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Operation BIYELA 2 nets over 100 million illicit and counterfeit products

OVER 118 MILLION products were intercepted during Operation BIYELA 2 which mobilized 14 Sub-Saharan, West and East African nations against the importation of illicit and counterfeit products, with a special focus on those products posing a serious threat to consumer health and safety, such as pharmaceuticals.

Due to the sound risk analysis conducted by the participating Customs administrations, of the 118 million products intercepted, 113 million – i.e. 95% – were pharmaceuticals, comprising drugs used in primary health care, such as analgesics, anti-inflammatories and antibiotics, as well as disease-modifying drugs, such as anti-tuberculosis medication.

Significantly, Operation BIYELA 2 also resulted in the detection of illicit veterinary products: Benin Customs intercepted more than one million doses of intravenous drugs; Mozambique Customs put its hands on one million tablets and vials; and Togo Customs stopped over 100,000 doses of intravenous drugs from reaching the market.

While the operation, which ran from 21 May to 4 June 2014, primarily targeted illicit and counterfeit pharmaceuticals, other illicit products intercepted during Operation BIYELA 2 included electronic appliances, foodstuffs, soft drinks, alcoholic beverages, cosmetics, textiles and footwear.

The operation was a joint effort on the part of the WCO and the “Institut International de Recherche Anti-Contrefaçon de Médicaments” (IRACM) – an anti-counterfeit drugs research institute based in France, active in the fields of information, prevention and training – to combat the growing trade in Africa of illicit and counterfeit pharmaceuticals.

More information
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Operation GRYPHON leads to the seizure of 593 million cigarettes

THE FIRST GLOBAL operation focused on the illicit tobacco trade resulted in the seizure of 593 million cigarettes, 77 tons of smoking tobacco, 31 tons of raw tobacco, 15 tons of water pipe tobacco, 5 tons of chewing tobacco, and 2.5 tons of hand rolling and pipe tobacco.

Three production machines were also seized, along with rolling papers, filters, and other components used to manufacture cigarettes. Moreover, more than 100 criminals were arrested in Asia and Africa, and 35 investigations are still ongoing.

Coordinated by the WCO, 93 Customs administrations took part in the operation which began on 1 October 2013 and ran for six months, focusing on the application of core Customs legislation, powers and competencies across the entire range of Customs control and clearance processes, including checks being conducted on duty-free outlets, free zones, stores, bonded warehouses, and means of transport.

Governments lose large amounts of revenue as a result of the illicit trade in tobacco products, evidenced by the fact that the street value of the cigarettes seized during Operation GRYPHON corresponds to a potential profit of approximately 93 million euro for the criminal syndicates involved in this form of illicit trade.

Seizures included genuine branded cigarettes, counterfeit cigarettes, and brands associated with the illicit 'cheap whites' category of cigarettes. The 10 largest cigarette seizures occurred in Asia, Africa, Europe and South America, and the largest quantities of illegal cigarettes were transported in sea containers, trains or lorries, with smaller amounts detected in cars, air passenger luggage and postal shipments.

Reports indicate that smugglers used sophisticated concealment methods by camouflaging illicit tobacco products in a variety of cover loads, including fertilizer, glassware, clothing, charcoal, transformers, foodstuffs, timber and sometimes legal cigarettes. Many of these cover loads are often of low value in order to ensure a higher profit for the smugglers.

Operation GRYPHON confirmed that free trade zones also play an important role in the illicit smuggling of cigarettes. Consignments arriving in these zones are subsequently repacked into other containers, enabling the illicit cigarettes to be ‘lost’ or disappear. They then leave the zone as low-value goods (e.g., textiles, etc.), either misdeclared or concealed in other shipments.

During the operation, containers with double identities, i.e. duplicate container numbers, were also discovered. This form of ‘identity theft’ entails using the identities of import and/or export companies with a good reputation, as such companies are less likely to raise the suspicions of Customs officials. Although not a new phenomenon, Customs should remain vigilant about smugglers using this method to trick them.

Interesting fact that came to light during the operation were shipments of cigarettes destined for conflict areas, such as Afghanistan, Syria, and Ukraine. Twenty-one containers bound for Syria could not be traced after arriving in the country – a clear case of smugglers taking advantage of conflict zones, where Customs controls may be in temporary disarray.

Participating administrations monitored cross-border shipments of tobacco products using risk assessment techniques. High risk shipments were either checked or an alert was sent to the importing country’s Customs administration recommending that it monitor the suspect container and inspect its contents. The use of risk management and cooperation were the key contributors to the success of Operation GRYPHON.

More information
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Council 2014

This edition’s dossier captures some of the highlights of this year’s annual Council Sessions, which took place in Brussels from 26 to 28 June 2014.

Directors General of Customs gathered at WCO Headquarters to endorse the work done by the Organization covering the period July 2013 to June 2014, and to chart the way forward in the months ahead.

Over the three days, they discussed all the key issues impacting on the international Customs environment as well as the opportunities and challenges presented by developments in global trade.

The dossier touches on the WCO’s main areas of work – compliance, facilitation, tariff and trade affairs, and capacity building – as well as other interesting events that added to the success of Council 2014.
The WCO Council tackles the tough challenges facing Customs worldwide

By Kunio Mikuriya,
SECRETARY GENERAL,
WORLD CUSTOMS ORGANIZATION

DURING THE 123RD/124TH Sessions of the WCO Council which took place this year, Heads of Customs administrations representing the 179 Members of the WCO conferred on many issues, including, but not limited to, the World Trade Organization (WTO) Trade Facilitation Agreement (TFA), reform of the WCO Private Sector Consultative Group (PSCG), the transition away from pre-shipment inspection (PSI) and destination inspection (DI) service companies, and announcements about donor funding for WCO technical assistance, capacity building, and research. In this article, I will take up each of these topics in turn.

Trade facilitation and the WCO Mercator Programme

As you may recall, at the WTO’s Ninth Ministerial Conference in Bali, Indonesia, in December 2013, Ministers adopted the Bali Package under the framework of the Doha Development Agenda. The Bali Package, among other things, included the TFA, which consists of measures that will increase the efficiency of border agencies, such as Customs.

At the Council sessions, the WCO reconfirmed its commitment to trade facilitation assistance by launching the Mercator Programme, named after the Flemish cartographer who had created the global map projection that enabled traders to set off across the oceans. The WCO Mercator Programme delivers assistance to Customs administrations worldwide that seek to implement trade facilitation reforms by using core WCO instruments and tools.

With a wealth of expertise and experience in global Customs technical assistance and capacity building, including a network of experts at its disposal and comprehensive donor engagement mechanisms, the Mercator Programme provides tailor-made support. Based on a long-standing history of cooperation with the WTO, other international organizations, and the private sector, the Mercator Programme provides a consolidated platform for coordinating the needs and priorities of all stakeholders.

Also, during the Council sessions, WTO Director-General Roberto Azevêdo delivered a speech on 27 June 2014. In his remarks, Director-General Azevêdo expressed his appreciation to the WCO and its Member administrations for all the support they have given to the WTO’s work over the years, especially in relation to trade facilitation.

