SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

Technical Report:

Trans-Kalahari Corridor Implementation of a Common Transit System

Introduction of an International Customs Guarantee

Mission to Botswana, Namibia and South Africa – March/April 2004

Ranga Munyaradzi – Customs Transit Specialist

Des Grimble – Short-term Customs Transit Expert

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P.O. Box 602090 ? Unit 4, Lot 40 ? Gaborone Commerce Park ? Gaborone, Botswana ? Phone (267) 3900884 ? Fax (267) 3901 027

Email: info@chemonics-rapid.com

Summary Mission Report

1. Project Background

Trade Facilitation is of the utmost importance for the SADC region if it is to ensure economic development and take part in global competition. Foreign investment, as well as imports to and exports from the region, can only be increased if competitive advantages are offered, one of which is the speedy, cost effective and safe transport of goods between Member States as well as into and from the region.

Infrastructural developments have to be complemented by harmonized procedures as envisaged in the SADC Trade Protocol and detailed in the Trans-Kalahari Corridor (TKC) Memorandum of Understanding that was signed in Walvis Bay, Namibia on 3rd November 2003 by the Ministers of Transport of Namibia, Botswana and South Africa. The MOU is a commitment by the three Governments towards an effective public/private sector partnership cooperation to address and improve crucial issues for cross-border trade and Customs control.

As a result of this commitment, the Customs Administrations of Namibia, Botswana and South Africa, *with technical assistance from the Southern Africa Global Competitiveness Hub*, have simplified and harmonized their Customs procedures and introduced a common Single Administrative Document (SAD) which will soon now become the unique, standard document for Customs transit transactions along the TKC.

Further, the three TKC countries have agreed to develop and implement long term arrangements which are in compliance with the SADC Trade Protocol and which will allow cross-border movements to proceed under the cover of guarantees mutually accepted by all three Customs Administrations and able to operate effectively at the international level.

2. Specific objectives of this mission

The mission is required to consult relevant stakeholders and examine the Customs, legal and financial guarantee environment in Namibia, Botswana and South Africa and make proposals for an international common Customs bond guarantee chain for the TKC. Furthermore, the system proposed must be capable of being rolled out to other SADC countries and corridors.

In particular, an assessment is required of the systems currently in place for Customs Bonds and Guarantees together with the underlying insurance and banking infrastructure, and any associated Customs, Transport IT systems currently in place in the countries that may impact on the above. Proposals are to be made accordingly, specifically taking into account Customs best practice at international level.

3. International transit system standards and methodologies

The major Customs Common Transit system (CT) in full operation elsewhere is that used within the 15 countries of the European Union and their 7 associated partners. 6 more countries will become members shortly.

Whilst it is true that the size of the EU system, in terms of the number of transactions, is rather larger than that to be expected in SADC for the foreseeable future, nonetheless the principles are identical. The twenty years of experience in the EU highlight the requirements for the protection of Customs revenue and the facilitation that can be offered to the legitimate trading community. In summary, the principles are as follows:

a) Free access for all traders who fulfil the conditions;

b) Single security/guarantee provided at departure valid across all the countries of the system;

c) Full responsibility of the principal for completing the procedure;

d) Risk management systems in place, including end-to-end computer control;

e) Customs acceptance of controls and risk management systems established and carried out in other countries, and mutual assistance arrangements in place;

f) Regular procedure (based on electronic declarations or paper where still permitted, presentation prior to departure, specified itinerary, Customs sealing etc); and

g) Simplified procedures (where the above requirements are adjusted/waived and where the level of guarantee required is reduced progressively or waived i.e. reduced to zero) for those traders who:

   - Can demonstrate financial soundness;
   - Have proven experience of CT procedures;
   - Have not committed serious Customs offences;
   - Can provide a comprehensive guarantee; and
   - Can make electronic declarations, and last but not least

h) clear and common legal provisions, regulations, procedures and documents.

From the outset, the EU's Common Transit system fulfilled a number of needs. It managed movements under Customs control between the EU's Member States at a time when border controls still existed between them, as well as movements in and out of the Customs Union in trade with third countries. Originally, TIR operated alongside the Common Transit system and traders had a free choice of system. Now however Common Transit is used almost exclusively for movements into and out of the Customs Union, and TIR's role is correspondingly restricted.

The most likely development for TIR in Europe is that it will shrink further with the extension of the Common Transit system to other major countries, non-members of the EU, in South-Eastern Europe. Other features of TIR - its paper-based declarations, its limited IT capability, the rigidity and limitation of its guarantee cover, its operations philosophy (essentially TIR operates as a series of national transits), its centralised system of management together with the associated cost, and the fact that TIR has no simplified procedures for major traders - lead to the conclusion that it not an ideal model for the Southern African context.

Hence the project team, in its approach to the work, has focussed on the EU system as a comparative source of information and guidance in the performance of its mission tasks.

4. Results of the enquiries

4.1 General

Without doubt, all involved are to be congratulated on the initiatives undertaken so far on the TKC pilot project.

In overall terms, the Customs Administrations, traders, transporters and financial institutions seem happy with the work done so far by the countries and are enthusiastic about the future. However, much of the achievement so far has been produced on an informal basis. Given the underlying objectives of the project – to reduce transaction costs, improve the region's competitive edge and put transit on a solid footing comparable with best practice worldwide – this cannot continue and change on the lines recommended in this report is essential if progress is to be made.

