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Automation of Permits, Licenses and Authorizations

Customs General Administration

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ABBREVIATIONS AND ACRONYMS

BPI	Business Plus Initiative
CAIS	Customs Automated Information System
CGA	Customs General Administration of Mongolia
HS	Harmonized Schedule
IT	Information Technology
RM	Risk Management
USAID	United States Agency for International Development

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GLOSSARY

Customs System Computer system used typically for customs to control its operation such as filing, payment of duties and control of clearance

SECTION I: BACKGROUND

Using RM in customs allows the organization to easily identify risk scenarios. Permits and licenses are awarded before filing and authorizations are obtained after filing. At Mongolian customs, the shipments which require licenses or permits have been identified as having a high risk since potentially a shipment could try to clear customs without complying with the corresponding permit and/or license regulations. Also, shipments which require an authorization could potentially clear customs without completing the process correctly.

There are several problems which have been identified in the field with permits and licenses. Some permits specify a specific amount of goods. These quotas present a challenge to customs since they have to verify that the quota has not been exceeded. Permits frequently have set periods of time in which they can be used. Customs has to verify that the permit is valid at the time of clearance. Permits and licenses are awarded on paper and are often generated by other agencies. Customs does not have a reasonable mechanism for identifying false permits or licenses. Customs agents can easily overlook a permit or license requirement. It is not realistic that customs agents will know all HS codes that require a permit or a license. In consequence, valuable resources are assigned to these shipments to try to minimize the identified risks.

With regards to authorizations, they are currently attached in paper to the customs declaration and they are reviewed manually which could lead to errors.

The current high inspection ratio of shipments with permits, licenses and authorizations is very justified. However, the best solution for any identified risk scenario, is always its elimination. The way to eliminate the risks associated with permits, licenses and authorizations is via automation.

The proposed automation will require the customs organization to perform additional tasks at the beginning of the process but it will save many tasks which are currently performed in all the ports. In addition, once the proposed automation is implemented, the permits, licenses and authorizations should no longer be attached to the customs declaration. Therefore, Mongolian customs will have an opportunity to improve its ranking in the international customs ranking studies. Finally and most importantly, once implementation is complete, shipments should not be stopped to verify permits or licenses and customs will have a well controlled process.

SECTION II: AUTOMATION OF LICENSES

A license is a document awarded to an importer or exporter which will allow them to conduct trade operations with goods classified under certain HS codes. Without this license, the filer should not use these HS codes in their customs declaration.

It's important to review each current license in detail since there are some cases where a license and a permit is issued but the component which actually should be automated is the permit since the license is redundant. In these cases, procedures should be streamlined to reduce bureaucracy.

To establish a license requirement, regulations should be published stating that a set of HS codes are now grouped in a sector and any trade regarding this sector requires a license. For example, sensitive chemical related HS codes can be grouped into a sector that requires a license. The authorities will also indicate if the license is required for import or export and if there are any port restrictions. If an importer has a license then they can conduct trade operations stating any of the HS codes covered by the license. If the importer does not have a license then they cannot conduct trade with goods classified under the HS codes that belong to the sector.

The automation of licenses consists of the following:

1. General Procedure
2. The competent authority defines a sector, states the HS codes that it contains, indicates if the license is required for import or export, indicates if it has port restrictions (shipments can only be cleared in certain ports) and states the start date.
3. The competent authority informs Mongolian customs that a new sector has been created and provides all required information.
4. Mongolian customs creates the new sector in the Customs System.
5. Licenses awarded to an importer/exporter are uploaded onto the Customs System. Ideally, this should be achieved by obligating the competent authority to report all licenses to customs. As a transition, customs can allow importers/exporters to take their license to customs so that it is uploaded either centrally, at the port or both.
6. If a filer specifies in a customs declaration an HS code that requires a license, the system will allow the declaration to be processed only if the filer's license has been previously uploaded onto the system. If the filer's license has not been uploaded then the system will mark an error.
7. Required System Modifications

Create a section for license administration called License Administration

License ID: Unique Id

Description: A brief description of the sector

Start and end date: The start date cannot be prior to today and the end date could be left blank.