In July 2014, WTO Members were, unfortunately, unable to adopt the Protocol of Amendment to insert the TFA into Annex 1A of the WTO Agreement. Despite this setback, the WCO remains committed to supporting Customs administrations worldwide with their trade facilitation reforms regardless of what happens in Geneva. The WCO will continue to provide trade facilitation technical assistance and capacity building to Customs administrations who request it.

PSIs, DIs, and the WCO Niamey Declaration

The Council discussed the ongoing challenge faced by many WCO Members, especially in West and Central Africa, of reducing the usage of PSI and DI service companies. These companies have evolved from traditional and outdated PSIs to DIs consisting of services related to valuation, origin, classification, risk management, Single Windows, scanners, and satellite tracking of goods.

Generally speaking, these contracts have neither contributed to strengthening and building the capacities of Customs nor enabled them to take ownership of the outsourced functions by the end of the contracts. On the contrary, they have often weakened and demotivated Customs. Notwithstanding these realities, new contracts are signed and existing contracts are often extended or replaced by other contracts, even if the objectives set out in the initial contracts have clearly not been met.

The WCO Niamey Declaration calls on governments, Customs administrations, and the WCO to actively work towards the termination of PSI and DI contracts by providing Customs with the necessary responsibility and capacity to undertake the Customs functions covered by these contracts.

The Council agreed to step up its efforts, including increased engagement with development partners, with a view to coordinating their efforts and initiatives and, to the extent possible, harmonizing their policies and instruments related to Customs modernization and reform, together with their capacity building programmes. In addition, work will continue on identifying best practices for the...
transfer of know-how and technology, and in drawing up a strategy model, enabling Customs to reclaim ownership of outsourced functions on completion of contracts.

WCO Private Sector Consultative Group
The WCO PSCG was established in 2005 to contribute to a new WCO instrument, namely the SAFE Framework of Standards to Secure and Facilitate Global Trade, which entailed balancing security and facilitation needs, and determining how business could best engage in this process. While Customs administrations take the lead and make the final decisions in creating WCO instruments, standards, and tools, we value the advice of the private sector.

Nine years have passed and there have been suggestions from WCO Members that it would be beneficial to clarify the contribution that the PSCG makes to the WCO. In addition, regrettably, there have been essentially no PSCG members from developing countries during its entire existence. This must change.

After consultations with WCO Members through the regional meetings of Directors General, and also with the PSCG itself, the WCO devised a draft new ToR that would promote diverse participation by introducing several reforms, including a rotation process, appointments to be made by the WCO, and mechanisms to ensure that all private sector observers can – and are encouraged to – contribute to the WCO’s work whether they are PSCG members or not. In this regard, the WCO proposed that there be a one-year transition period, and that the new ToR should take effect in June 2015. The PSCG Chairperson subsequently put forward an alternative text for consideration.

Donor Funding
The WCO’s technical assistance, capacity building, and research work would not be possible without funding. In particular, the WCO has benefited for many years from large financial contributions by Finland, Japan, Norway, Sweden, the United Kingdom, the United States, and the European Union. A more recent large donor is the Korea Customs Service (KCS), which launched the Customs Cooperation Fund (CCF) Korea several years ago, supporting, among other things, technical assistance, capacity building, and research.

Furthermore, it was announced at the Council sessions that China has set up a CCF to support developing and least-developed countries. Germany also established a CCF. China, Japan, and Korea noted at the Council that their CCF would support trade facilitation and the Mercator Programme. I would like to express my appreciation to each of these WCO Members for their generous donations, and call on other Members to follow their leadership.

Conclusion
As you can see, the WCO Council is tackling the tough challenges faced by Customs administrations worldwide. I have highlighted only a few in this article. Additional WCO activities are summarized in the articles which follow, under the name of each WCO Directorate, including other interesting highlights from the 2014 Council sessions.
Tariff and Trade Affairs

Rules of origin

Harmonization of non-preferential rules of origin

The technical work related to the negotiations on the harmonization of non-preferential rules of origin at the World Trade Organization (WTO) is continuing, however without any major breakthrough on open issues.

The revised Draft Consolidated Text (WTO document G/RO/W/111/Rev.6) of the WTO Agreement on Rules of Origin contains both the texts already agreed by the WTO Committee on Rules of Origin (CRO) and elements which have not been endorsed by the CRO or which represent a compromise proposal by the Chairperson of the Committee.

The WTO continues to transpose the revised Draft Consolidated Text into recent versions of the Harmonized System (HS) Nomenclature. While a large proportion of the HS amendments have little or no impact on rules of origin (RoO), the transposed rules could become overly complex in certain cases, if the transposition is carried out in a purely mechanical manner without any simplification.

In order to assist the WTO and ensure that the transposed rules are simple and clear, at the beginning of 2013 the WCO prepared a document examining complex cases for the 2002 and 2007 transpositions, and suggested simplifications to these rules. In 2014, the same work was undertaken for the 2012 transpositions, and the document was, as in previous cases, sent to the CRO as a WCO recommendation.

WCO Action Plan on Preferential Origin

Activities in the area of preferential RoO continue to gain momentum due to the ongoing proliferation of regional trade arrangements, and the inclusion of more developing countries into reciprocal tariff dismantling schemes in preferential trade under prospective Economic Partnership Agreements (EPAs) and other preferential trade arrangements.

With its initiatives under the Action Plan, the WCO hopes to prepare its Members to face the challenges arising from the growing importance of preferential trade by providing them with all the necessary tools and modern techniques to ensure that RoO are clearly understood and implemented.

The latest WCO initiatives include the updating of the Database of Preferential Trade Agreements with new studies and material, developing the Guidelines on Preferential Origin Verification, work on dealing with origin irregularities, more capacity building activities, and the holding of the 2014 WCO Origin Conference in January 2014.

Capacity building activities in relation to verification of origin have included regional workshops for the WCO North of Africa, Near and Middle East (MENA) region and for the Southern African Development Community (SADC), and national workshops in Armenia, Côte d’Ivoire, the Democratic Republic of the Congo, Indonesia, and Madagascar.

Issues surrounding self-certification were also on the agenda of a seminar on the self-certification pilot project under the framework of the Association of Southeast Asian Nations (ASEAN) Trade in Goods Agreement (ATIGA) that took place in Thailand, while a national workshop on ATIGA self-certification was held in Cambodia.

The WCO also participated in meetings organized by other regional or international bodies, such as the Rules of Origin Experts Group of the Inter-American Development Bank (IADB) and the International Chamber of Commerce (ICC), the African Union Consultative Meeting on Continental Free Trade Area Rules of Origin, and the United Nations Conference on Trade and Development (UNCTAD) Workshop on the Bali Ministerial Decision on Preferential Rules of Origin.

Valuation

Examination of Customs valuation questions

The WCO Technical Committee on Customs Valuation (TCCV) continues to examine questions concerning:

- royalties and licence fees submitted by Uruguay and the Dominican Republic respectively;
- related party transactions under the WTO Valuation Agreement (the Agreement), and transfer pricing;
- the treatment of distribution fees and payments based on projected net profits (whether or not distribution fees may form part of the Customs value under the royalties and licence fees provided for in Article 8.1 (c) of the Agreement submitted by Singapore);
- the treatment of fees for unlocking a function of imported goods after importation (application of Articles 1, 8.1 (c) and 8.1 (d) of the Agreement) submitted by Japan;
- the treatment of goods in a global value chain (goods imported after a series of purchases of goods and/or services for transformation, processing or repair) submitted by Uruguay.