All involved are well aware that the TKC is a very different animal to other corridors in Africa not least because in most cases Customs and Excise duties will have been paid at source under the common revenue pool arrangements and that only VAT is due on the goods in each consignment. However, this is not always the case and indeed export and import clearance is required into and out of each country.

Thus, in producing this report we have necessarily, in some degree, set aside the special SACU/BLNS issues and concentrated on examining the wider objective, that is to say looking at the foundations that will have to be put in place if the TKC pilot is to be rolled out into other regions and corridors where all duties and taxes will form the Customs debt for goods in transit. Certainly, if this corridor can be demonstrated as having all the essential features required to support a modern common transit system then much will have been done towards the development of trade in the region.

4.2 Specific issues

The results of the missions to each of the countries are recorded in the annexes to this report, including a list the organisations and people seen. The following are extractions of the significant points and comments thereon:

4.2.1 Access to the Common Transit system

Licensing of carriers engaged in transit operations is required under Annex 4, article 4 of the SADC Trade Protocol (STP). South Africa has implemented an in-depth, formal accreditation system for carriers on both the TKC and other routes. This is not yet the case in Namibia or Botswana although a registration system exists in both countries for those wishing to use the TKC.

EU experience shows that it is possible to draw a distinction between traders using the regular system, who are not subjected to an in-depth accreditation or registration process, and traders authorised to use simplified procedures that must undergo checks of the kind envisaged in the STP. Likewise, in SADC too, since the existence of an adequate guarantee protects the revenue, irrespective of the trader putting up the guarantee, access to the regular system should not be subject to accreditation.

Transit law would simply lay down the conditions for the provision of an appropriate guarantee, meeting the standards required by the Ministry of Finance and Customs Administration to approve the guarantors, plus compliance with other procedural stipulations (Customs Documentation, presentation of goods at departure etc.).

Full vetting and accreditation by Customs should be reserved for traders having the resources and experience to benefit from simplifications (see paragraph 4.2.6 below). If it is felt, however, that some degree of checking is necessary for those using the regular procedure then it should be much quicker and simpler if the benefits of wider access to a low-cost transit system are to be realised. The project team does not however recommend the introduction of a two-tier vetting system.

Whichever, approval or accreditation, for both national and foreign operators, needs to be done to a specified set of rules and procedures that gives confidence not only to the home Customs Administration but also to its partners in the common transit system. At the moment the STP leaves this to the individual countries "in consultation with the other member States".

4.2.2 Comprehensive or global transit guarantees

Most traders and/or transporters involved in TKC transit use guarantees that cover more than one consignment – a comprehensive or global guarantee.

The guarantee on the TKC is set at a standard 250,000 ZAR. However, this bears no relation to the number of movements, the goods carried etc. and therefore the potential debt to the Customs administration in event of specific irregularity(ies) or indeed failure of the principal. New rules must be drafted to establish how the level of comprehensive guarantee will be calculated and managed.

At the moment a Customs transit guarantee issued in one country is not valid across all three countries – a separate guarantee is required in each. Nonetheless, the banks and insurance companies in the three countries have no problem in supplying a comprehensive guarantee across international frontiers providing that a risk management programme is in place both in terms of computerised control systems and of course at the company accreditation level. The latter is as much in their hands of course as those of the Customs Administration.

Ideally, standard formalities and documents must be implemented in all countries.

A question that will require consideration at some stage is the currency in which the guarantee is held since where any national currency is subject to violent fluctuation or depreciation this will result in an insufficient level of guarantee to neighbouring countries.

In Namibia and South Africa, exchange control is still an issue but neither banks nor insurance companies saw this as a difficulty in practice as regards payment.

4.2.3 Individual guarantees

Individual guarantees can continue to be issued - but common forms again please.

In the European Union there is a system of supporting individual guarantees with vouchers purchased from a guarantor. The guarantor is often a freight transport association, chamber of commerce or indeed a company established specifically for the purpose. In essence the trader buys a voucher (value 7000 euro) from a guarantor approved by Customs, or indeed vouchers to the value of the total Customs debt where it exceeds 7000 euros. This is rather similar to a guaranteed cheque.

The countries and SADC may wish to consider opening this option where the number of individual guarantees is likely to be high - but it must be written into the rules.

4.2.4 Roles and responsibilities

Nowhere are roles and responsibilities for transit management fully elaborated. This needs to be done and in particular a system needs to be established for enquiries where goods go astray.

4.2.5 Transit procedures - regular

Article 9 of the STP provides for a series of rules relating to Customs procedures for the movement of goods in transit. This article needs to be re-visited in the light of the other paragraphs herein and the decisions taken by the countries.

4.2.6 Transit procedures - Simplifications – Facilitation

The imposition of new rules, particularly as regards the calculation of the Customs debt for a comprehensive guarantee, will represent a substantial downside for large and (hopefully) legitimate traders operating under the present "rules". Moreover, such traders should perhaps benefit from additional simplifications in terms of setting off without control at departure, Customs sealing and so on.

Thus in introducing a more coherent set of rules for a wider common transit system it will be obligatory to introduce a subset of rules to enable traders of good reputation, both large and small, to benefit from their understanding and experience of transit and their financial standing.

This will require a thorough re-write of article 4 of the STP but it is essential – if the basic premises relating to guarantees and facilitation are accepted of course.

