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CUSTOMS REFORM AND TRADE FACILITATION: AN ENTRÉE TO THE GLOBAL MARKETPLACE



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This publication was produced for review by the United States Agency for International Development. It was prepared by Michael Lane of Sandler & Travis Trade Advisory Services for Booz Allen Hamilton.



CUSTOMS REFORM AND TRADE FACILITATION: AN ENTRÉE TO THE GLOBAL MARKETPLACE

This Trade Facilitation Issue Paper was written by Michael Lane of Sandler & Travis Trade Advisory Services under the U.S. Agency for International Development (USAID) Trade Facilitation and Capacity Building Project. Through the FASTrade Project, USAID's Bureau for Economic Growth, Agriculture and Trade (EGAT) works with USAID field missions, other U.S. agencies, the U.S. private sector, other donors, and a range of developing country government agencies and private sector stakeholders to streamline clearance procedures, meet new security requirements, and reduce incoming and outgoing transaction costs at international borders. The project, implemented by Booz Allen Hamilton, focuses on building and strengthening developing countries' institutional foundations to ensure that training, technology transfer, and new infrastructure can have a strong and sustainable long-term impact on economic development. Visit <http://tcb-fastrade.com> for more information.

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EXECUTIVE SUMMARY

"...collaboration between the poor, civil society organizations, governments, and large firms can create the largest and fastest growing markets in the world. Large-scale and widespread entrepreneurship is at the heart of the solution to poverty. Such an approach exists and has, in several instances, gone well beyond the idea stage as private enterprises, both large and small, have begun to successfully build markets at the bottom of the pyramid (BOP) as a way of eradicating poverty."

C.K. Prahalal, *The Fortune at the Bottom of the Pyramid*

THE GLOBAL ECONOMY IS A REALITY and one that the events of September 11, 2001 interrupted only briefly. The Internet, communications and information technology, international trade agreements and standards, supply chain management, and transportation improvements have been major factors in its creation. Western Europe, the United States, Japan, Canada, and Australia have worked aggressively to open borders and establish international rules for trade and commerce, and have been beneficiaries of the new global economy.

Smaller economies such as Taiwan, Korea, Hong Kong, and Singapore have followed the pattern of the larger countries and have seen their economies grow along with their participation in the global system of trade. China is fast becoming a dominant player and serving as the world's workshop while India is establishing itself as a global leader in services and technology.

Not all countries, however, have gained significantly from the advent of globalization. In particular, smaller economies in Africa, Central and South America, Eastern Europe, and other former Soviet Republics have not participated or benefited as widely in the global economy or reaped its benefits—in large part because their trade environments and institutions are not conducive to free, efficient, and secure trade.

Globalization has seen the investment of billions of dollars by multinational companies in pursuit of international markets and in the development of global supply chains to facilitate trade around the world and lower the transaction costs associated with international commerce. International organizations such as the World Trade Organization (WTO) and the World Customs Organization (WCO) have created standards for the movement of goods in international commerce to promote uniformity and standardization, and further reduce the costs and time associated with international trade.

Customs participates in every international trade transaction, has a significant impact on the efficiency of international supply chains, and is thus an important and visible factor in a country's competitiveness in the global economy. To encourage expanded trade and investment, countries have made Customs reform and modernization a national priority. This paper will examine Customs' important role in contributing to or hindering a nation's participation in the global economy.



Not all countries have gained significantly from the advent of globalization in large part because their trade environments and institutions are not conducive to free, efficient, and secure trade

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INTRODUCTION

INTERNATIONAL SUPPLY CHAIN PARTICIPANTS include suppliers; manufacturers; importers; exporters; freight forwarders; Customs brokers; third-party logistics companies; air, land, and sea carriers; port authorities; free trade zones; consolidators; banks; insurance companies; and government agencies—most prominently Customs. International supply chains are partnerships of members dedicated to the expeditious and economic movement of goods around the globe to serve consumers and manufacturers.

Along with the technology and systems that drive international supply chains have come systems such as vendor-managed inventory and just-in-time manufacturing. Companies now compete on the efficiency of their supply chains. Because Customs is in the middle of every international supply chain and impacts on every international trade transaction at least twice, it has become an important factor in the global economy. A more efficient and effective Customs organization can make contributions to a national economy. A weak, inefficient, or corrupt Customs can have a negative impact on a nation's economy.

PURPOSE

The purpose of this paper is to examine the Customs' role in international supply chains and to define the expectations and requirements of Customs and industry supply chain partners that must be met in order to achieve the benefits of global trade that are anticipated by countries as well as by industry.

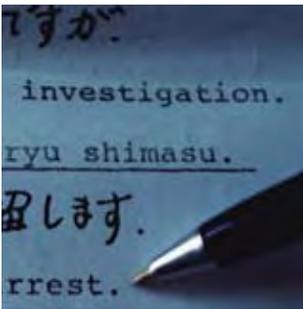
The particular focus of the paper is on developing countries and the actions they can take to contribute more significantly to their national prosperity while at the same time protecting their borders against terrorism, transnational crime, and threats to health, agriculture, safety, and the environment.

BACKGROUND

Customs is among the oldest agencies in government. The traditional role of Customs has been to collect revenue to finance the functions of government and to protect domestic industry.

As the volume of world trade has increased over the last century, and the pace has accelerated in recent decades, the functions of Customs and other government organizations have expanded as well. Along with the increases in trade and travel have come the transmission of diseases such as HIV/AIDS and SARS as well as threats to the food supply such as mad cow disease, avian influenza, Asian swine flu, and the long-horned beetle.

Companies now compete on the efficiency of their supply chains. Because Customs is in the middle of every international supply chain, it has become an important factor in the global economy. A more efficient and effective Customs organization can make contributions to a national economy



At the same time criminals ride free on the system of international trade, engaging in narcotics trafficking, money laundering, pornography, prostitution, car theft, smuggling of art and artifacts, and arms trafficking. Most recently terrorists and terrorism have joined the threats facing countries and their Customs administrations at the borders.

As countries become more closely aligned and integrated with the global trading system, the general movement is away from revenue collection and protectionism toward trade facilitation and more complex and technical functions related to health, environment, multinational crime, and terrorism. But it is rare to find a Customs organization that does not retain some functions, responsibilities, and concerns related to revenue and that does not maintain some roots in protectionism.