Technical assistance

National workshops on valuation issues took place in a number of countries, including Angola, China, Côte d’Ivoire, Serbia, Tajikistan and Togo. Regional workshops on Customs valuation and transfer pricing, jointly organized by the WCO and the Organisation for Economic

12
Co-operation and Development (OECD), were held for Customs and tax administrations in the WCO East and Southern Africa and Europe regions.

**Nomenclature and classification**

**Implementation of HS 2012**

The fifth edition of the HS entered into force on 1 January 2012 and, at present, 112 out of 151 Contracting Parties are applying the 2012 version. Three WCO Members which are not Contracting Parties to the HS Convention have also implemented the 2012 amendments.

**Technical assistance**

Some eleven national and two regional capacity building and technical assistance activities have been conducted in the area of the HS and related matters, with an emphasis on the modernization of WCO Members’ classification infrastructure.

As a new initiative, the WCO, in cooperation with Japan Customs, developed a Regional Customs Laboratory Programme for experts from WCO Members’ Customs laboratories. It provides an opportunity for selected candidates from WCO Member administrations to obtain and update their knowledge and skills in chemical analysis for HS classification purposes, and to improve their knowledge about the HS. The WCO and Japan Customs have also started working on the establishment of a regional Customs laboratory in Japan for the Asia/Pacific region.

The WCO also participated in meetings organized by certain international organizations, such as the World Health Organization (WHO) Expert Committee on International Nonproprietary Names (INNs) and the OECD Task Force on International Trade Statistics (TFITS).

**Classification decisions and amendments to the Explanatory Notes and the Compendium of Classification Opinions**

At its 52nd and 53rd Sessions, the HS Committee took 741 classification decisions, of which 520 related to International Nonproprietary Name [INN] pharmaceutical products linked to the implementation of the WTO Agreement on Trade in Pharmaceutical Products. It also adopted 13 sets of amendments to the HS Explanatory Notes, and the Compendium of Classification Opinions are available on the WCO website.

**HS 2017**

An Article 16 Recommendation on the HS 2017 amendments was adopted by the WCO Council.

The new version of the HS includes 234 sets of amendments. Environmental and social issues are a major feature of these amendments, due to the importance of the HS as a global tool for collecting trade statistics and monitoring trade.

The majority of the recommended amendments were broached by the Food and Agriculture Organization of the United Nations (FAO):

- Amendments relating to fish and fishery products are aimed at further enhancing the coverage of species and product forms which need to be monitored for food security purposes, and the better management of resources;

- Amendments relating to crustaceans, molluscs and other invertebrates are motivated by the importance of the trade in and consumption of these species in their various product forms;
• Amendments relating to cuttlefish and squid enlarge the coverage of the present HS codes for these species, in order to have all these species grouped together.

The classification of forestry products has also been modified, in order to enhance the coverage of wood species and get a better picture of trade patterns. The modification will enable trade data on tropical wood to be identified, resulting in better statistics on the trade in tropical wood and better data on the use of non-tropical hardwoods. In addition, the amendments include new subheadings for the monitoring and control of certain bamboo and rattan products.

Furthermore, the HS 2017 amendments aim to provide detailed information on several categories of products that are used as antimalarial commodities. This will facilitate classification work, and the trade in these life-saving products.

The amendments also introduce specific subheadings to facilitate the collection and comparison of data on the international movement of certain substances controlled under the Chemical Weapons Convention.

New subheadings have also been created for a number of hazardous chemicals controlled under the Rotterdam Convention and for certain persistent organic pollutants (POPs) controlled under the Stockholm Convention. In some cases, there is a confluence of control regimes for chemicals by both the Rotterdam and Stockholm Conventions.

In addition, new subheadings have been created for the monitoring and control of pharmaceutical preparations containing ephedrine, pseudoephedrine or norephedrine, and for alpha phenylacetoacetonitrile (APAAAN), a pre precursor for drugs.

Other amendments resulted from changes in international trade patterns. For example, headings 69.07 (unglazed ceramic products) and 69.08 (glazed ceramic products) were merged to take account of the current industry and trade practice with respect to ceramic products.

Advances in technology are also reflected in the amendments, inter alia, the size criteria for newsprint, light-emitting diode (LED) lamps, multi component integrated circuits (MCOs), and hybrid, plug in hybrid and all electric vehicles.

Finally, the HS 2017 Recommendation includes amendments to clarify texts to ensure uniform application of the Nomenclature. For example, the regrouping of monopods, bipods, tripods and similar articles in a new heading, namely 96.20.

HS 2017 will enter into force on 1 January 2017 for all HS Contracting Parties, but will exclude any amendments objected to during the six month time-frame, during which Parties can notify the WCO of an objection to a recommended amendment.

More information
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WTO Trade Facilitation Agreement
Since the adoption of the Bali Package in December 2013 by the World Trade Organization (WTO), the WCO has been holding high-level meetings with key parties and individuals to emphasize the key role of Customs and the WCO in the implementation of the WTO Trade Facilitation Agreement (TFA).

To support an understanding of the linkages between the TFA and WCO instruments and tools, such as the Revised Kyoto Convention (RKC), the WCO published an Implementation Guidance tool on its website. For each TFA Article, it contains the following categories of information:

• overview;
• text of the TFA Article;
• relevant RKC standards and guidelines;
• other relevant WCO tools;
• Members’ practices;
• performance indicators.

The newly established WCO Working Group on the TFA (TFAWG) held its first meeting on 11 and 12 March 2014 at the WCO. It was attended by many WCO Members, including other concerned authorities (Finance, Trade, and Foreign Affairs Ministries, etc.), as well as representatives from the WTO, other international organizations, donor institutions, and the private sector. Discussions focused on the role of Customs and other stakeholders in TFA implementation, including...
Data quality and data security

All Customs tasks and responsibilities are performed, at least in part, on the basis of data received from businesses engaged in trade – for example, data for purposes of revenue collection, risk management, admissibility checks, resource allocation, and cooperation with other agencies, as well as the collection of statistical data for macroeconomic decisions.

The Expert Group on Data Quality – set up to examine ways to improve the quality of data, and open to all relevant stakeholders – will submit its conclusions to the WCO’s SAFE Working Group (SWG) and Permanent Technical Committee (PTC) in the autumn. The document will contain:

- a draft recommendation text about data quality;
- a non-exhaustive list of acceptable and non-acceptable terms to describe goods in summary declarations;
- a list of topics concerning data quality that need to be addressed by other WCO working bodies.

Air cargo security

Pre-loading advance cargo information (ACI)
The Technical Experts Group on Air Cargo Security (TEGACS) – comprising experts from Customs, transport, aviation security, police, immigration, and other relevant agencies, including interested stakeholders and international organizations – has developed a draft text on pre-loading ACI for security risk analysis, for inclusion in the SAFE Framework of Standards (SAFE).

WCO/ICAO cooperation

The WCO and the International Civil Aviation Organization (ICAO) organized a Joint Conference on Enhancing Air Cargo Security and Facilitation from 16 to 17 April 2014 in Bahrain, in cooperation with the Bahrain Ministry of Transportation’s Civil Aviation Affairs.

