effective Preferential Tariff Agreement among members of ASEAN. However there are problems on implementation such as the non-granting of preferential tariff rates due to difference in tariff classification. An answer to the problem might be a standardized tariff. Recently (latter part of last year to early this year) ASEAN has adopted the Asean Harmonized Tariff Nomenclature which consist of more than 10,000 tariff lines and thus afford specificity in tariff classification.

As a facilitation mechanism for ASEAN trade among Asean members, an Asean Customs Single Window is envisioned and is now pilot tested between Malaysia and the Philippines.

Establishment of the Single Window for a more expeditious clearance at Customs constitutes a strategic direction of ASEAN Customs Administrations to facilitate international trade. The establishment of the Single Window jointly with simplification of customs procedures and formalities for the integrated environment of ASEAN Customs systems must be pursued. An ASEAN Inter-Agency Task Force would comprise of representatives of line ministries and government agencies dealing with procedures, formalities and practices relevant to customs clearance.

Related to the ASEAN Single Window is the adoption of a common ASEAN Declaration Form. It is in the adoption of common data elements that there are some divergence of opinions because of the individual needs of each member. However this is not insurmountable. The focus is on common minimum data elements that should be in the form.

To aid in the implementation of Article VII of GATT WTO on Customs Valuation, an ASEAN Customs valuation guide was issued for use by ASEAN members. Basically ACVG is a guideline for ASEAN Member Countries to achieve a uniform interpretation and application of the Article VII of the Valuation Agreement.

A code of conduct and client service charter which focused on customs integrity is being pursued by ASEAN member countries.

On the whole, closer consultation between ASEAN members is encouraged on areas of common interest such as harmonization of standards and facilitation of trade in general.

The experiences gained by BOC in its quest to be a modern customs administration and as a member of ASEAN has taught it invaluable lessons. It has realized that it must find solutions to problems before it taking stock of local conditions obtaining, including the business ethics of its trading community, national culture and domestic laws. In sum, local conditions must be factored in, especially in risk assessment, to make it more effective. We must realize that models are merely guides not to be blindly embraced but to be carefully assessed. Whether these are applicable in toto or must be recalibrated or re-engineered to suit our own requirements is a decision we must take.