See Figure 1 below for a conceptual representation of the functions of Customs in the global economy.

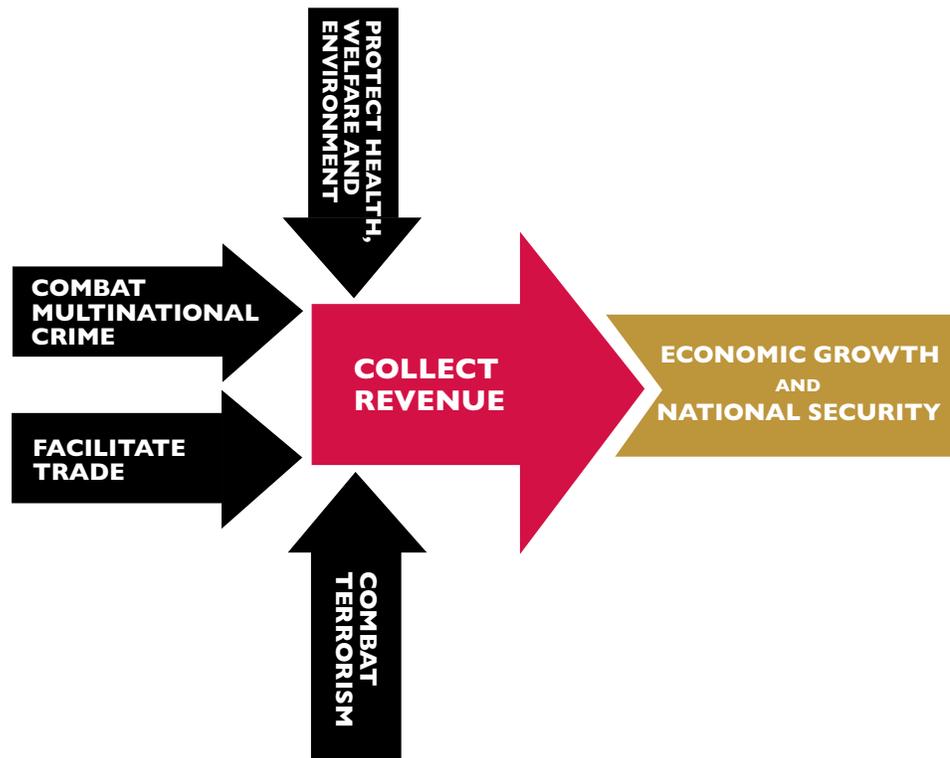


Figure 1

Priorities and emphasis of Customs will change based on world events, new technology, economic crises, epidemics, new crime patterns, immigration, or other external events, but the fundamental role of Customs is to be prepared to address all of these functions as circumstances and policy makers dictate.

INTERNATIONAL SUPPLY CHAINS

ADVANCES IN DOMESTIC AND INTERNATIONAL SUPPLY CHAINS over the last two decades have been incredible. Companies such as Dell Computer, Wal-Mart, and Toyota have changed the face of international business based to a large extent on the innovations encompassed in their supply chains. Dell makes computers to order on demand from the customer, from suppliers around the world, while maintaining virtually no inventory. Wal-Mart has become the world's largest retailer and one of the world's largest corporations as a result of one of the world's most efficient and closely linked supply chains, with suppliers around the globe sharing information in Wal-Mart's massive supply chain system. Toyota pioneered just-in-time manufacturing, which is being replicated by companies worldwide, and which requires a close linkage among the thousands of suppliers and the manufacturer.

All of these supply chain systems employ technology, the Internet, process management, and information systems in their supply chains; but these are not the only factors in building supply chains that result in global business leadership. Leading-edge supply chain management is based on collaboration, partnership, and trust, involving tens of thousands of suppliers, domestic and international carriers, and third-party logistics providers around the world. The efficient and effective international supply chains built by these and other world-class companies collaborate, using common systems and standards that employ new and established protocols for exchange of information—manifests, bills of lading, invoices, purchase orders, letters of credit, and electronic data interchange.

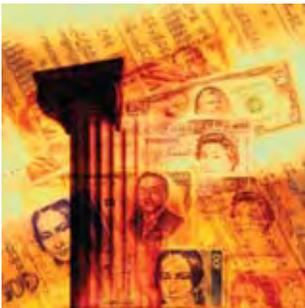
Increasingly, they are employing new technology as well, including uniform product codes, electronic product codes, radio frequency identification codes, global positioning systems, smart containers, and electronic seals. These capabilities provide track, trace, total supply chain visibility, and real time event management of the supply chain from the factory floor to the retail store, ensuring the integration of suppliers, warehouses, carriers, distributors, manufacturers, and retail stores.

This network of supply chain partners extends around the world spanning distance, cultures, language, time zones, and international borders to drive the global economy. It is a partnership of trust, collaboration, cooperation, technology, and standards that is creating wealth and prosperity for nations around the world and that uses time, cost, accuracy, and quality as its measures of effectiveness and efficiency. Companies and countries that do not meet the standards for participation in these global networks are suffering and will continue to suffer economic consequences.

Customs administrations are a factor in these sophisticated supply chains, at points of import, export, and transit; and can enhance or detract from the efficiency of the supply chains and thus the competitiveness of the nations they represent. The importance of Customs as a component of a nation's desirability as a location and destination for

Effective supply chain management is a partnership of trust, collaboration, cooperation, technology, and standards that creates wealth for nations. It uses time, cost, accuracy, and quality as its measures of effectiveness and efficiency. Companies and countries that do not meet the standards for participation in these global networks are suffering and will continue to suffer economic consequences