4.2.7 Risk Management

In addition to the accreditation methodologies outlined in paragraph 4.2.1 above, a system needs to be established that will write off/acquit each and every transit transaction commenced. At the moment this is carried out by endorsing copy of the SAD 502 document and returning it to the office of departure by post.

Clearly this method has its problems and on larger corridors the amount of paperwork and the number of outstanding enquiries will quickly get out of hand. Indeed the transit reform programme will encourage many new users which will in turn affect the number of enquiries; EU experience was not good in the sense that, prior to computerisation of the acquittal process, many traders had far larger guarantee balances outstanding than was actually necessary. The load on the manual system was simply too much. The cost of course is also a significant burden on the trader.

Thus, equally clearly, the countries must put into place, ***at the very least,*** a system that tracks each movement by computerised system across the corridor.

Using the Asycuda systems now operating in Namibia and Botswana it will be possible very shortly to track any consignment across the two countries. In addition, SARS has recognised the importance of implementing such a system and will shortly be in contact with the Asycuda team in Botswana to assure the connectivity between its own systems and Asycuda.

It is not part of the team's brief to write a User Requirement for this feature but briefly the system should contain a message from the office of departure to the office of destination, with an advice to the border posts through which the movement is expected to pass, together with an acquittal message from the office of destination back to the office of departure.

Ideally too, it should be possible for the offices of transit at the borders to access the messages and the details of the consignments perhaps if possible through a simple system of barcodes printed to the SAD 500 documents. Although this may seem somewhat advanced or complex, in fact such a system is relatively easy to implement given the current level of IT infrastructure in place in the three countries. Equally, having solved the question for the TKC, it will be relatively easy to copy the system to the other countries of the region that, fortunately for the most part, also use Asycuda. The exceptions are Mozambique and Angola where the problems arising will have to be considered separately.

In terms of establishing proof of arrival, the countries could also consider introducing an official "receipt" - a document that may be carried back by the transporter from the office of destination to the office of departure, at least for an initial period before the computer system is bedded in adequately.

The computerised system, when implemented, should however be considered as a phase 1 to the resolution of the write off/acquittal and computerised transit management process. Several of the stakeholders envisage a centralised management process at regional level that will not only take care of the individual transactions and their acquittal but also act to oversee the approval processes for traders and guarantors and perhaps act as an enquiry office, if necessary.

5. Next steps

The urgent first task now is for the countries and the SADC secretariat to take some basic decisions on the practical issues raised above and in the reports of the missions to the countries. At the very least these will concern:

- Access to the system;
- The establishment of the international guarantee system – methods, calculation of the guarantee reference amounts, standard documents etc;
- Standard and simplified procedures to be offered;
- Operational procedures to be followed; and
- An IT dataset, message structures, communication methodologies, transaction management methodologies and the implementation a working pilot system.

The second task is to draft the basic revisions to the existing official texts that will enshrine the concepts at regional level and provide for their implementation in practice at national level.

The third task is to draft instructions to operational staff and prepare a training curriculum.

The fourth task is to carry out a full feasibility study to consider the extension of the pilot computerised tracking system into a more coherent set of applications that can assist the countries to manage the whole of the transit system more effectively.

6. Resources

It is not part of the brief of this team to consider resources required and possible avenues for financial support for the above. However it became clear during the mission that the countries, the SADC Secretariat and donors have sufficient resources available to carry out the above work very quickly indeed.

However, for the purposes of providing guidance, in terms simply of the drafting of the legal texts, their sub regulations and operational instructions and the development of relevant training courseware, the team considers this would take around six man months. It would be crucial however, in particular, to field relevant expertise on transit law that could be added to perhaps a project team of three or so local Customs staff able to draft the operational instructions and prepare the training materials.

7. Concluding remarks

The team would wish to thank all those who gave of their time to organise the various meetings and took part so willingly in the interviewing process. It is rare to find a group of people so emphatic in their desire to make this corridor work and indeed determined to take steps towards resolving the transit management questions at regional level.

Annex 1

Visit to Namibia 23 – 27 March 2004

Mission details

Note: ***The statistical data required in the paragraphs below is being prepared by Namibian Customs.***

1. General

The mission was arranged through the Department of Customs, Mr. Hans Garoeb, Deputy Director General, who also accompanied the team on as many meetings as he could, given the absence of the Director General on business.

We met a wide group of people from both the business and finance community (see appendix 1 for complete list and agenda).

The general reaction to the mission, and the TKC itself, was very positive. Those seen fortunately regard the TKC as a partnership between Government, Trade and Finance that can both serve the trade development process in the country as well providing a model for transit corridors elsewhere – always providing the guarantee issue can be resolved once and for all. All involved are hoping that the procedures proposed can be quickly introduced so that the Trans-Caprivi corridor to Zambia (finally open with the bridge across the Zambezi on 14th April this year) can benefit in the quickest possible time.

Similarly, the traders would expect the same procedures to apply on the southern trade corridor to South Africa.

During the meetings, several issues were raised that are important for the overall project but which to some extent are outside the remit of the mission. These are summarised in section 6 below.

2. The corridor, types of transit, transport, goods etc.

The corridor in Namibia consists of a single, tarred, two lane highway linking Walvis Bay, Windhoek and the border with Botswana at Mamuno. It takes around a day to complete the journey to the border.

Carriers are registered by Customs to use the TKC but there is no formal accreditation process. Trucks are approved technically under Ministry of Transport supervision. Trucks are not approved by Customs (ability to be sealed, secured etc.). The standard of the fleet is relatively high. Police road checks are frequent.