Import/Export: Indicates if the license is required for import or export shipments.

Port Restrictions: Indicates all ports or a subset of the ports.

HS codes: The HS codes could be defined at 2, 4, 6 or 8 digits. Overlapping HS codes are not allowed.

Create a section for license registration called License Registration.

Company ID: The unique ID of a company,

Start and end date: Start date cannot be prior to today and end date could be blank.

License ID: Indicates the unique ID of a license.

8. Test Cases

9. Load overlapping HS codes. The system marks an error.
10. Define a sector that has tomorrow as a start date and it should not be enforced today.
11. File a customs declaration with an HS that is stated in a sector and the company does not have a license. The system should mark an error. The error message should indicate that a license is required.
12. Upload an existing company under the same license. The system should mark an error.
13. Upload a company under a different license. No error.
14. Upload a company under a non-existent license. The system should mark an error.
15. Create a sector that requires a license for import, upload a company under that license, file a customs declaration for that company with an HS that requires the license but state that the customs declaration is an export. The system should mark an error.
16. Create a license for a specific port, file a customs declaration requiring that license for a different port. The system should mark an error.
17. File a customs declaration with an HS that does not require a license and then modify the HS code so that it requires a license. The system should verify the license.

SECTION III: PERMITS

A permit is a document awarded to an importer or exporter which will allow them to conduct trade operations with a specific good. Without a permit, the filer should not use the corresponding HS code in their customs declaration. Some permits are issued for more than one HS code.

Permits can be issued indicating if they can only be used by one shipment or multiple shipments. Permits can have quotas stated which indicate the maximum amount of goods that can be declared on customs declarations. Some agencies issue permits with a quota but allow this quota to be used by more than one commodity.

Permits issued by other agencies state the commodity but generally do not state the HS code. Also, in some cases the commodity belongs in an HS code that is shared by other goods that do not require a permit which makes the permit control more complex.

The automation of permits consists of the following:

1. General Procedure

- a. The competent authority defines products which require a permit and specifies if it has a quota. If it does not have a quota, indicates if it can be used in a single shipment or by several shipments. Indicates if the permit is required for import or for export and states any port restrictions. If known, states the HS code.
- b. The competent authority informs Mongolian customs that a new permit has been created and provides all required information.
- c. Mongolian customs configures the permit in the Customs System.
- d. Permits awarded to an importer/exporter are uploaded onto the Customs System. Ideally, this should be achieved by obligating the competent authority to report all permits to customs. As a transition, customs can allow importers/exporters to take their permits to customs so that they are uploaded centrally, at the port or both. Also, if the permit does not have an HS code, then the permit has to be sent to the HS department at customs so that it can be assigned an HS code which should also be informed to the importer/exporter.
- e. The importer/exporter is informed of the assigned HS code and of the unique ID assigned to their permit which must be stated on the customs declaration. There are several methods for giving the HS code and ID to the importer/exporter. The recommended method is that the agency issuing the permit provides the HS code and assigns this unique ID, informs the importer/exporter and also informs customs so that the ID can be uploaded onto the Customs System. A different method is that the importer/exporter is informed that they need to go to customs to get the HS code and the ID or this information could be sent by email to the importer/exporter.
- f. If a filer specifies in a customs declaration an HS code that requires a permit, the system will allow the declaration to be processed only if the filer's permit has been previously uploaded onto the system, the verification of single shipment or multiple shipments is correct, the port is correct, the permit is valid and any stated quotas have not been exceeded. If the filer's permit has not been uploaded then the system will mark an error.

2. Required System Modifications

Create a section for identifiers called Administration of Identifiers.

Using identifiers, allow the filer to make a precise declaration and therefore the Customs System can then verify business rules in detail. At this time, the identifiers are being created to assist in controlling permits, but identifiers could be used in many other automation needs. For example, an identifier can be created for the Japan Trade Agreement such that when it is stated at an item level, the Customs System will know that the applicable tariff schedule for that item is the one negotiated under the Japan Trade Agreement. It is possible that on a customs declaration, one item could have more than one identifier. For example, an item could require a permit and it could claim that the tariff based on the Japan agreement should be used.