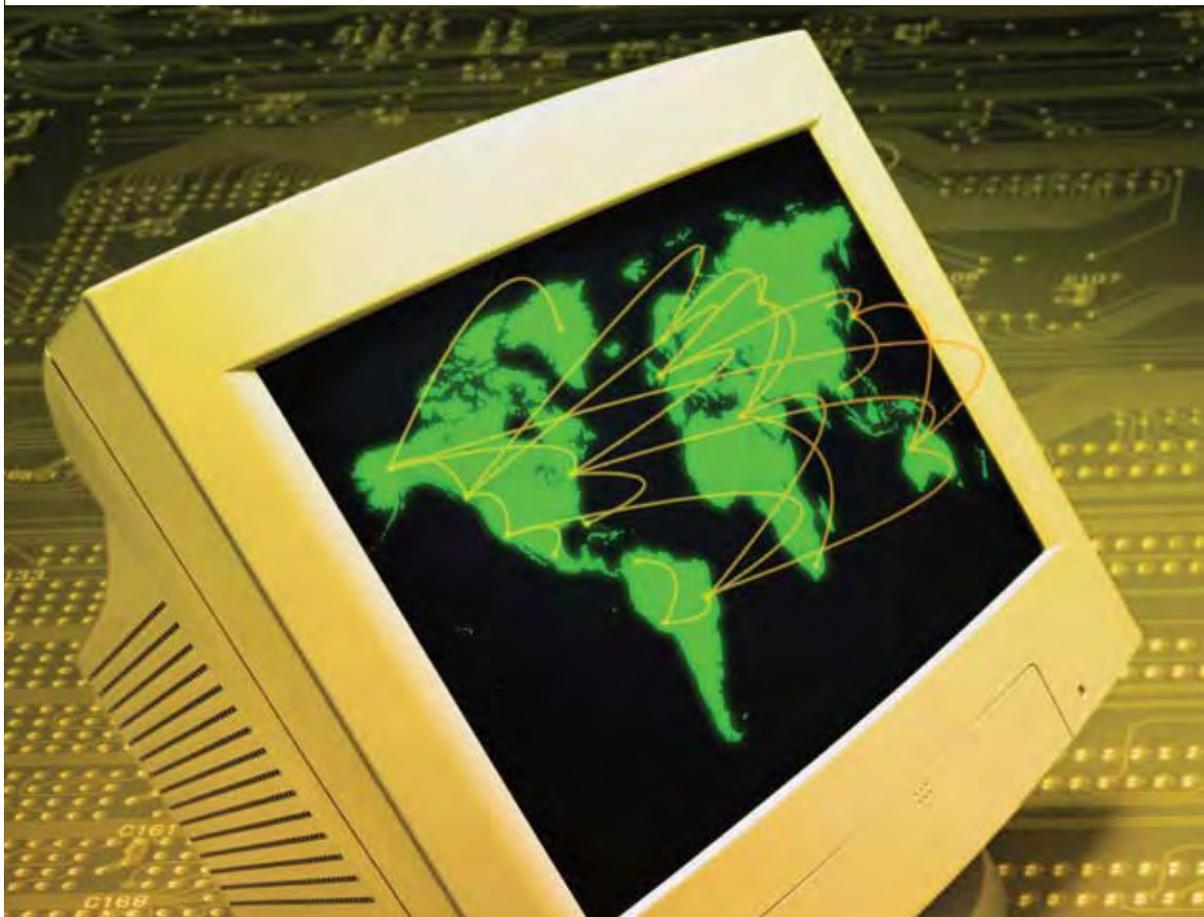
This clearly illustrates that in many cases, for a fraction of the cost of major infrastructure projects, improvement of Customs and related clearance processes could deliver tremendous benefit toward economic development



trade can be underestimated when compared to the need for ports, roads, and other infrastructure, but a study by McKinsey, a consulting firm, cautions that:

“Governments in markets such as Dubai, Hong Kong, and Singapore already understand the need to balance brick-and-mortar projects with policies, regulations, and enforcement measures. But many other developing nations have a single-minded devotion to expanding their hard infrastructure and thus overlook network components—such as efficient customs clearance and quality trucking services—that can have a strong impact on GDP. We estimate that one Asian country, for example, could increase its GDP by 1.5 to 2 percent as of 2010 if it reduced its logistics costs by 15 to 20 percent. Cutting indirect costs, such as excessive inventory resulting from inefficient supply chains, would account for the bulk of the savings.”

This clearly illustrates that in many cases, for a fraction of the cost of major infrastructure projects, improvement of Customs and related clearance processes could deliver tremendous benefit toward economic development.



CUSTOMS INTEGRATION

CUSTOMS COMPETENCE IS NOT THE ONLY OR EVEN THE MOST IMPORTANT CHARACTERISTIC that multinational companies search for when considering options for transportation hubs, distribution centers, manufacturing facilities, or retail establishments. Infrastructure, geography, trade policy, education, and population are all factors of equal or greater importance. But Customs is the first stop for all global business and transportation activities and is an important criterion when investment decisions are considered.

Those countries that are prospering in the global economy are those that have reformed, modernized, and reengineered their Customs organizations to operate in the global economy, followed closely by those countries that are making substantial progress in such reforms. Paperless processing, electronic payment, separation of release from duty payment, post audit, risk management, centralized government representation at the border, integrity, and measured clearance times are necessary to satisfy the requirements of the world's leading businesses and supply chain partners.

In a global economy in which supply chain competence and expertise is a necessity for business competition, Customs administrations must also demonstrate transparency and integrity. Multinational business entities demand not only conformance with international standards established by the WTO and WCO, and modern electronic processes, but also that Customs be a partner in the supply chain, exchange information, publish its plans and rulings, and recognize the need for cooperation among complying and cooperating supply chain partners. Although there is no system to specifically rate Customs' performance, a definite correlation exists between economic development and the performance of countries in terms of perceived corruption and transparency.

Transparency International (TI), a non-government organization based in Berlin, Germany, publishes an annual survey of the perception of integrity of countries by business—the so-called TI “Corruption Perception Index.” In order to be rated, the country must have at least three respondents participating in the survey. Although Customs is just one factor in overall perception of corruption, it is certain to be a major consideration given the prevalence and history of corruption in Customs administrations, and given the scope of opportunities for Customs' corruption. As the TI Index shows, there is a clear correlation between the perception of corruption in a country and its economic health.