"Outwards", from Walvis Bay, transactions are "through transit" only to Botswana and/or South Africa. Duty "due" to be covered under the Customs debt provisions is Customs duty (traders have the option to pay either at Walvis Bay or at the point of destination) at variable rates, but averages ***XX***%, and VAT at 15%. There is no excise duty due on transit goods (beer, tobacco, spirits); this is always paid at source. Average duty/tax amount per transit transaction is ***XXX.***

Inwards, from Botswana or South Africa, ***XX***% of transactions are for export through Walvis Bay. The rest are duty paid at the border although one trader has dispensation to pay duty at Windhoek (which should of course also be covered by the TKC procedures).

Although numbers of transactions are currently very low ***(XXXXXXX*** inwards ***XXXXX*** outwards), all those interviewed said that this was a fraction of what might be expected if the TKC can be fully implemented. As an unexpected example of the TKC's potential, Air Namibia (747) freighters offload electrical equipment (DVDs and similar) at Windhoek from Europe for onward trucking to South Africa. It would cost 40,000 USD to continue the flight to Johannesburg and return; it costs 3000 USD to send the goods by truck. The TKC corridor group are attempting to sell this route further and will be able to do so more easily when the TKC is 100% in place.

Groupage is common although usually the transport is single trucks only. Goods on the route vary considerably. ***XXX, XXX,*** however are the most important. Declarations are provided for each individual consignment.

3. Customs infrastructure

Conditions at the border posts as regards buildings, electricity, telecommunications etc. are good. There is adequate parking at the Manunu border - no off-site depots and lorry-parks are used.

There are no container scanners in place anywhere in Namibia although some funding is potentially available from the EU in the next year or so. Customs regard the installation of scanners as important and will also consider sourcing from elsewhere in the future if the EU funding is delayed or cancelled for any reason.

All offices involved on the TKC are computerised using Asycuda ++ software. 100% of Customs offices in Namibia will be computerised by the end of 2004.

No bar-coding or data-imaging systems are in place (to facilitate automated Customs controls at the borders) but are easily added in to the Asycuda system (advice from the Asycuda team in Windhoek).

4. Customs procedures, controls etc.

Advance arrival information is not provided from or to Botswana or South Africa for goods in transit.

The usual manifest/waybill systems provide information of goods arriving at port and airport. However, no formal, pre-determined Customs system is in place for verifying the presentation of declarations, including transit declarations, against the manifests. This clearly leaves a serious hole in the control process.

All outward loads in transit are presented to Customs, examined and officially sealed.

A single document (SAD 500) accompanies the goods throughout the transport. The office of destination in Botswana or South Africa provides a return copy of the document (SAD 502) to acquit the transaction.

Each transit declaration is recorded in the Asycuda system and the software permits the writing off of the transactions against both the declaration and the guarantee held (as the goods leave the territory of Namibia "outwards" or as they arrive at the border post and reach their destination in Namibia "inwards").

There is a concurrent manual acquittal system where three days are allowed between departure and the arrival of the return receipt at the office of departure from the outward border post in Namibia.

There is no formal enquiry system established between the three countries at international level in the event of problems on route.

There are no "simplified" procedures in place for traders of good standing.

5. Bonds and guarantees

Guarantees are provided at both individual consignment level but most are provided at the global level calculated against potential liability. For the TKC specifically, an arrangement has been made by all three countries for traders to provide a comprehensive guarantee in the equivalent of 250,000 Namibian dollars. In Namibia this guarantee is available across all offices i.e. it is not calculated or distributed by office. It is monitored by Asycuda centrally across the wide area network in place (not verified in practice during the mission).

Guarantees are accepted in cash for individual consignments but this rare.

Where for any reason the balance of the comprehensive guarantee available is insufficient, a top up is required.

There is no clear legal basis for the operation of the TKC guarantee internationally i.e. if the guarantee needs to be invoked in a country other than that in which it was issued. It is operated under a "gentleman's agreement". Fortunately, there have been no instances of fraud or irregularity, and therefore call against the bonds, on the corridor since the project's inception. According to Customs, the only calls against any transit bonds have related to the importation of motor vehicles from South Africa (drive through vehicles to Angola). In practice, and in fact, traders are required to provide the special TKC guarantee in each country.

Banks provide the guarantees in the main although insurance companies can and do provide transit guarantees. Security is usually required by banks against fixed assets and a charge of 1% per annum payable in advance seems to be the norm for both banks and insurance companies. This could rise though to 4 % for smaller traders.

In terms of providing a single comprehensive guarantee across all three countries for transiting goods, there was general agreement from those interviewed that the banks shouldn't, and didn't, have a problem in underwriting risk across borders in favour of foreign Customs Administrations. However, there was some concern that this should be verified and the Standard Bank has agreed to do so with the Central Bank of Namibia. None of the insurance companies thought this was a problem.

6. Other issues

The above summarises the comments and conclusions, on the basic technical issues relating to guarantees, from the stakeholders at our various meetings.

Transporters, freight forwarders, financial institutions and Customs were without exception enthusiastic about the potential for the corridor but several issues arise, or were raised, that need to be discussed, and some resolved urgently, if the overall project is ultimately to be successful. These are:

Office opening hours

Transporters made the point that differences in border Customs office opening hours were a real impediment to greater use of the corridor. Trucks are often required to park overnight and await clearance the following day.