Identifier ID: A unique Identifier. For example, PRQ for permit with quota, PR for a regular permit, TA for trade agreement, etc.

Description: Describes the identifier.

ID2: If required, it holds a clarification within the Identifier ID. For example AG001 for an agricultural permit. It could be that for a particular Identifier ID, this ID2 is not applicable, it's known at the time of filing, it's obtained after filing or it's known at the time of configuration. In the example stated, the AG001 is known at the time of configuration. In the case of TA, ID2 would be known at the time of filing and it would contain the corresponding country.

ID3: If required, it holds a clarification within ID2. For example, a permit ID assigned to the permit issued. It could be that for an ID2, this ID3 is not applicable, it's known at the time of filing, it's obtained after filing or it's known at the time of configuration. In the example stated, the permit ID is known at the time of filing. For TA it is not applicable.

ID4. If required, it holds a clarification within ID3. For example, the quota to be used in the Permit ID stated in ID3. It could be that for an ID3, this ID4 is not applicable, it's known at the time of filing, it's obtained after filing or it's known at the time of configuration. In the example stated, the quota to be used is known at the time of filing.

ID5. If required, it holds a clarification within ID4. For example, the quota left after using the quota stated in ID4. . It could be that for an ID4, this ID5 is not applicable, it's known at the time of filing, it's obtained after filing or it's known at the time of configuration. In the example stated, the quota left would be known after filing.

Note. It is very important not to reuse any information stated on the identifier table to preserve consistency in the historical data.

Create a section for HS clarifiers called Administration of HS Clarifiers.

The HS clarifiers are used for a particular HS code which contain several products that need to be identified separately. For example, assume that a single HS code contains all radios, but the radios with antennas need to be set aside along with the radios with batteries. The separation of the products will be done via HS clarifiers. These clarifiers will be stated by the filer on the customs declaration under a predefined identifier. For example Identifier ID HSC could be used. In this case, ID1 would be set to HSC, ID2 would be known at the time of filing, ID3 would be set to not applicable, ID4 would be set to not applicable and ID5 would be set to not applicable.

HS. HS code that needs to have a clarifier so that the goods within the HS can be distinguished.

HS ID. 0 should always mean other. Starting from 1, specific products can be identified. For example, 0 is other, 1 is radios with antennas, 2 is radios with batteries. When the filer states the HS code for radios, the system will request an HS clarifier. Therefore, the system will indicate HSC with the options 0, 1 and 2 so that the filer can choose. It could be that a particular HS code does not have 0 as an option since all its goods are under clarifiers. In this case, the clarifiers should start from 1 so that the 0 remains reserved for others.

Note. This table should be sorted out by HS code so that any further additions are correctly inserted. Also, the HS ID should be unique and if used in at least one customs declaration, then it should never be deleted. However, it is possible that the organization loses interest in tracking a particular good. In this case, the HS ID should remain defined but not visible to the user. If for example, the organization loses interest in identifying radios with antennas, then the filer should be presented with de HS ID 0 which means other and 2 which is for radios with batteries. It is irrelevant if gaps exist between the HS IDs.

Create a section for HS administration called HS Administration. This section will contain all the controls that are applicable based on an HS. Therefore, during the filing process, the Customs System will refer to this table to determine requirements which must be met at an HS level. These requirements could be permits, authorizations, etc.

HS. HS code for which a control is required. In this case, it would be the HS code for which a permit is required.

HS Clarifier: If the control required has been defined for a good that is contained in an HS code that could be used for other commodities, then the HS ID assigned to the commodity that requires the control measure needs to be stated.