In addition to integrity, business seeks openness and transparency when choosing supply chain partners and locations for business. Companies involved in trade need to know the standards and processes that will be employed by the countries in which they trade. They demand that the countries comply with international standards for classification and valuation rules and procedures and that these processes be published and adhered to uniformly over time and among all ports and government agencies. In view of the importance that business places on transparency, businesses also rate

Countries that are prospering in the global economy are those that have reformed, modernized, and reengineered their Customs organizations to operate in the global economy





Efforts to improve Customs performance in terms of integrity, transparency, efficiency, and compliance with international standards of the WCO and WTO can contribute substantially to the growth and development of the countries they represent

countries and their Customs administrations formally and informally on this factor. An annual measure of the lack of transparency in selected countries around the world is published by Pricewaterhouse Coopers in conjunction with Transparency International and is called the "Opacity Index." The Opacity Index offers a score for each country it rates "based on opacity data in five different areas that affect capital markets: a) corruption, b) legal system, c) government macroeconomic and fiscal policies, d) accounting standards and practices (including corporate governance and information release), and e) regulatory regime." Countries and Customs administrations that rate high on the rankings for integrity and transparency are those deemed most desirable for trade and investment by multinational companies.

Not surprisingly, countries that score well on the TI Index and on transparency are also those countries that rank highest in terms of economic factors such as GDP per person and the World Bank's Purchasing Power Parity Index. Efforts to improve Customs' performance in terms of integrity, transparency, efficiency, and compliance with international standards of the WCO and WTO can contribute substantially to the growth and development of the countries they represent.

CUSTOMS' POTENTIAL AS A TRADE FACILITATION PARTNER

Customs is not a trade policy agency; rather, it is an instrument of international trade and must carry out the policy and will of the policy makers and legislators. Without a mandate to increase transparency, facilitate trade, eliminate corruption, and become a trusted partner within the global supply chain, it might appear that there is little that Customs can do without the support of the host government. But reform must start somewhere, and Customs may have some important advantages within the government.

1. Customs is extremely important in emerging economies and occupies a position of more power and influence in government than its counterparts in rich countries.
2. Customs is highly visible internationally and is being rated explicitly by organizations such as TI and tacitly by multinational companies through their business and investment decisions.
3. Countries are obliged by their international agreements with the World Trade Organization (WTO) and World Customs Organization (WCO), as well as by regional trade agreements, to standardize Customs practices, conform to trade agreements, implement uniform processes and procedures, and operate with integrity and transparency.
4. In recognition of Customs' potential in reducing poverty and encouraging trade and development, international organizations such as the US Agency for International Development, the WCO, the UN International Monetary Fund (IMF), the World Bank, and the UN Conference on Trade and Development can provide resources and expertise to support Customs reform and modernization.

Customs administrators can best serve their countries by taking a leadership role that will reflect well on their governments and lead to greater trade and investment and long-term economic development in:

- Reform and modernization,
- Transparency and integrity,
- Good government, and
- Supply chain partnership.

These are steps that can be taken while still protecting the nation's borders; requiring compliance with laws; collecting all revenues; attacking transnational crime; and preventing threats to health, food, safety, and the environment.





HISTORY OF CUSTOMS REFORM

DEVELOPED COUNTRIES EITHER TAKE FOR GRANTED OR TAKE PRIDE in the integrity, efficiency, and effectiveness of their government organizations and services. The problems that developing countries now face in addressing the issues of corruption, efficiency, and responsiveness of Customs and other government organizations are the same problems that the US and other developed countries had to address and overcome. These include problems of corruption, not only of Customs but also of the entire government. Training, resources, personnel, funding, organization, law, and education are other factors that are a necessary foundation for government and Customs reform. These now prosperous countries are proof that reform and modernization can be achieved. In many if not most cases, the time, investment, difficulties, and obstacles that were required to make the transformation are long forgotten.

Perhaps the best examples are the more recent and ongoing processes of Customs reform and modernization. Singapore and Hong Kong are obvious examples of small economies with super-efficient and transparent Customs administrations that support very affluent economies. And two other countries deserve special notice.

CASE STUDY: CHINA

China also is making Customs reform and modernization a priority with the help of the United Nations Development Program (UNDP). A recent review of China Customs for the UNDP stated:

“This evaluation was conducted over a short period of time in only two cities, Beijing and Shanghai. In that limited time frame and geographical coverage, it is not possible to provide a full assessment of the performance of China Customs overall or even in the three areas covered by the UNDP project. However, given these caveats, it is the assessment of the evaluation team that Customs’ performance in modernization over the past five years has been extremely impressive. In fact, in our observation, there have been few Customs reform initiatives around the world that have progressed so far, so fast.”

The UNDP evaluation emphasized discussions with the international trade community in Beijing and Shanghai, including representatives from Customs brokers, freight forwarders, importers, exporters, and international carriers. All participants wholeheartedly agreed that China Customs has made tremendous strides in the past five years in improving service and performance in terms of a wide range of trade facilitation indicators, including:

- Substantial reduction of clearance times;
- Automation of customs processes;
- Legal reform;
- Risk management and selectivity, resulting in a reduction of manual inspections;

The problems that developing countries now face in addressing the issues of corruption, efficiency, and responsiveness of Customs and other government organizations are the same problems that the US and other developed countries had to address and overcome

- Acceptance and processing of declaration control data prior to goods arrival; and
- Compliance measurement, resulting in further improved clearance times for highly compliant traders.

A critical element in the progress that has been made is the Customs-trade partnership that has been developed and the resulting spirit of cooperation that pervades the relationship. Transparency and two-way communication have been established, providing a strong indication that trade facilitation and Customs modernization initiatives will continue.

Although the trade community representatives were generous in their praise, they also indicated that much remains to be done in order for China Customs to equal the performance of the world's most effective and efficient Customs administrations. China Customs officials agreed with this assessment, which the evaluation team took as further indication that progress will continue to be made.