At the conclusion of the Conference, a Joint Communiqué was issued which underlined the importance of intensifying cooperation at the regional and national level, the necessity of advance cargo information for security risk analysis, and the need to expand cooperation in areas relating to dangerous goods, economic development, and the protection of the environment.

The two Organizations continue developing a joint training module to assist both Customs and aviation security officials to better understand the international air cargo supply chain, each other’s roles, and the roles of other important actors. This module will form the basis of joint training sessions for both Customs and aviation security staff.

Advance Passenger Information (API) and Passenger Name Record (PNR)

Requests by governments for API and PNR are growing in many regions, yet there is limited awareness of what airlines are allowed to transmit or are capable of transmitting.

To raise awareness of the international standards and guidelines for the transmission of passenger data, the International Air Transport Association (IATA) along with the Association of European Airlines (AEA) organized the “European API-PNR Day” on 4 December 2013 at the WCO.

The event brought together approximately 120 participants representing airlines, European immigration and police authorities, the European Commission’s Directorate-General for Home Affairs, Frontex (the European border management agency), the United Nations (UN), and Customs administrations. Participants concluded that the standards and guidelines developed by the WCO, IATA, and ICAO can help governments in implementing API or PNR data reporting regimes, and in meeting the different challenges and requirements.

In addition, the WCO participated in some of the events organized by IATA and ICAO in other parts of the world. The three organizations continue to work together to develop and maintain passenger data reporting standards.
Discussions about the possibility of moving towards a paperless environment for ATA Carnets continue within the eATA Carnet Working Group, which comprises WCO Member administrations, and the International Chamber of Commerce/World Chambers Federation (ICC/WCF). The amendment of the WCO Convention on Temporary Admission (Istanbul Convention), to include a provision that enables the use of an eATA, was accepted by the Contracting Parties and will enter into force in November 2014. Also, a Globally Networked Customs (GNC) Utility Block for the eATA is currently being developed by interested WCO Members in cooperation with the ICC/WCF.

Customs information management

WCO Data Model
Version 3.5 of the Data Model (DM) is being developed, and will be released in November 2014. It includes an information package on Advance Electronic Information based on various national implementations. Among other things, the new version also covers:

- requirements for the Certificate of Animal Health;
- the UNESCO-WCO Model Export Certificate for Cultural Objects;
- the EU eMaritime Single Window.

Around 40 countries have active projects underway which involve the implementation of the DM. In this regard, a WCO Member-wide tabulation status report on adoption, and indicating the increasing use of the DM, is available on the WCO website.

The WCO is continuing to examine how it can support its Members and trade partners to adopt and use the DM in relation to AEI for cross-border clearance of goods.

With the assistance of Chile Customs, the WCO supported Costa Rica Customs in adopting the DM for its National Customs System (TICA), and in aligning its requirements with the Central American Standard Document (FAUCA).

Single Window (SW)
The WCO is currently updating its “Compendium on How to Build a Single Window Environment”. It also continues to support the implementation of SW solutions. Evidence of this support is demonstrated below:

- WCO experts attended a regional Round Table on Single Window Development in Central Asia and Afghanistan from 6 to 7 May 2014;
- WCO experts participated in a UN Development Programme (UNDP)-sponsored Round Table on Single Window in Uzbekistan from 5 to 8 May 2014, in order to promote the Data Model and the Single Window, and share information on WCO tools;
- WCO Experts participated in the launch of the Single Window Project in Oman, in January 2014;
- WCO experts provided technical expertise at the Seminar on Trade Facilitation and Master Plans for Single Window Implementation organized by the UN Economic Commission for Europe (UNECE) and the Eurasian Economic Commission (EEC) in Moscow, Russia from 25 to 27 November 2013, as part of the EEC’s efforts to build a regional Single Window environment.

SAFE review
The second review cycle, which will result in the 2015 version of the SAFE, is currently in progress. The WCO SAFE Review Sub-Group discussed and provisionally finalized all the proposals received from Member Customs administrations and members of the WCO Private Sector Consultative Group (PSCG), including the introduction of a Pillar 3 (Customs-to-Other Government Agencies).

The revised consolidated text containing all the proposals approved in principle, including the draft text on ‘Pre-loading ACI’ developed by TEGACS, will be presented to the SWG in October 2014. All proposals approved by the SWG will then be submitted to the WCO Policy Commission (PC) in December 2014, and later to the WCO Council in June 2015 for adoption.

During the discussions, the SAFE Review Sub-Group felt that a clear distinction needs to be maintained between SAFE AEO programmes and other Customs compliance programmes, such as the ‘Authorized Person’ in the RKC and the ‘Authorized Operator’ without security criteria in the WTO TFA.

Customs-Business Partnership
Regarding the conception of the Customs-Business Partnership Guidance that will assist WCO Members to develop a process for regular consultation in order to strengthen Customs-private sector engagement, a virtual group comprising interested delegates from the WCO, stakeholders, and international organizations has developed draft Guidance, which also includes specific guidance on engaging Small and Medium Enterprises (SMEs). The draft Guidance will be submitted to the PTC in October 2014 and to the Policy Commission in December 2014, for endorsement.
Coordinated Border Management (CBM)
The “Coordinated Border Management Compendium” is currently being drafted, and the first full draft will be available for review in the latter part of 2014. WCO Members are encouraged to actively provide their comments on the draft once it is published.

Postal traffic
A Joint Postal Customs Guide and Joint WCO/UPU Guidelines for Developing a Memorandum of Understanding between Customs and Posts have been developed by the WCO and the Universal Postal Union (UPU).

An electronic Express Mail Service (EMS) version of the CN 23 – the Customs declaration for international mail – has also been developed, with the aim of accelerating the exchange of advance electronic information between Customs and postal services in order to improve overall security, facilitate trade, and reduce the timescale for delivering postal items to addressees.

In addition, a section entitled ‘Postal/Express Consignments Risk Indicators and Manual’ has been incorporated into Volume 2 of the “WCO Customs Risk Management Compendium”.

More information
facilitation@wcoomd.org

Wrong classification is the most basic and often the most difficult task in international trade. It is a significant part of compliance and the decisive factor for calculating customs duties.

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Compliance and Enforcement

Security Programme

United Nations (UN) counter-terrorism activities

The WCO, as part of its advocacy activities, promotes the role of Customs in the management of border-related security threats at key international forums, such as various UN meetings. The WCO also co-chaired the UN Counter-Terrorism Implementation Task Force (CTITF) Border Management Group, which brings together all international organizations responsible for border management to discuss security-related border management challenges.

The WCO participated in four UN Security Council Resolution 1373 assessment missions on border security (Gabon, Ireland, Japan, and Mauritania). During these missions, experts assessed national border management systems, collected best practices, and offered recommendations to narrow any identified gaps.

In addition, the WCO continues to contribute to the SAHEL Project, which is coordinated by the UN Counter-Terrorism Executive Directorate (UNCTED). The Project’s objective is to help SAHEL countries strengthen border security and management. One of the concrete outcomes of this initiative relates to making the WCO National Customs Enforcement Network (nCEN) application available to all SAHEL countries, and promoting its implementation.