Central site for Customs monitoring

Transporters felt that it would be essential at some stage for Customs to implement a central management site for the TKC corridor that would hold details of guarantees held etc. and co-ordinate the management.

Simplifications

Naturally the trade were extremely interested in the simplifications available under the standard scheme in the EU and from the information available, there is every reason to consider such simplifications as reduced or waived guarantees, departure without 100% inspection and sealing. Customs however were rather more conservative in their views. They agreed that such simplifications were very logical but would need, perhaps, to be approached carefully and perhaps phased in over the medium-term.

Next steps

It is clear that several activities need to be undertaken to ensure that the whole project succeeds and that it is capable of being rolled out to other corridors. In particular the following are **URGENTLY** required:

- draft Customs law, regulations and guarantee documentation to be implemented at national level;
- draft Customs control manuals and enquiry/notification systems;
- implement an IT tracking system at international level with, eventually, a module to monitor the guarantee status; and
- consider how this might be done given that the activities of the current Hub team in this sector will end in September.

In the Hub team's opinion, and providing the countries are prepared to use the EU system as a basis (which is perfectly sound as a premise in the TKC), then the legal and documentary work would take about 4 man-months for a Customs transit legal expert, working with a (very) small team from the countries. This, together with a co-ordinator for the implementation, would cost around 100,000 USD.

It is essential for the stakeholders to pursue this issue as soon as possible with donors.

The Southern African Customs Union (SACU)

We met with the Secretary General of the new organisation who has only been in place a few months. She is clearly aware of the potential of the corridor but is naturally tied up with putting her team in place.

Perhaps at some stage, consideration should be given to the Secretariat's potential role in the ongoing management of the corridor that will undoubtedly be required.

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Appendix 1

Visit to Namibia 23 – 27 March 2004
AGENDA

Wednesday 24th March

O9.00 Namibian Customs

- Hans Garoeb, Deputy Director General
- Martin Dumeni, Controller Legal and Technical Services
- Patricia Liswaniso, Controller Technical Servic es

11.00 American Embassy

- Kevin McGuire, Ambassador
- John Ali Ipinge, Activity Manager, USAID

14.00 NAMFISA (Namibian Financial Institutions Services Audit)*

- Frans Van Rensburg, Director General

16.30 Transworld Cargo*

- Norbert Liebich, Managing Director

Thursday 25th March

09.30 Commercial Bank of Namibia*

- Martin Moeller, Senior Manager, Trade Services and Correspondent Banking

11.00 First National Bank of Namibia

- Bruce Wait, Manager, Corporate Services

14.00 F.P du Toit Transport (Pty) Ltd.*

- Frank Steffen, Managing Director

Friday 26th March

08.00 INSCON Insurance Company of Namibia

- Rudi Jacob, Branch Manager

09.00 Mutual and Federal Insurance Company of Namibia

- Gersom Katjimune, Managing Director
- Jim Trybus, General Manager

10.00 Swabou Insurance Company of Namibia

- Renier Taljaard, Managing Director
- Lynette Brand, Manager Commercial Business

11.30 Standard Bank of Namibia

- Bobby Buck, Head of Treasury
- Petrus Vries, Manager International Business Centre
- Pieter Conradie, Account and Security Manager

15.00 Walvis Bay Corridor Group*
- Frank Gschwender, Business Development Executive

16.30 Southern African Customs Union (SACU) Secretariat
- Tswelopele Moremi, Secretary General

* *Accompanied by Hans Garoeb, Deputy Director General, Namibian Customs*

Annex 2

Visit to South Africa – 29th March to 8th April 2004

Mission details

1. General

The mission was arranged through the SARS Department of Customs, by Theo Ruiters, TKC project manager, who together with his colleague Costa Pierides, also accompanied the team at most of the meetings.

We met a wide group of people from both SARS and the business and finance community (see appendix 1 for complete list and agenda).

As in Namibia the reaction to the mission, and the TKC itself, was very positive from the transport and freight forwarding community, the financial institutions and the Department of Customs. The philosophy of partnership between Government, Trade and Finance seems to be strong but, I think, might do with some strengthening still; in other wor ds I did not get the impression that the current stakeholders meetings serve well in terms of strategic direction and drive to move the processes forward.

There is the clear desire to extend the procedures to other corridors but, equally, awareness that the procedures on the TKC must be substantially firmed up given that conditions on the routes to the north and east are rather more vulnerable to potential loss or irregularity.

2. The corridor, types of transit, transport, goods etc.

The corridor in South Africa consists currently of a single office of departure – in theory (Johannesburg International Terminal). In practice, the majority of carriers and trucks using the corridor clear outwards into the transit regime at Zeerust where there is a Customs data capture centre and thence to the two border posts, Ramatlabama and Skilspadshek. It takes a little over half a day to reach the border from Johannesburg. It is the intention to extend the corridor to other offices of departure, and notably Durban, as soon as possible.

Some 150 carriers are presently approved by SARS (required by annex 4 of the SADC trade protocol) to use the corridor although in practice only four carry out some 80% of the traffic. Trucks are approved technically under Ministry of Transport supervision. Trucks are not approved individually by Customs (ability to be sealed, secured etc.) although approved carriers are required to submit details of the trucks, tractors and trailers used. The standard of the fleet is high.