Control ID. This should be set to the ID2 defined which in this case it's for a permit. For example AG001. If more than one HS has the same permit, it means that the permit can be used by any of the HS codes stated. However, if a permit has a quota, then it can only be set to more than one HS if the other HS has the same unit of measurement. For example, a quota of 100 Kg. could not be used by a product measured in the HS code by liter and another by Kg. In the example stated, if AG001 is a permit with no quota, then in the Administration of Identifiers table, the PR would be Identifier ID, ID2 would be known during configuration (would include the AG001), ID3 would be known at the time of filing (would contain the Unique Permit ID), ID4 would be set to not applicable and ID5 would be set to not applicable. If AG002 is a permit with a quota, then in the Administration of Identifiers table, the PRQ would be Identifier ID, ID2 would be known during configuration (would be set to AG002), ID3 would be known at the time of filing (would include the Unique Permit ID), ID4 would also be set to known at the time of filing (would include the quota used) and ID5 would be set to known after filing (the system would populate this field automatically with the amount of quota remaining). In the case of the trade agreement with Japan, the TA would not be stated in this section (HS Administration) since claiming that a good can be imported under the trade agreement is optional and therefore it is not enforced. The filer to claim that the goods can be imported under the trade agreement they would state the TA on the customs declaration at an item level during filing and on the ID2 they would state Japan.

Import/export: Indicate if the permit is required for import or for export.

Start and end date. The start date cannot be before today and the end date could be blank.

Create a section for permit with quota registration called Permit with Quota Registration. The Customs System would know to come to this section because ID2 is associated with a PRQ.

Unique Permit ID. This ID has to be provided to the filer so that it can be stated on the customs declaration. If permits are currently generated with unique ID numbers then this field should not be generated automatically by the system and instead, the currently unique ID should be uploaded.

Permit ID. This would be set to the ID of the permit granted which would be the ID2.

Importer/Exporter: The unique ID of the importer/exporter.

Port Restrictions: Indicates all ports or a subset of the ports.

Start and end date: Start date cannot be prior to today and end date could be blank. The customs declaration has to be filed with the assigned period otherwise it should mark an error.

Quantity: Specifies the quantity awarded in the permit. The unit of measurement assigned to the HS code should be displayed to ensure that the amount entered is correct. The filer should be able to determine the quota left.

Create a section for simple permit registration called Permit Registration. The Customs System would know to come to this section because ID2 is associated with a PR.

Unique Permit ID. This ID has to be provided to the filer so that it can be stated on the customs declaration under ID2. If permits are currently generated with unique ID numbers then this field should not be generated automatically by the system and instead, the currently unique ID should be uploaded.

Permit ID. This should be set to the ID of the permit granted which would be the ID2.

Importer/Exporter: The unique ID of the importer/exporter.

Port Restrictions: Indicates all ports or a subset of the ports.

Start and end date: Start date cannot be prior to today and end date could be blank. The customs declaration has to be filed with the assigned period otherwise, it should mark an error.

Single/Multiple. Indicate if the permit can only be used on a single shipment or on multiple shipments.

Modification to the filing process.

During the filing process, an HS code will be specified. If the HS clarifier was set up for the specified HS code, then the system will display the defined HS clarifiers so that the filer can choose. If the HS code specified or the HS code specified and its HS clarifier require a permit, then the system will state the Identifier ID, the Permit ID and it will request the Unique Permit ID. For example, the system will state PR, AG001 and it will request the Unique Permit ID that was assigned to the permit when it was uploaded.

3. Test Cases

- a. Load an identifier that already exists. The system will mark an error

- b. Configure an ID of an identifier indicating that it is known at the time of filing. During the filing process, the system should request the identifier.
- c. Set an HS clarifier for and HS code that has 2, 4 or 6 digits. The system will mark an error.
- d. Delete an HS clarifier. It should be shown as ghosted and it cannot be reused.
- e. Upload more than one permit per an HS code. The system should mark no error. When this HS is used, the system should request all permits.
- f. Upload a non-existing permit. The system should mark an error.
- g. Upload the same Permit ID of a permit with a quota to two HS codes that have a different unit of measurement. The system will mark an error.
- h. Upload the same Permit Id of a permit without a quota to two HS codes that have a different unit of measurements. The system should not mark an error.
- i. Upload the same Permit ID to an existing HS code. The system will mark an error.
- j. Upload a permit with quota and file a customs declaration using the permit but do not approve the customs declaration. The quota on the permit should be deducted accordingly.
- k. Cancel a customs declaration that has a quota. The quota on the permit should be restored.
- l. File a customs declaration with an HS that does not require a permit and then modify the HS code so that it requires a permit. The system should verify permits.
- m. File a customs declaration specifying an HS code that requires a permit but do not upload the permit. The system should mark an error.
- n. File a customs declaration specifying an HS code that requires a permit and do not declare the identifier with the permit. The system should mark an error.
- o. File a customs declaration specifying an HS code that requires a permit and declare the permit identifier with a wrong Permit ID. The system should mark an error.
- p. Process a declaration that has a permit with a port restriction, but state the wrong port. The system should mark an error.