Programme Global Shield (PGS)

Activities under PGS, an initiative launched in 2010 to monitor the trade in 14 chemicals in order to identify those that could be diverted for the illegal manufacture of improvised explosive devices (IEDs), include training, intelligence support, and awareness-raising directed at key partners and private stakeholders. Currently, 94 countries participate in the programme.

Since July 2013, 11 train-the-trainer (T3) and two WCO Trainer Accreditation (TA) sessions have been conducted with an aggregate of 113 persons successfully completing the training. As a result, PGS training can now be provided in English, French, German, Spanish, Dari and Pashto (Afghanistan), Hindi and Telugu (India), Punjabi, Sindhi and Urdu (Pakistan), and Sinhalese (Sri Lanka).

The T3 and TA programmes enable trained specialists to return to their administrations and conduct PGS training independently. From July 2013 to June 2014, 72 Customs officers have been trained locally. Regarding Afghanistan more specifically, PGS developed a mentor/coordinator programme in which the best-qualified trainers are invited to undertake further advance courses to improve their training and coordination skills – the intention being that they make use of their new skills once they have returned to their administration.

Development of a presumptive field test kit for frontline officers is now entering its final testing phase. This test kit will allow an officer to quickly determine if the chemical being inspected is one of the 14 PGS chemicals.

PGS continues to work with private and public stakeholders, and has been able to increase awareness and provide support in this arena under the ‘Know Your Client’ concept. As private industry is one of the first points of contact for identifying suspicious persons or behaviour, PGS has undertaken significant outreach to educate industry about the dual-use capability of precursor chemicals in the manufacture of IEDs.

With the assistance of private industry, PGS has developed a compact disc (CD) that will extend its outreach programme to multiple levels of industry, including manufacturers, distributors and retailers, and provide them with ‘Red Flag’
indicators that could raise suspicion of criminal activity.

**Strategic Trade Controls Enforcement Project (STCE)**

Since the launch in March 2013 of the STCE Project, which focuses on strategic commodities, the WCO has organized six regional awareness-raising seminars and a global seminar, enabling WCO Members to discuss the implementation challenges that they face, and also to share best practices that some administrations have developed to tackle the challenges.

The new WCO STCE Implementation Guide assists WCO Members in developing, reviewing, and implementing their STCE processes and procedures, and provides a framework for the development of a training curriculum. It includes an Annex which contains profiles of many strategic goods, and is organized following the chapters of the Harmonized System (HS) to provide a reference on strategic goods from a Customs perspective.

The WCO’s focus will now shift from awareness-raising to developing a training curriculum and the required training modules, and to organizing a global law enforcement operation.

**Revenue Programme**

**Working Group on Revenue Compliance and Fraud**

Established in 2005, the Working Group on Commercial Fraud has held 9 meetings covering a wide range of fraud-related topics. However, given the increased importance of revenue compliance, the Group has now been redefined, resulting in it being renamed the Working Group on Revenue Compliance and Fraud. This new Group will continue its traditional revenue-related activities, and will additionally now oversee the future development and implementation of the WCO Revenue Package.

**Publications and events**

First released in 2006, the WCO “Commercial Fraud Typologies Summary” was designed as a reference tool for Customs officers in order to raise awareness about patterns and modi operandi relating to commercial fraud. The fourth edition has now been finalized, and includes a total of 26 new cases. Future editions may contain a section on cyber fraud typologies.

The WCO also hosted a Revenue Conference in early July 2014, which focused on a range of revenue-related topics, such as the relationship between Customs valuation and transfer pricing, value-added tax (VAT) systems, environmental taxes, including CO2 taxes, excise taxes, compliance and enforcement matters, de minimis levels, informal trade practices, and regional integration, as well as the closely linked issue of preferential rules of origin.

**Post-Clearance Audit (PCA)**

Following the revision in 2012 of the WCO “Guidelines for Post-Clearance Audit”, the WCO has received a significant number of training requests. Accordingly, a fully-fledged curriculum based on the Guidelines has been developed and piloted.

Future work in this area includes the development of a comprehensive PCA e-learning module by the end of 2014, the development of a PCA Diagnostic Tool, and the identification of experts from WCO Member administrations for the delivery of training.

**Operations**

Two successful revenue enforcement operations were organized between July 2013 and June 2014:

- **GRYPHON**, a six month operation focusing on Customs controls associated with shipments of tobacco products, was
launched on 1 October 2013 with 93 participating countries;

- CULLINAN, an operation to support international activities to combat the illicit trade in rough diamonds, took place between September and October 2013 with 31 participating countries.

Regarding Operation CULLINAN, although the initiative raised awareness of Customs’ role in combating the illicit trade in rough diamonds, reported cases involved currency, cocaine and gold, but no rough diamonds, thereby highlighting the need to develop intelligence and relevant risk indicators specifically for rough diamonds.

Drugs Enforcement Programme

Project AIRCOP
Within the scope of the Project, which is aimed at building drug law enforcement capacities at international airports, nine Joint Airport Interdiction Task Forces (JAITFs) have been set up in selected West African countries (Benin, Cape Verde, Côte d’Ivoire, Gambia, Ghana, Mali, Nigeria, Senegal, and Togo).

The Project is currently being extended to encompass Central Africa, East and Southern Africa, Latin America, and the Caribbean to reflect the changes noted in cocaine routes. To this end, one JAITF covering the airports of Punta Cana and Las Americas has already been set up in the Dominican Republic, bringing to 10 the number of JAITFs established under Project AIRCOP.

Existing JAITFs, which have already received specialized training in targeting, questioning and inspection methods, and in international investigations after a seizure has taken place, are regularly evaluated through Operation COCAIR, the fourth of which was carried out from October to November 2013 with the participation of 30 countries in Africa, Latin America, and the Caribbean. The fifth Operation will be scheduled in early 2015.

Operation WESTERLIES 2
The 10-day operation targeting illicit trafficking in methamphetamine by air passengers from Africa to Asia, via Europe and the Middle East, was carried out in December 2013 with 75 participating countries, and resulted in 3,092 kg of narcotics being seized in 66 cases.

UNODC-WCO Container Control Programme (CCP)
Port Control Units (PCUs) are, at present, fully operational in 20 countries, and funding for the integration of another 32 WCO Members into the CCP is available. The ContainerComm port communication platform is now accessible on request to all officers working in a port, even though they may not be CCP participants.

Given the success of the CCP, the launch of a separate joint programme on air cargo control and the establishment of specialized units to target suspicious shipments in this transport segment is in the early stages of development, and will be jointly implemented by the UN Office on Drugs and Crime (UNODC) and the WCO.

Health and Safety Programme

Operations
The WCO conducted three operations, which primarily targeted products that infringe intellectual property rights, as well as substandard or non-authorized products directly or indirectly affecting consumer health and safety, such as medicines, spare parts, foodstuffs, and ‘everyday’ consumer goods:

- TIGRE 3 (November 2013) involved 17 countries in Central and South America and the Caribbean;
- GOL 14 (March 2014) involved seven countries across Latin America;
- BIYELA 2 (May-June 2014) involved 14 countries in Africa.

As a result of these operations, millions of suspect and dangerous goods were prevented from reaching their intended markets, dealing a huge blow to the criminal syndicates behind this illicit trade.