CASE STUDY: PERU

Another Customs reform project in progress but different in culture and size is Peru. A World Bank review of Peru reported that:

“Customs was poorly equipped, under funded, and inadequately trained, its facilities were poor, and it had a deserved reputation for corruption and incompetence. In 1991, Customs in Peru could be described as follows:

- *High and complex tariff rates with duties ranging from 10 to 84 percent;*
- *Clearance times for Customs ranging from 15 to 30 days;*
- *Manual, paperwork-intensive systems, with an inspection rate between 70 and 100 percent;*
- *Antiquated Customs procedures, extensive individual officer discretion, and a lack of transparency;*
- *Outdated Customs laws and regulations that were not in conformance with international Customs conventions.”*

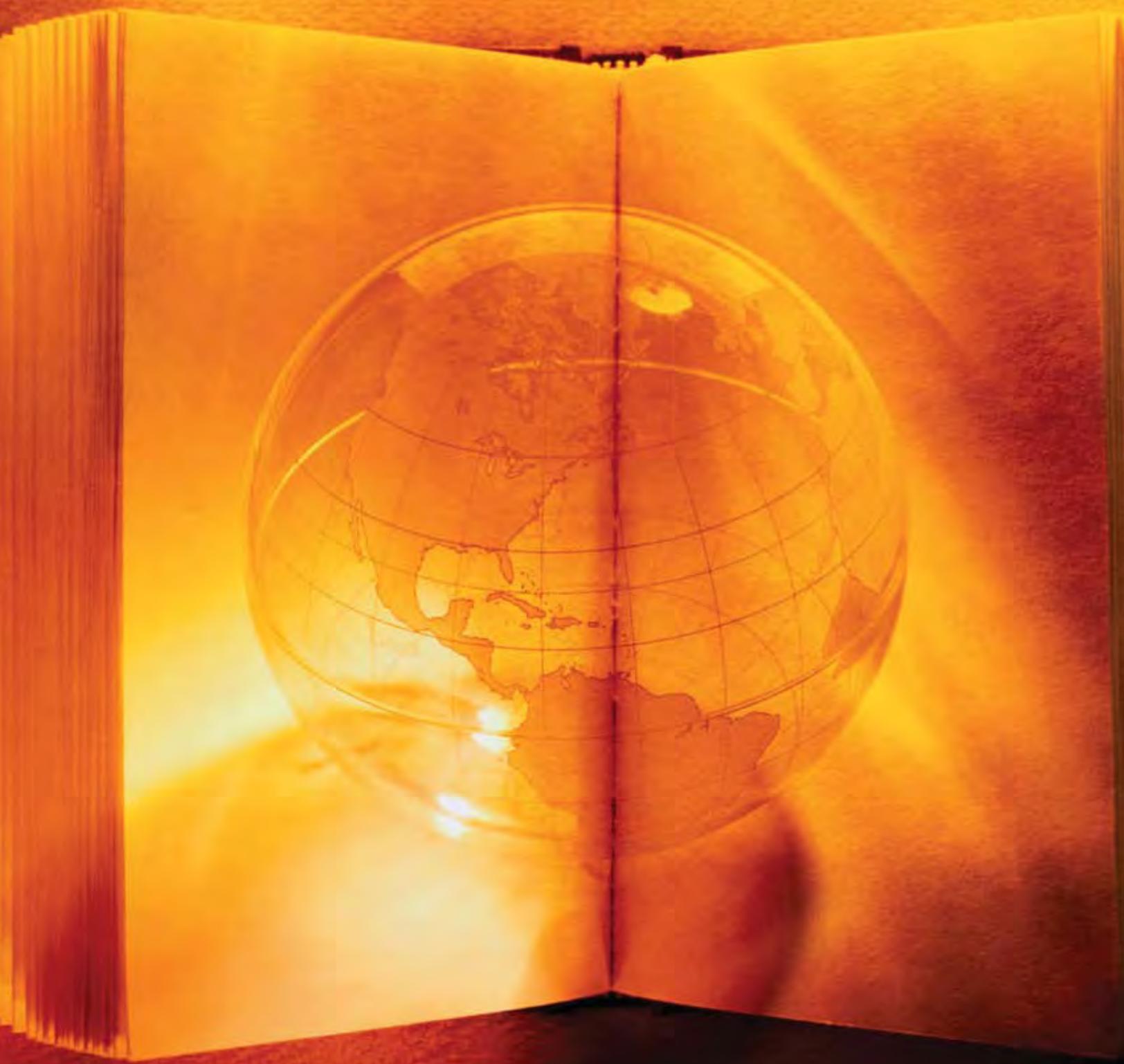
The World Bank reported that the staff was poorly trained, underpaid, and corrupt, and that clearance operations were based on bribery and special treatment. In an environment of excessively high tariffs, revenue collections fell well short of the amount due, though there was no system to quantify the shortfall. The appointment of a new Customs director and management team in 1992 ushered in a program of massive institutional change that took place over several years. The reform and modernization of Peru Customs continued for many years, and while there reportedly has been some recent backsliding, most of the reform measures remain intact to this day.

The Inter-American Development Bank supported Peru Customs in the reform efforts and reported that within the first six years, despite an approximate one-third reduction in staff, Peru Customs saw its revenues rise by 435 percent and the value of imports increase by 187 percent. Tariff ranges were reduced from between 18 percent and 84 percent to between 15 percent and 25 percent. Merchandise clearance times were reduced from between 15 days and 20 days to between two hours and two days.

Peru Customs also significantly reduced corruption by enforcing integrity rules and increasing the percentage of professional employees from 2 percent to 60 percent. And, as in the case of China, a critical element contributing to the success of the reform effort was a transformation of the adversarial relationship between Customs and industry to one of partnership and of working with the private sector to eliminate bottlenecks.