SECTION IV: AUTHORIZATIONS

An authorization is awarded after the customs declaration has been filed. For example, a particular good should get a lab test to confirm that the product stated on the customs declaration corresponds to the shipment. This is very common in chemical shipments.

The risk associated with authorizations is that currently the customs agent is required to know which products must get an authorization before they are cleared which leaves room for error. Also, since the process is not automated, there is doubt in the customs agents that a green stamp could be assigned to one of these shipments and therefore, this doubt is sometimes the justification of performing some form of inspection on green shipments.

The automation of authorizations consists of the following:

1. General Procedure

- a. The competent authority defines products which require an authorization. If known, they state the HS code for each product and in coordination with the CGA, state HS clarifiers as needed. Indicate if the authorization has port restrictions since sometimes not all ports are equipped to generate the corresponding authorization.
- b. The competent authority informs Mongolian customs that a new authorization has been created and provides all required information. Previously discussions should have been held with Mongolian customs to establish the corresponding detailed procedure.
- c. Mongolian customs configures the authorization in the Customs System. The authorizations could be done generic for example CLB means customs lab or specific for example CLB001 means customs lab but it has a specific process. This way the controls can be as precise as required.
- d. Any customs declaration which contains an HS code that requires an authorization will be assigned a red stamp and it will not be allowed to be cleared until the corresponding authorization is provided on line. Each authorization needs to be analyzed in detail to determine specific automation needs. For example, in the case of the Customs lab, as part of their process they confirm the HS code of a shipment. Therefore, in their case, it's reasonable that the Customs lab should upload in the Customs System the confirmed HS code and the Customs System should internally compare if it is equal to the declared HS code. The customs declaration would only be cleared if the two HS codes are equal.

2. Required System Modifications

Create an identifier for the authorization.

In section II, the usage of identifiers was described in detail. In the Customs System, an identifier for authorizations should be uploaded. For example, Identifier ID could be AU, ID2 could be CLB001 indicating that this authorization is granted by the Customs lab, ID3 would be set to known after filing (would contain the authorization number granted), ID4 would be not applicable and ID5 would be not applicable.

Configure the control based on an HS using the HS administration, also described in section II.

HS. HS code for which a control is required. In this case, it would be the HS code for which the authorization is required.

HS Clarifier: If the control required has been defined for a good that is contained in an HS code that could be used for other commodities, then the HS ID assigned to the commodity that requires the control measure needs to be stated.

Control ID. This should be set to the ID2 of the authorization. For example, the Control ID would be set to CLB001.

Import/export: Indicate if the authorization is required for import or for export.

Start and end date. The start date cannot be before today and the end date could be blank.

Create a section for the administration of authorizations called Authorization Administration. The Customs System would know to come to this section since the CLB001 is associated with an AU.

Authorization ID. This should be set to the ID2 of the authorization. For example CLB001.

Port Restrictions: Indicates all ports or a subset of the ports. Some authorities can only be given at certain ports which have the required infrastructure.

Start and end date: Start date cannot be prior to today and end date could be blank. The customs declaration has to be filed with the assigned period otherwise, it should mark an error.

Modification to the filing process.