Interface Public-Members (IPM)
IPM is the WCO online database that enables rights holders to provide Customs officers in the field with real-time data and information on their products. Ireland and the United Arab Emirates have tested and adopted the mobile application of IPM, which enables officers to obtain information from the IPM system simply by scanning bar codes.

The service, known as ‘IPM Connected’, which enables Customs officers to use the ‘track-and-trace’ method, as well as the authentication solutions found on products and packaging, now connects the authentication solutions of 12 companies.

Environmental Programme

Activities
The WCO is continuing to support efforts to combat environmental crime by raising awareness of the issue among frontline Customs officers, organizing training to improve their targeting and identification capabilities, leading international enforcement operations focused on smuggling, and developing practical guidance in the form of various training resources.

Three environment-focused enforcement operations were supported by the WCO:

- DEMETER III (October-November 2013), which targeted illegal waste shipments headed for the WCO Asia/Pacific region from Europe and other waste-producing regions/countries, involved 44 countries;
- COBRA II (January 2014), which targeted wildlife crime, involved 28 African, Asian and North American countries;
- AMAZONAS (March-May 2014), which targeted the illegal timber trade in Peru, involved four Latin American countries, as well as China.

WCO Declaration on the Illegal Wildlife Trade
Given the heightened global focus on illegal wildlife trade, the WCO Council adopted a Declaration that reinforces the commitment of the global Customs community to fight this type of crime, as part
of its efforts to combat all forms of illicit trade.

The Declaration contains 10 steps which will contribute to a stronger and coordinated enforcement response. Chief among these is the building of closer cooperation at the national and international level between Customs and other regulatory/enforcement agencies, as well as with non-governmental organizations (NGOs), and the private sector using:

- the full range of detection and investigative techniques, including risk profiling, intelligence sharing, controlled deliveries, forensic techniques, detector dogs, and other non-intrusive inspection equipment;
- the full extent of the law to secure an appropriate level of punishment that would act as an effective deterrent;
- the global standards and best practices that have been developed to address the problem of corruption and promote integrity.

Electronic crime

During its last meeting, the WCO Electronic Crime Expert Group (ECEG) examined the methods, tools and structures used by some administrations to fight electronic crime. The ECEG also discussed the use of software products that enable better visualization of data and the challenges linked to cyber investigations. Meeting reports and presentations on the ECEG may be perused by WCO Members on the WCO website.

WCO tools

The CEN suite

The Customs Enforcement Network (CEN) application was developed as a central global depository of enforcement-related information, enabling the Customs community to produce valuable analysis and intelligence on the basis of the available data. Although in 2013 more WCO Members reported their seizures in the CEN than in the previous year, the WCO encourages even greater participation.

The WCO also urges its Members to do their utmost to ensure that every seizure related to illicit trade is inputted to the CEN, keeping in mind that the quality of the provided information is crucial for identifying pertinent trends, preparing risk indicators, and formulating appropriate strategies.

The CEN communication platform (CENcomm), an operational tool enabling the exchange and diffusion of information in a secure environment, remains the most popular application in the CEN suite. In 2013, CENcomm was used in 59 operations and projects, which constitutes an increase of 13% from the previous year. In the first two quarters of 2014, this number has already reached 58, indicating a continuing upward trend.

The nCEN application gives Customs administrations the ability to collect, store, analyse, and disseminate law enforcement data effectively at the national level, with the additional possibility to exchange this information at regional and/or international levels. In the course of last year, nCEN was successfully launched in Namibia, the Seychelles, and Swaziland, while over 20 additional countries are already in line for implementation.

WCO Cargo Targeting System (WCO CTS)

The WCO CTS enables user countries to capture advance electronic cargo manifest information, and perform risk assessment, profiling, and targeting. It was piloted in the Bahamas and Jamaica, and a production version of the software has been finalized, and is now available for general deployment.

The WCO is working closely with major global container shipping lines, seeking agreement on standardized data provision to WCO CTS deployments. The System has recently been successfully installed in the Customs administrations of the Maldives and Sri Lanka in partnership with the CCP, and further deployments across the world are being prepared. In addition, the development of an air cargo capability for the WCO CTS is underway.

Customs Alert Network (CAN)

The CAN was designed and implemented in 2012 for the sharing of nominal information on identified manufacturers, producers, consignors, and shippers of substandard, tainted or counterfeit pharmaceuticals, foodstuffs, and electrical items. Its main aim is to facilitate and improve Customs’ risk profiling and targeting in the area of consumer health and safety.

Given that legal considerations had a clear impact on the ability to successfully exchange such information and that little data was exchanged on the platform, the WCO had to consider how to overcome the barriers preventing the CAN from functioning effectively. It was decided that WCO Members willing to share nominal data could forward it to the Secretariat, who would in turn use the CEN email function to share the information with Members that have CEN access.

More information

enforcement@wcoomd.org
Four frameworks for action

THE WCO CONTINUES to provide capacity building (CB) assistance to WCO Members around the world. Highlighted below is a sample of the initiatives taken for each of the specific areas of activity outlined in the WCO Organizational Development Package: Strategic Advisory Support and Delivery; Human Resource Development; Integrity; and Stakeholder Engagement.

Strategic Advisory Support and Delivery

This activity derives from the WCO’s 2003 Capacity Building Strategy. The Strategy entails needs-assessments through diagnostic missions, the development of a comprehensive strategic plan, the implementation of WCO standards, and the regular monitoring of performance indicators. Key WCO CB tools to support these actions include the Diagnostic Framework and the Capacity Building Development Compendium.

Missions delivered in this context during the reporting period include three diagnostic missions, 171 strategic planning and implementation support missions, and two monitoring and evaluation support missions. CB delivery during such missions is based on a two-pronged approach, namely ‘ownership’ and results-based management.

Following the publication of Chapter 13 of the WCO Capacity Building Development Compendium dealing with organizational performance measurement, the WCO has also provided in-country performance measurement (PM) support to five Members. This assistance includes both design work for new performance indicators, as well as a review of existing indicators and Customs Service Charters.

The WCO continues to refine organizational PM materials and resources, thanks to the work done in conjunction with some WCO Members, such as Kazakhstan and Vietnam. This work has confirmed that the approach promoted in Chapter 13 of the Compendium towards the design and use of indicators is practical and useful.

Experience has shown that the measures and metrics used by Customs positively impact on strategic, tactical and operational planning and control. In this regard, PM has an important role to play in setting objectives, evaluating performance, mobilizing resources, and determining future courses of action.

The WCO continues to provide technical assistance on the use of PM contracts between Customs Directors General and frontline officers, based on data extracted from automated Customs clearance systems. This approach was first used in Cameroon, which led to increased revenue collection, improved trade facilitation, and enhanced integrity, and later used in Liberia and Togo.

Drawing on the success of PM contracts, the WCO and the United Nations Conference on Trade and Development (UNCTAD) developed an ASYCUDA World module on PM as a means to assist Customs administrations in improving and strengthening their operational capacity.

Human Resource Development

WCO activities focusing on human resource development include the enhancement of the e-learning catalogue, the establishment of the Framework of Principles and Practices on Customs Professionalism (FPPCP), the launch of the Virtual Customs Orientation Academy (VCOA), and the new Gender Equality Organizational Assessment Tool (GEOAT).