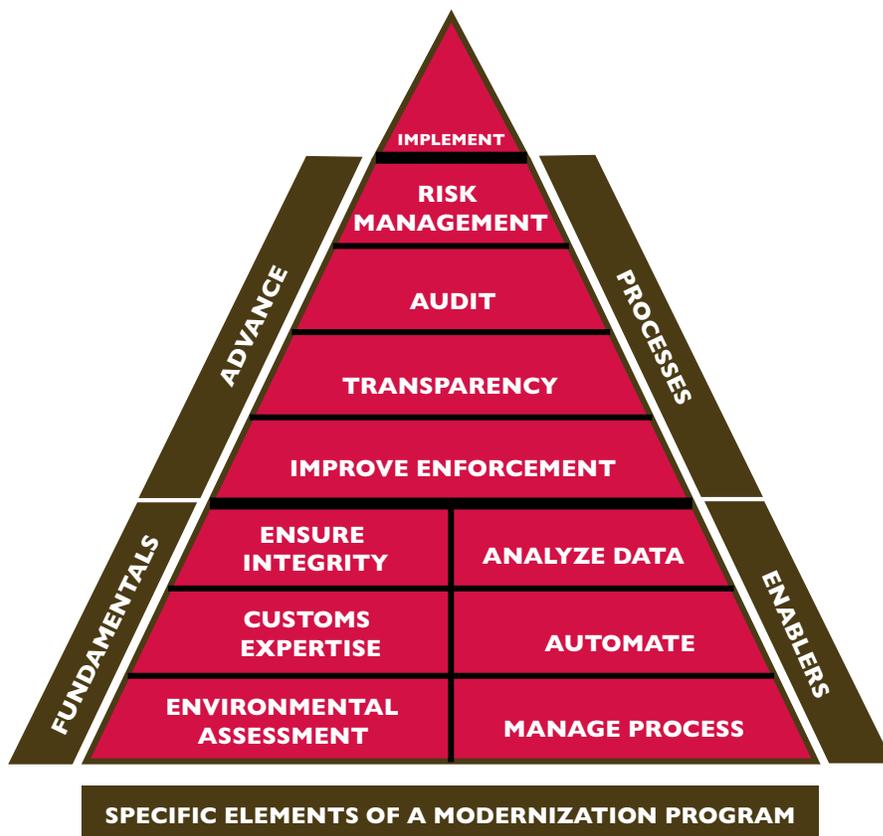


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A FRAMEWORK FOR CUSTOMS MODERNIZATION

CUSTOMS MODERNIZATION AND REFORM IDEALLY IS SUPPORTED BY A HIGH LEVEL NATIONAL COMMITMENT by the government to strengthen the integrity and transparency of economic governance, as reflected by such measures as the TI and Opacity Index ratings. Absent that commitment, Customs can still take leadership and initiative for improving the nation's image around the world and in the eyes of multinational companies, international carriers, potential investors, and logistics services providers. Figure 2 below provides a framework for Customs modernization.



Navigating the Maze of International Trade™
 © Sandler and Travis Trade Advisory Services, Inc.

Figure 2

The framework for Customs modernization is composed of three parts:

- **Fundamental processes** provide the foundation for modernization. These include an environmental assessment of Customs' performance and priorities and development of a strategic plan; the development of world-class expertise and knowledge of Customs; and the implementation of a program to improve integrity and eliminate corruption.
- **Enabling processes** include process reengineering; automation and electronic commerce; and data analysis to transform Customs into a knowledge-based organization.

Measurement is only a first step. Management then must use these measures to identify problems, define solutions, and establish new standards of performance

Another key factor in improving Customs' performance in terms of facilitation and enforcement is risk management

- **Advanced processes** include introduction of improved enforcement designed to prevent and deter; transformation of the way Customs does business, providing transparency to its regulations and procedures in order to align itself with partners in government and industry; and the introduction of information-based risk management and post-audit capabilities.

Performance measurement (and the resulting clearance time and compliance improvements) and risk management are the key processes that enable simultaneous trade facilitation and improved compliance and enforcement.

PERFORMANCE MEASUREMENT

In any effort to improve organizations, performance measurement is a key factor. The business phrases “that which is measured improves,” and “what gets measured gets done” apply to Customs. It is critical that Customs develop standardized measurements of key processes in partnership with industry and that these measures be maintained over time.

Three of the most important measures are:

- **Clearance times** for air, land, and sea;
- **Percentage of shipments manually inspected;** and
- **Compliance rates** that show the degree to which business is complying overall, as well as by industry, by company, and by country of origin.

Measurement, of course, is only a first step. Management then must use these measures to identify problems, define solutions, and establish new standards of performance.

RISK MANAGEMENT

Another key factor in improving Customs' performance in terms of facilitation and enforcement is risk management. Risk management as it applies to Customs is a process for ensuring compliance with laws through identification of both high- and low-risk transactions by country of origin, importer, exporter, commodity, and industry.

Customs must develop a risk management system that is information based. This requires:

- **Intelligence** collection,
- **Statistics** on past performance,

- **Knowledge of the industry** and the companies involved,
- **Statistically based compliance measurement**, and
- **Teams of competent personnel** to manage and operate the risk management program.

INTERNATIONAL STANDARDS

In order to improve a nation's image in the eyes of the world and the international business community, Customs must comply with all international agreements including the WTO agreements on valuation and rules of origin and the WCO conventions on classification and procedures. Although the formal monitoring of these conventions is almost non-existent, the companies involved in international trade and investment are intimately familiar with the performance of Customs in this regard, and their decisions on trade and investment take these factors into account. Major multinational companies are the real judges of Customs' compliance with international agreements and standards, and if they determine that Customs operations and procedures are not consistent with these conventions, they will take their business elsewhere.

Steps that will significantly modernize and reform the organization include:

- Developing a partnership with the international trade community to ensure mutual compliance with the agreements on trade and transportation;
- Publishing a strategic plan; meeting regularly with importers, exporters, carriers, and logistics companies;
- Announcing proposed changes in advance;
- Holding itself accountable for meeting clearance time standards; and
- Establishing an independent appeals process.

The International Chamber of Commerce—the very influential world business organization—has developed an extremely useful set of guidelines that describes all of the important factors for the establishment of a modern, efficient, and effective Customs administration. The so-called “ICC Customs Guidelines” are provided as an Appendix to this paper.

Progress with modernization and reform will be clearly recognized by the international trade community and will elevate Customs' and the nation's ratings in the Transparency International Corruption Perceptions Index and the Opacity Index, consequently attracting more international trade and foreign investment and enhancing national economic development.