During the filing process, an HS code will be specified. If the HS clarifier was set up for the specified HS code, then the system will display the defined HS clarifiers so that the filer can choose. If the HS code specified or the HS code specified and its HS clarifier require an authorization, then the system should automatically display at the item level the AU and the corresponding ID2. For example AU CLB 001. Since ID3 for the AU was configured to be provided after filing, once the authorizations are provided, the item will have in its ID3 its authorization number. To achieve this, in the back office, the Customs lab specified the HS code, the system confirmed it was equal to the HS declared and the Customs lab uploaded the authorization number.

4. Test Cases

- a. Load an authorization with an ID2 that already exists. The system will mark an error
- b. State as a Control ID in the HS Administration and ID2 that does not exist. The system will mark an error.
- c. In the Authorization Administration, upload an Authorization ID which does not exist. The system will mark an error.
- d. Configure an authorization for a particular port and file a declaration using the HS that requires the authorization, but state a different port on the customs declaration. The system will mark an error.
- e. Configure an authorization with tomorrow as a start date. File a customs declaration using the HS that requires the authorization today. The system should not indicate that an authorization is required.

- f. File a customs declaration with an HS that requires an authorization. In the identifier section of the HS code, the system will indicate that an authorization is required, it will indicate the ID2 and ID3 will be ghosted.
- g. Grant an authorization to a customs declaration. The ID3 on the identifier section of the corresponding HS code will contain the authorization number. The customs declaration will be allowed to clear.
- h. Deny an authorization to a customs declaration. The ID3 on the identifier section of the corresponding HS code will contain the authorization number. The customs declaration will not be allowed to clear.

SECTION V: RECOMMENDED NEXT STEPS

The Customs System needs to be enhanced to incorporate licensees, permit and authorization controls. Currently the Customs System has a control for quota permits which is a step in the correct direction but the current implementation has the following problems:

- a. If the filer declares an HS code that requires a permit with quota and the filer does not have the permit, the Customs System only gives a warning which is not correct since the Customs System should not allow the customs declaration to be filed.
- b. The permits are not stated specifically in a customs declaration and the system automatically in the back office determines if a permit is present which reduces traceability.
- c. Quotas are not reduced until a customs declaration is approved which allows for the possibility of other customs declarations using the available quota which would result in poor usage of available resources.
- d. The system assumes that all products in an HS code require a permit which is not correct in all cases.

Once implementation is complete, the new version of the Customs System should be implemented gradually. The implementation can be done one license, permit or authorization at a time or one agency at a time. Once it's decided to control a license or a permit, the Customs System will begin to request the license/permit which means that not only new licenses/permits have to be uploaded but also old licenses/permits need to be uploaded. Uploading old licenses/permits represent an extra challenge since they should be uploaded only if they are still valid (have not expired, permits for single shipments that have not been used, etc.).

There is a fine overlap between licenses and permits. If the permit has a quota, it cannot be a license. If a permit can be used only by one shipment, then it cannot be a license. If a permit does not have a quota and it can be used by multiple shipments then it could instead be configured as a license. If a permit is used then the permit ID will need to be given to the importer/exporter so that it is declared in the customs declaration. If a license is used then no permit ID needs to be given which is easier but it will not be stated specifically on the customs declaration. In both cases, the objective of control is achieved but if a permit is used, the control is more evident.

As a second phase of the license and permit controls, the authority issuing the license or permit should be directly doing the uploads into the Customs System. Customs should not delegate the configuration part of a license or permits but they can delegate the upload tasks.

The permit, identifier, HS clarifier and license controls imply that new pieces of information will be stored with every customs declaration. Therefore, the valuation module needs to be updated so that the new data elements can be correctly accessed. Also, since new pieces of data are available, the RM module can be enhanced to target shipments with specific permits, identifiers, HS clarifiers, etc.

SECTION VI: CONCLUSION

The CGA can make better usage of available resources if automation is used to control and administrate licenses and permits, in which case, the CGA could reasonably assume that the risks associated with licenses and permits are eliminated. The tasks required to achieve this goal can be done in a very short period of time and the CGA has the required expertise. Therefore, the CGA is strongly encouraged to assign high priority to the implementation of these controls which would also be an indicator of maturity in the usage of RM.