Regarding the e-learning catalogue, 18 new or updated modules are now available on the WCO’s CLiKC! Platform, and a further five will be added soon. Of note is the fact that usage by Members of WCO e-learning tools is increasing, with over 12,000 Customs officers registered on the CLiKC! Platform worldwide, and over 155,000 logins during the reporting year.

To assist WCO Members in understanding and implementing policies relating to Customs professional qualifications and Customs career paths, the FPPCP was developed and is available on the CLiKC!
Platform. It has five components:

- strategic human resources management;
- strategic organizational design/job profiling;
- recruitment processes;
- national training centre guidelines;
- customs career paths.

The VCOA is aimed at preparing newly recruited Customs officials with basic knowledge and skills in international Customs standards. It comprises six modules of tutored virtual online training. Officers having less than two years employment in Customs and willing to follow the training are invited to contact the WCO through their respective administrations.

The GEOAT is based on one developed by the Gender Equality Principles Initiative, a non-profit organization based in the United States, and has been adapted to include a number of Customs-relevant issues. Its main objective is to assist Customs administrations in assessing their current policies and practices related to gender equality issues.

Further, the GEOAT provides guidance in terms of how the assessment could contribute to organizational reform and modernization. The methodology for conducting the assessment should include the establishment of a team, which would assess the baseline, identify key measures that could be included in strategic planning and oversee their implementation.

Integrity

Capacity building and integrity are closely related and it is impossible to run an administration and carry out reforms without a strong emphasis on integrity. During the reporting period, 24 Integrity-related missions have been conducted, including integrity self-assessment workshops, follow-up workshops, and pilot projects. In addition, six cases of virtual assistance have been provided to WCO Members.

An integrity workshop, linking research and practical action, was conducted from 19 to 23 May 2014 in the Seychelles, and saw the creation of an anti-corruption framework for the Seychelles Revenue Commission.

In addition, work has commenced on a guide for managing the procurement process, including tenders, negotiations and contract management, the ninth issue of the WCO Integrity Newsletter that contains articles with Members’ best practices has been published, and a new initiative to support integrity that includes the aforementioned PM contracts project has been launched.
Signing ceremonies

Stakeholder Engagement
This engagement entails cooperation and coordination with many actors, including governmental policymakers, development partners, and donors. To assist WCO Members in their interactions with policymakers and the need for continuous investment in Customs, the WCO developed the Orientation Package for Decision Makers, which provides a clear picture of a modern Customs service and the vital part it can play in achieving national objectives, and is aimed at assisting Customs administrations to secure support for reform and modernization.

The WCO also published a new chapter in the CB Development Compendium on the subject of ‘Donor Engagement’. In addition, further drafting is underway to add a new section on the management of donor-funded projects.

Significant progress continues to be made by the WCO in securing funding for CB, and in fostering dialogue with international banks, donor agencies, and other development partners. A new Customs Cooperation Fund, supported by Germany, has been set up, and a new five-year agreement has been signed with the Swedish International Development Cooperation Agency (SIDA) that provides support to three Customs Unions in Africa.

A regional donor conference was held in 2014, in the WCO Americas and Caribbean region. Moreover, as a follow-up to previous regional donor conferences, two regional donor events with a focus on resource mobilization were held in 2014 in two of the WCO’s regions, namely Asia/Pacific and East and Southern Africa.

More information
capacity.building@wcoomd.org

Signing of a Grant Agreement between the WCO and China Customs for the establishment of a China Customs Cooperation Fund, to support capacity building activities aimed at the WCO’s developing and least-developed Members.

Signing of a Grant Agreement between the WCO and the Korea Customs Service to support major WCO work, particularly in the field of capacity building; it includes a substantial donation to the WCO Language Fund.

Signing of a Memorandum of Cooperation between the WCO and Japan Customs for the establishment of a WCO Regional Customs Laboratory in Japan.

Signing of a Memorandum of Understanding between the WCO and German Customs for the establishment of a WCO Regional Dog Training Centre in Germany.
2014 WCO Photo Competition

“Fifty years of change” is the caption of this year’s winning entry from Iceland Customs. The photo illustrates the evolution of Customs’ working tools over the years, and the major role the adoption of information technology and the use of sniffer dogs has played.

Election highs

During the 2014 WCO Council sessions, Zouhair Chorfi, Director General of Morocco Customs, was elected Chairperson of the Council for 2014/2015, and Sergio Mujica, Deputy Secretary General of the WCO, was re-elected for a second five-year term of office, beginning 1 January 2015.
The quest for quality data requires hard and radical solutions

By Michael Norgrove,
FORMER DIRECTOR FOR CUSTOMS AND EXCISE, UNITED KINGDOM, AND CURRENTLY AN INDEPENDENT CONSULTANT

SOMETHING ODD HAPPENED during my last year in Customs – something intriguing and unsettling, fascinating and worrying at the same time. Back in June 2012, the Chair of the WCO Policy Commission gave the floor to David Hesketh to talk about data quality.

David happened to be from the United Kingdom (UK), but the work he was presenting had been carried out jointly with some colleagues in Dutch Customs, and drew on statistics published by Canadian auditors. Data quality, intriguing... surely not? It sounds dull and technical; but what David did was tell a story – a tale of container ships on the high seas, involving explosions, deaths, and fraud.

In the audience were heads of Customs from around the world, from east and west, north and south. Their administrations ranged from the highly sophisticated to the fast developing. Some relied on the traditional methods of physical inspections and ‘tick and turn’ audit, while others were using advanced electronic data management and risk assessment systems.

All were subject to budgetary constraints, needed to keep their countries’ business costs down and provide speedy and efficient customer service while protecting their fiscal base, countering the erosion of revenue on tobacco, alcohol, fuel, etc., and combating the smuggling of firearms, endangered species, and counterfeit goods. They needed to recruit, train, retain, and motivate competent staff on whose integrity they could rely. And if that wasn’t enough, they were now facing the twin threats of organized crime and terrorism.

In the face of this wide range of challenges, it had become increasingly accepted that a modern intelligence-based approach was needed. Reliance on increased physical inspections and routine audit was doomed to fail – it would push up costs for businesses and Customs alike, delay legitimate trade, and require miraculous good fortune to detect the occasional needle in the haystacks carried by the world’s 100,000 container ships.

So the pace quickened worldwide in the development of risk-based techniques, involving data matching and data mining, and the analysis of trends, for example, by commodity code, means of transport, and source and transit countries. In the UK, for instance, the Connect system, operated and exploited by skilled data analysts, and using increasingly powerful computers, has had tremendous success in recent years in uncovering fraud, and organized criminal attacks on revenue.

The Connect System handles and compares huge volumes of information across a wide range of databases (some open source, some covert), and makes matches and throws up queries and anomalies that traditional methods would simply be incapable of detecting. And the United States’ (US) own risk profiling software has been made available to WCO Members across the world to enhance their own anti-smuggling capability.

There is no doubting the efficacy of these modern risk systems – they have enabled Customs authorities to take a big stride forward in tackling today’s challenges, not only in making seizures, but also finding the evidence that can lay the foundation for bringing criminal gangs to justice.