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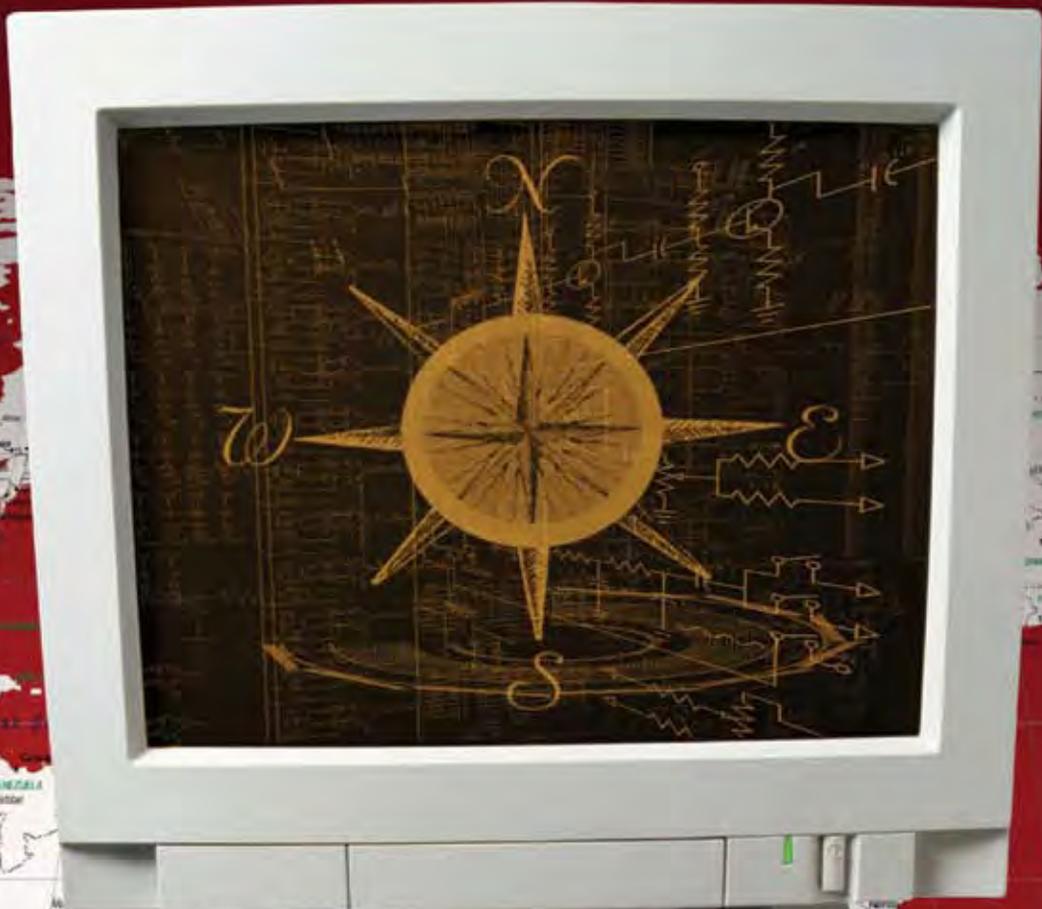


CONCLUSION

Although Customs' performance is only one element in international supply chains, it is an extremely visible and critical indication of the capacity of a nation to participate successfully in international trade. Multinational companies are now competing on the efficiency of their global supply chains. Every shipment into or out of a country, every tourist or business representative coming into a country, must pass through Customs. In a global economy, multinational companies and non-government organizations are assessing the performance of Customs as a potential trading partner in terms of integrity, transparency, trade facilitation, and collaboration with compliant supply chain partners. Customs can substantially improve its country's competitiveness and image through reform and modernization to meet international standards and expectations.

Customs' traditional mission as a revenue collection agency remains vital in developing countries. However, the global economy places new demands on Customs for addressing issues such as transnational crime, health, safety, environment, trade facilitation, and most recently, security and terrorism. Customs can meet all of those demands and expectations by a disciplined process of Customs reform based on a strategic plan, modern technology, process reengineering, performance measurement, and risk management. Developed countries have already made the transformation of their Customs organizations, and developing economies such as China and Peru are demonstrating that the goals of Customs reform and modernization are within the reach of all countries committed to participation in the global economy.

Customs is assessed as a potential trading partner in terms of integrity, transparency, trade facilitation, and collaboration with compliant supply chain partners. Customs can substantially improve its country's competitiveness and image through reform and modernization to meet international standards and expectations



APPENDIX

INTERNATIONAL CHAMBER OF COMMERCE (ICC) CUSTOMS GUIDELINES

A modern, efficient and effective customs administration:

A. STRATEGIC PLAN

- Associates its business community with the development of a strategic plan, looking forward three to five years, which describes its overall strategy and key priorities, supported by an annual management plan containing more detailed targets, objectives and performance measures;
- Publishes an annual review, up-dating strategy and reporting progress;

B. WORKFORCE AND STRUCTURE

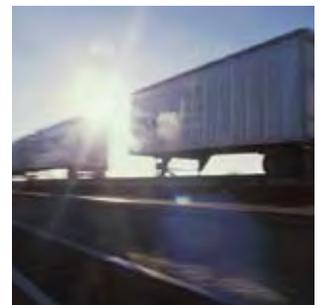
- Employs a highly professional workforce, which is recruited competitively, well trained, adequately paid and screened for enforcement risks, with written, standardised job descriptions and objectives, supporting transparent career development and promotion policies;
- Establishes an internal security unit, or is subject to an equivalent external body, to deal with issues of employee integrity. These arrangements should be known to the trade community, which should be given information enabling them to contact the appropriate security agency as and when necessary;
- Ensures that all employees having contact with the public carry proper identification, which should be shown on request;
- Trains officers to investigate complex frauds, and recommend appropriate action;

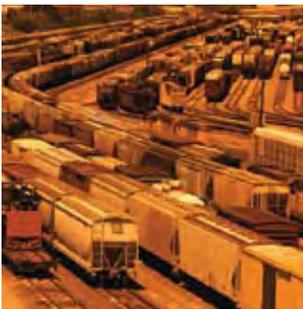
C. CARGO PROCESSING (GENERAL)

- Applies the Revised WCO Kyoto Convention and actively supports its regular review by the WCO Management Committee;
- Applies the WCO Convention on Temporary Admission (Istanbul Convention) or, if not applicable, the WCO ATA Convention and other related Conventions;

D. CARGO PROCESSING (INWARDS)

- Establishes immediate release control systems, based on advance submission of prescribed data and post entry audit, that enable the importer or agent to obtain the goods prior to the completion of administrative requirements and payment of duties taxes and fees, regardless of weight, size, type of operator or carrier or mode of transport;