"Outwards", from South Africa, transactions are largely "through transit" to Namibia. Interestingly, there are major carriers delivering goods to Botswana using BLNS export documents from South Africa (CCA1s). These are followed by local documents in Botswana running through t o Gaborone where the goods are cleared (i.e VAT is accounted for/paid). These transactions should logically fall within the simplified, harmonised corridor arrangements as soon as possible using the SAD 500.

"Inward" transactions are generally VAT and duty paid at the borders although traders have the choice to carry on to Johannesburg.

The actual number of transactions is much higher than had been expected and the figures certainly seem to be completely at odds with the small number of transactions indicated by Customs in Namibia. The SARS TKC team also said that the SAD 500 transactions represent only about 25% of transactions leaving the country on the TKC. 75% leave using the export document CCA1.

Groupage is very common although usually the transport is single trucks only. Goods on the route vary considerably. ***XXX, XXX,*** however are the most important. Declarations are provided for each individual consignment.

There is no Customs duty charge on the outward transit movements – this is paid under the SACU pool arrangements at source. VAT is due at 14%. There is no excise duty due on transit goods (beer, tobacco, spirits); this too is always paid at source. Average VAT amount per transit transaction is ***XXX.***

3. Customs infrastructure

Conditions at the two border posts as regards offices and telecommunications are not at the moment satisfactory. However, these are being upgraded and all should be better suited to the throughput by August/September 2004. There is adequate parking - no off-site depots and lorry-parks are used. The majority of the Customs outwards documents are however, as indicated, keyed in at Zeerust.

There are no container/vehicle scanners in place anywhere in South Africa except a single, ageing X-ray machine at Durban. Customs regard the installation of scanners as important and are currently engaged in an invitation to tender under a PPP (private/public/partnership) arrangement that should be concluded contract-wise by August, with implementation expected in the first half on 2005. As regards the TKC, and the other transit routes, scanners are expected to be installed at ***XXXXX etc.***

In terms of IT, SARS has developed a number of discrete Customs applications over the years to manage trade. The most significant are:

- CAPE - the import declaration processing system;
- MAS - for manifest control to which CAPE is linked;
- ***XXXX*** - for exports
- CCA1 - for exports to the BLNS (SACU) countries;
- TKC;
- ICRAS - for Risk Management;
- WIMS - for warehouse control; and last but not least
- RIT/RIB to cover removals in transit and in bond at national level.

Each of the above systems is based on different “document sets” although the “data sets” of course are very largely the same - (DA500 for CAPE imports together with a subset for the RIT/RIB systems, DA.550 for exports, CCA1 for BLNS exports and the SAD 500 for the TKC corridor). It is worth noting that there are some 29 different documents used by SARS within the trade process.

The hardware environment at headquarters is IBM mainframe which handles CAPE integration and the rest of the above systems. There are decentralised Alpha servers at the eleven major ports/airports for CAPE processing and an additional Alpha system that centralizes CAPE processing for the rest of the smaller Customs offices. CAPE is a home-grown system developed in Cobol. Other applications use ADABAS as the database management system and "Natural" as the business application development toolset.

Finally, there is an "EDI" server that is dedicated to handling EDI transactions from the trade, whether this be directed at, or to, any of the above systems.

Recognising that integration is the key, SARS is now considering replacing these systems with a "total Customs solution" but this is bound to take several years (a reasonable estimate would be end 2008).

Comparisons are of course invidious and not always helpful, and indeed the situation in South Africa in terms of overall transaction volume and application requirements is necessarily very different, nevertheless it is readily apparent that SARS, because of the sheer number of separate systems, documents and procedures, is rather worse off than Botswana and Namibia in being able to see a clear way forward for the use of computers to control transit on the TKC right now, or for that matter on any genuine international corridor.

This said, the SARS Customs projects team are determined to find a solution and at a meeting held jointly with all the project managers on Thursday 8th April, we managed to find a workable way forward. In short, as a first step, an interface will be developed to link the systems into an end-to-end control routine. This will be based on the inputs to the CCA1 system that can be improved to add an acquittal system (albeit at high level for the start of the corridor in earnest).

The meeting also discussed a phase 2 that would improve international transit movement processing to ensure that transit control and management would be fully effective across SADC, and indeed COMESA. In this case, a central core regionally-based team might be required to manage the wider process but this should be dealt with under the umbrella of a formal feasibility study. Mr. Joubert was especially interested in considering the linkage between the international export, transit and import processes to address the issue of duplicated data capture.

The question of the technical linkage between Asycuda and the SARS systems will now be taken up with the Asycuda technical team in Botswana at their next meeting in April.

Finally, no bar-coding or data-imaging systems are in place (to facilitate automated Customs controls at the borders). The April meeting should also consider how the two systems can introduce this feature, at least technically. If for any reason this proves difficult within either the SARS systems or Asycuda, then it may be possible to add such features in through trader software systems.

4. Customs procedures, controls etc. for the TKC

Advance arrival information is not provided from South Africa for goods in transit to either Botswana or Namibia.

The MAS manifest/waybill systems provide information of goods arriving at port, airport and Johannesburg International. The latter is not fully implemented but is expected to be finished later in 2004. The completion of MAS and its effective implementation should guarantee the control process for delivery into the transit regime. This is very important if and when the TKC system is extended to Durban and indeed the other major ports of entry.

All loads in transit are presented to Customs, examined and officially sealed – but in South Africa's case, for the TKC, this takes place at the border or Zeerust.

A single document (the SAD 500) accompanies the goods throughout the transport. The office of destination in Botswana or Namibia is supposed to provide a return copy of the document to acquit the transaction but this is not taking place anywhere near the 100% required for the system to be effective.

There is, as indicated in Annex 1 (Namibia report), no formal enquiry system established between the three countries at international level in the event of problems on route.

There are no "simplified" procedures in place for traders of good standing although it might be argued that the delivery of the standing TKC bond of 250,000 ZAR, regardless of the numbers of trucks and movements undertaken, is an advantage to the larger traders. At the moment, too, transport/trade generally runs to the border with no control until that stage is reached. In a genuine transit system, trade should be making the declarations at the office of departure with Customs making external checks only at the border together with only a brief check in the IT system, if possible using barcode etc. type technology.

5. Bonds and guarantees

Customs guarantees in South Africa can be provided at individual consignment level but most, in general, are provided at the global level calculated against potential liability. SARS currently holds some 500 million ZAR in global bonds to cover Customs debt requirements.

As regards the TKC bond, SARS regards the 250,000 ZAR guarantee as sufficient if it covers the potential tax liability on any single truck movement crossing into the transit regime. It is available across all offices i.e. it is not calculated or distributed by office. It is not monitored by any IT system. No top up is therefore required in practice to cover any "balance" across the corridor based on the trader's actual potential liability. This at first sight is perhaps very dangerous. However, for the most part SARS hold other guarantees for the same traders and this, clearly, they regard as back-up if things were to go badly wrong. Legally speaking, it is extremely doubtful if the TKC bond has any validity outside South Africa – and the same is true in the other countries of course. As indicated though, this hardly matters since guarantees are required in each country anyway.

Guarantees are accepted in cash for individual consignments but this rare.

Banks provide the guarantees in the main although one insurance company (George Lombard) provides some 20% of all Customs guarantees to SARS.

For the banks, security is usually required against fixed assets and a charge of 1.2% per annum payable in advance seems to be the norm; usually the amount of the guarantee is also set against the trader's overdraft facility. The base charge rises only to 1.5 % for smaller traders.

Insurance companies tend to be slightly more expensive in terms of fees charged but are probably cheaper in the long run, depending on the principal's status, since there is no requirement to set the guarantee against fixed assets or against the trader's overdraft facility.

In terms of providing a single comprehensive guarantee across all three countries for transiting goods, there was general agreement from those interviewed that the banks didn't have a problem in underwriting risk across borders in favour of foreign Customs Administrations. George Lombard did not think this a problem at all for the insurance companies.

There have been no instances of fraud or irregularity, and therefore call against the bonds, on the corridor since the project's inception. There has however been some instance where the goods carried have been found to be totally at odds with the declaration on inspection at arrival (and notably related to the aircraft engine example cited in the Namibia report). Since this first instance however, no re-occurrence has been detected.

Nonetheless, both banks and insurance companies are fully aware that if the service is to be distributed across other corridors, then effective risk management procedures must be put in place including control by computer systems of the departure, en route and acquittal processes.

6. Other issues

The above summarises the comments and conclusions, on the basic technical issues relating to guarantees, from the stakeholders at our various meetings.

As indicated, transporters, freight forwarders, financial institutions and Customs were without exception enthusiastic about the potential for the corridor but the same issues arose, as those raised in Namibia. In particular there is the question of office opening hours and the need to be made aware of the accreditations/guarantees approved in the other countries.

Again, naturally, the trade were extremely interested in the simplifications available under the standard scheme in the EU. The SARS TKC team fully agreed that such simplifications were entirely necessary and indeed they are seeking to implement exactly these arrangements themselves.

7. Conclusion

For the system to operate fairly and effectively across the TKC and specifically as regards South Africa, we need to add three more points to the next steps noted in the report on Namibia. These are:

- The revision of the logic of the guarantee amounts for accredited traders;
- The integration of the total number of transactions actually due across the corridor i.e. remove the ability to use the CCA1 export document and its equivalent on the Botswana side; and
- Urgently look at the technical linkage of the IT systems in South Africa to Asycuda in the other countries *and the first thing to be done is to establish an agreed dataset.*

The development of the IT linked system is especially important. Whilst the introduction of a global transit monitoring system needs to be considered, this is not likely to occur in the short-term. Right now there is a practical need to establish simple end-to-end control between the Customs systems themselves.

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Appendix 1

Visit to South Africa 29th March to 8th April 2004
AGENDA

Monday 29th March

13.00 South African Revenue Service (SARS) – Customs TKC team
- Theo Ruiters, Head, TKC project
- Costa Pierides, Transport advisor

South African Association of Freight Forwarders (SAAFF)
- Ed Little, Director

Tuesday 30th March

11.00 South African Insurance Association (SAIA)
- Caroline da Silva, Executive

14.00 George Lombard Insurance (PTY) Ltd.*
- Rina Belcher

Wednesday 31st March

09.00 SARS – TKC team
Costa Pierides

Thursday 1st April

09.00 SARS – MAS (manifest systems)
- Anton Botha, project manager
- Andre Landman, policy analyst

10.00 Jacobsen's Computer Freight Systems (PTY) Ltd.*
- Clive King, Director

GMR Freight*
- Mick Carle, Director

Friday 2nd April

09.00 SARS - scanner project
- Mike Poverello, project manager.

11.00 South African Freight Association*
- Herman Lemmer, Chief Executive Officer

14.00 SARS – Customs Reform Project*

- Intikhab Shaik, Project Director

15.30 SARS

- Vuso Shabalala, General Manager, Customs

Monday 5 th April

08.30 SARS

- Cobus Weber, Project manager export and RIT/RIB systems and IBM application maintenance