- Gives the declarant the option to enter data either manually or electronically and comply with essential control requirements at a place different from the location of the goods;
- Applies a de-minimis regime, reviewed annually to take account of inflation, whereby certain goods, including documents, private gift packages and trade samples, not exceeding a certain value or weight, are exempted from import duties and taxes and from formal declaration procedures;
- Gives the importer the option to file entries himself or to use an authorized agent;
- Releases goods at carrier's point of arrival, without requiring their interim transfer to a government-operated or -designated warehouse;
- Uses selectivity, based on automated compliance measurement and risk-assessment and profiling systems, to target suspect consignments and so minimise the incidence of physical examinations;
- Operates a corporate surety bonding system, or other appropriate means, such as a duty- and tax-deferral system, to protect the revenue and ensure compliance with customs laws without unnecessarily delaying the release of goods;
- Fixes, in the absence of any evidence of fraud, a reasonable limit on the time during which it can demand additional duties and/or the re-delivery of the goods;
- Develops the use of non-intrusive examination techniques, such as X-ray;
- Develops and applies performance standards to check that its processing and release of goods are timely and meet reasonable business needs;
- Replaces transaction-by-transaction treatment by account-based, post-entry procedures for importers with proven compliance histories and consistent import patterns (e.g., types of goods and origins);
- Has government authority to perform certain control functions, at the time of import, for other official agencies and links these agencies to customs automated systems and databases for targeting and risk-assessment purposes;
- Adapts its working hours to ascertained commercial needs and operational requirements, and operates any necessary overtime or other exceptional service systems on transparent cost bases negotiated with business clients;

E. CARGO PROCESSING (OUTWARDS)

- Ensures that the statistical requirements for recording purposes are not applied in ways, or at times or places, that could significantly affect the efficiency of the export operation;

- Accepts, as far as possible, a commercial document, e.g., invoice, containing the necessary particulars, as the export declaration, in place of an official form;

F. CARGO PROCESSING (TRANSIT)

- Applies appropriate international transit conventions, for example, those noted in Annex E.I of the Kyoto Convention;
- Co-operates closely with other neighbouring customs administrations to assist effective control and facilitation of common transit traffic;
- Operates computerised systems, providing early, reliable notice of discharge of declarants', carriers' and guarantors' transit obligations and effective means of identifying and preventing fraud;
- Accepts that guarantees or deposits for the transit operation remove any need for supplementary undertakings or payments at points of entry;

G. TRANSPARENCY OF ADMINISTRATION AND REGULATION

- Publishes all customs regulations and makes them available to the public through the most modern and practical media, while ensuring that existing and new regulations and legislation are simple in form, content and presentation;
- Consults the trade community systematically, to obtain views on proposed new regulations and procedures, or amendments to existing requirements, and gives them timely notice of any eventual changes;
- Adopts a Memorandum of Understanding programme, based on that sponsored by the WCO, by which improved co-operation with the trade community is established in the areas of information exchange, security and training, with a view to more effective interdiction of customs fraud, in particular drug trafficking, infringements of intellectual property rights and threats to endangered species;
- Establishes an ombudsman, specialised in customs matters, as a medium for approaching the administration and a general information office or section to deal with queries from the trading community;

H. AUTOMATION

- Provides automated systems for the payment of duties, taxes and other fees by electronic means;
- Operates a nationwide automated system to provide electronic filing facilities for the trade community in respect of declaration data to be submitted at import and export and for bank and corporate sureties in respect of duty and tax guarantees and surety bonds;

- Is able to transmit and receive data nationally and internationally, using appropriate international standards;
- Makes tariff and related information /data available to the trading community from an automated system;
- Establishes and operates an automated enforcement information system, using risk-assessment and other modern control techniques;
- Requires, as a matter of routine, in automated systems, only those data items which can be clearly linked to significant gains in customs operational efficiency;

I. TARIFF CLASSIFICATION AND VALUATION

- Applies the WCO Harmonised System Convention;
- Applies the WTO Valuation Agreement;
- Issues binding pre-entry classification and valuation rulings, on request, which will be honoured by officers, throughout the customs territory;
- Identifies and makes available customs experts to advise the trade community on tariff classification, origin and valuation matters;
- Provides a sound, scientific basis for classification decisions through the use of laboratory analysis, equipment and technology;
- Publishes tariff classification and valuation rulings, either in printed form or on electronic media, and makes them available to traders and other customs administrations;

J. ORIGIN

- Publishes current origin rules and rulings;
- Applies, in due course, the WTO Rules of Origin;

K. DISPUTES AND SANCTIONS

- Accepts and applies the penalty regimes, related to administrative settlement, set out in Annex H.2 of the Kyoto Convention;
- Favours the resolution of disputes with traders through conciliation and financial adjustment rather than recourse to courts;
- Provides the means for the trade community to question or appeal decisions, by local officials, to a higher level, within customs, and, eventually, to a court of law, settling minor violations, normally, at the local level;

L. INTERNATIONAL

- Is a WCO member and participates in WCO and regional customs activities;
- Shares information with, and provides technical assistance to, other customs administrations for enforcement and facilitation purposes;

M. PASSENGER PROCESSING

- Relies on passenger observation techniques and behaviour profiles rather than routine questioning of all passengers;
- Establishes benchmark standards for passenger processing times and checks performances with corresponding benchmarks in other customs administrations;
- Uses automation techniques, including EDI, to improve the efficiency and security of passenger processing, including, where appropriate, the capture of Advance Passenger Information (API) from machine-readable travel documents, leading to expedited passenger clearance;
- Uses a passenger processing system that is integrated with immigration and other control authorities, in order to avoid procedural duplication.



The rapid expansion of international trade has created a vibrant and growing global marketplace, and many countries have seen their economies develop along with their participation in the global system of trade. Developing countries must respond quickly and effectively in order to take full advantage of this opportunity. As Customs participates in every international trade transaction, the efficiency and effectiveness of its clearance processes for exports and imports play a significant role in determining the extent and quality of its country's participation in global trade. This paper examines Customs' critical role in international supply chains and suggests a framework for Customs modernization and reform.



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