14.00 SARS*

- Johan XXX, project manager, CAPE import systems
- Neil XXX, project manager, CCA1 systems

16.00 SARS

- Tertius Joubert, project manager, EDI systems

CSS (Clearing Support Services)

- Roger Shaw

Tuesday 6 th April

09.00 SARS – TKC team

Wednesday 7 th April

09.00 Standard Bank SA

- Ian Robertson, Director, International Business Centre
- Peter Henegan, Head of Operations, In. Business Centre

11.30 FESARTA
Barney Curtis

Thursday 8th April

08.00 SARS

- TKC team
- IT project mamagers

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Annex 3

Visit to Botswana – 19th to 24th April 2004

Mission details

Note: ***I have recorded in this report only those details as they differ from those in the other two countries and where those differences are of interest or are noteworthy.***

1. The corridor, types of transit, transport, goods etc.

Carriers are not registered by Customs to use the TKC and there is no formal accreditation process. Trucks are approved technically under Ministry of Transport supervision. Trucks are not approved by Customs (ability to be sealed, secured etc.). The standard of the fleet is relatively high.

Inwards at any of the three border posts, transactions are only regarded as "TKC" if they are in "through transit" to either of the other partners and these transactions alone qualify to use the SAD 500 document.

Transactions inwards with destinations in Botswana use a "seal" document (Misc form 54) that are acquitted manually.

Usually VAT is the only tax commitment (at 10%). There is rarely Customs duty due on goods in transit which is generally paid at source.

Numbers of transactions are currently very low which contradicts, once again, the data coming from South Africa. The probable reason is that, essentially, the SAD 500s are ignored on the Botswana side where the local form 54 is used in its place. This is being investigated through the TKC committee.

Take up and use of the TKC would probably improve if the corridor were extended to the South African ports.

2. Customs infrastructure

Conditions at the border posts as regards buildings and telecommunications etc. are satisfactory. The electricity supply is however subject to cuts and no stand-by generators are in place.

There are no container scanners in place anywhere in Botswana and there is no proposal to introduce them.

All offices involved on the TKC are computerised using Asycuda ++ software.

No bar-coding or data-imaging systems are in place (to facilitate automated Customs controls at the borders) but, it was confirmed, are easily added in to the Asycuda system.

3. Customs procedures, controls etc.

The Asycuda transit module is expected to be introduced in June 2004 although this may slip for a month or two. As with Namibia, when it is in place, each transit declaration can be recorded in the Asycuda system and written off against the guarantee held for the individual trader. Because of the way the transit module is constructed it will be easy to connect Customs offices in Botswana to the partners in Namibia.

For removals under bond through and from South Africa into Botswana, the SARS document DA 570 can be used to the office of destination. In other words Botswana Customs accepts the use of the South African bond to destination.

4. Bonds and guarantees

Banks provide Customs guarantees in the main. In this instance, though, security is usually required in cash that is deposited in a so-called "marginal" account on which interest at around 8/9% is paid. A charge of 1% per annum payable in advance seems to be the norm to issue the guarantee.

The Botswana Insurance Company also provides Customs guarantees. The charge is 1.5% per annum but there is no fixed collateral required.

In terms of providing a single comprehensive guarantee for movements to other countries of the region there is again no problem.

5. Other issues

The above summarises the comments and conclusions on the basic technical issues relating to guarantees from the stakeholders at our various meetings.

Both logistics companies interviewed had heard of the TKC but were not using it. This apart, their more pressing concern was the differences in treatment afforded by SARS on entry into South Africa. They claim that SARS officers at the borders require CCA1 documents for entry into South Africa and that officers at the exit ports and JNB subsequently require export documents (DA550s) to be completed. Further, the officers at the inward borders require exports to be verified within 30 days by way of the provision of airway bills or bills of lading – otherwise cash deposits are immediately required.

If this is true, and - although absurd - I must say it seems likely, this whole situation can be overcome by using the SAD 500 document, the introduction of a cross-border guarantee and straightforward changes to the rules and procedures in South Africa. The other documents and procedures should disappear, saving a great deal of time, cost and aggravation.

Note: The statistical data required is being prepared by Botswana Customs.

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Appendix 1

Visit to Botswana – 19^{th} to 24^{th} April 2004

AGENDA

Monday 19^{th} April

O9.00 Briefing and discussions with the Hub team

Tuesday 20^{th} April

09.30 Botswana Customs
- G. Mmoloki Motsewabagale, Principal Administrator - Technical
- C.W. Mudongo, Principal Administrator & Head of Investigations
- Milton Johiua, Collector, Gaborone

14.30 UNCTAD – Asycuda team
- Brian Fulton, Customs advisor
- Sanjiv Chundunsing, IT advisor

Wednesday 21^{st} April

09.30 Hoya Freight Services
- James Molokomme, Marketing Director and Chairman FF group

11.30 Standard Chartered Bank
- Geoffrey Nchini, Manager - Credit Approvals and Secured Loans

Thursday 22nd April

08.00 SADC
- Happias Kuzvinza, Customs and Trade facilitation Advisor

Friday 23^{rd} April

10.30 UTI – Union Transport
- Brett Halford, Managing Director
- O. Makgane, Operations Manager

14.30 UNCTAD
- Sanjiv Chundunsing, IT advisor