Going against the grain

This, therefore, was the context in which David Hesketh was making his presentation. But what made David’s story unsettling was that it did not go with the grain, in the direction of late 20th Century trends.

Because instead of describing another advance in risk assessment techniques, it told the story of a vessel – MSC Napoli – which ran aground off the coast of Britain.
The salvage and insurance companies discovered that:

- 137 of the containers weighed more than 3 tonnes different from their declared weight;
- the largest single difference was 20 tonnes;
- the total weight of the 137 containers was 312 tonnes heavier than on the cargo manifest.

That was back in 2007 and highlighted the problem of misdeclaration, with shippers underdeclaring weight to minimize taxes and fees calculated on cargo weight. The obvious attendant safety issues are compounded by revenue loss, with WCO and International Monetary Fund (IMF) country profiles suggesting that “22 billion US dollars per year is owed to government treasuries worldwide because of misclassification alone”.

One in three Customs import entry lines were shown to have been misclassified in one piece of research quoted, and 85% of import entries had insufficient data, and what data existed was often wildly inaccurate – 26 containers manifested as ‘furniture’ had no commodity code shown and turned out to be porcelain mugs.

A further 24 containers manifested as ‘clothing’ held ceramic roasting dishes for a major supermarket chain. 164 containers manifested as ‘Miscellaneous Manufactured Articles’ and another 50 manifested as ‘Household Goods’ and ‘Personal Effects’ showed no declarations in any of these categories. And 60% of manifests showed only agent-to-agent data, with no true buyers or sellers identified.

In the light of this research, David Hesketh concluded that “We are in danger of convincing ourselves that the answer is sophisticated real-time data management, community sharing, and risk management systems…but we may be disregarding the fact that these systems are often operating on inaccurate, incomplete, and misleading data. Without the proper assurance, we may be creating a false sense of security”.

David Hesketh concluded that “We are in danger of convincing ourselves that the answer is sophisticated real-time data management, community sharing, and risk management systems…but we may be disregarding the fact that these systems are often operating on inaccurate, incomplete, and misleading data. Without the proper assurance, we may be creating a false sense of security”.

One more, there was a significant mismatch between declared goods and those eventually salvaged. The misdeclarations were probably more important for safety than fiscal purposes, but Customs are the principal border agency for verifying all such information (cf. ‘Single Window’ and ‘one government at the border’), and once again would have been operating on the basis of poor data. In the face of this dilemma – a mismatch between the data being analysed and reality – what approaches are open to Customs authorities?

Responding to the dilemma

Eighteen months on from my retirement, I found myself back at WCO Headquarters this year, attending the WCO Revenue Conference that was held from 30 June to 1 July. I was curious to hear where this debate had got to, and what responses to this data quality dilemma were being discussed.

The problem clearly had not gone away – Customs heads from a number of countries described the very low levels of compliance despite border revenue being crucial to their economies. Valuation, origin and classification each presented fraudsters with opportunities to evade duties and taxes. But the mood of despair which occasionally threatened to pervade the conference hall was dispelled on a number of occasions, with Customs and fiscal authorities reporting that they are taking radical action to safeguard and enhance their revenue streams.

But for me the most telling was the picture painted by the Moroccan ‘Chef de division des études’, Monsieur Abdelmajid Bourra. He described the lack of revenue control which had prevailed in his country prior to the introduction of the current regime, which takes a firm grip on excisable products right from their production, through transportation to their delivery and consumption. The remit from government had been to maintain Customs’ share of gross domestic product (GDP) and total fiscal receipts throughout a period when Customs duties were being abolished on transactions within the region.

The emphasis became one of improved risk management, and the analysis of pre-arrival entry data. Morocco now operates twin IT systems, known as BADR and SAMID respectively, which together form an integrated risk and entry management system, covering the production and importation of goods.

The BADR/SAMID systems provide analytical reports, operational reports for field
operatives, and trend analysis. Revenue has risen by 2 billion Moroccan dirhams per annum, Customs, value-added tax (VAT), and excise receipts have been stabilized, and equitable treatment has been assured across all ports of entry, whereas previously importers were picking and choosing where they might get preferential treatment. Illicit trade has declined, analysis improved, staff savings enabled, and production controlled.

All this was made possible by a public-private partnership deal that provided an integrated marking system for all excisable products – from beer, wine and spirits to tobacco and soft drinks, tracking goods from their production or import/export to retail sale. The system had been in operation since 2005, but it had been manual and there was no link between production and Customs databases. The new system had allowed sustainable increases in the effective rate of VAT, reform of the cigarette taxation structure, and stability of revenue receipts.

Thoughts on the way forward
This seemed to me to be directly relevant to solving the dilemma of data quality – the ‘track and trace’ system provides a direct link between what is produced and declared, and cleared for the domestic market. It allows manufacturers and Customs alike to track precisely the quantities, strengths, and whereabouts of highly valuable goods. And there is a forensic audit trail available to Customs and producers to check and validate. For high value, high risk goods, or whenever revenue receipts are crucial to a country’s economy, such a link between what is declared and the physical reality of the goods themselves seems indispensable.

Such a tracking and tracing system needs to form part of an integrated risk management system (see European Union (EU) Press Release No. IP/14/936 for the latest EU developments). We need better risk assessment before loading, closer partnerships between Customs and trusted traders, such as Authorized Economic Operators (AEOs), and capacity building initiatives that help border authorities concentrate their resources on the non-compliant while allowing legitimate businesses to operate on a level playing field.

These are not new thoughts – but something new and radical is needed to make them reality. A public-private partnership allowing far greater use of the data that businesses themselves need and use every day would align perfectly with initiatives, such as the AEO, and would enable Customs to focus more and more on the non-compliant and criminal, while relying on trusted traders’ own data.

Both such public-private partnerships – the traceable marking of high-value goods, and the access to commercial data for assurance purposes – would require investment. But without that investment I do not believe we will make genuinely significant progress.

The Bali Trade Facilitation Agreement has given new impetus to compliance improvements. This seems a great opportunity for the global Customs community now to inject momentum, collectively build capacity, and improve data quality.

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The damaged MSC Flaminia at JadeWeserPort located at Wilhelmshaven, Germany
Origin laundering by professional fraud facilitators, challenges and opportunities for Customs

By David Murphy, Former Head of the Customs Investigation Unit, European Anti-Fraud Office (OLAF), European Commission

This article is intended to highlight the activities of professional Customs fraud facilitators, their central role in origin laundering, and in particular their impact in terms of revenue loss and the circumvention of trade policy measures. It also identifies the challenges and opportunities created for Customs administrations by these enterprising operators. The article reflects the personal views of the author, and any confidential information contained therein, particularly in relation to commercial operators, is limited to information that is already available elsewhere in the public domain.

ORIGIN LAUNDERING IS not new – it is one of the three classic Customs fraud techniques which have been utilized since time immemorial, the others being misdescription of goods and undervaluation. In the past, origin fraud was primarily detected in relation to invalid claims for preferential tariff treatment where goods were falsely declared on importation as originating in beneficiary countries. However, as the introduction of high rates of anti-dumping duty becomes ever more universal, there has been a massive move towards the use of origin fraud to evade such duties.

New players, new challenges
So, if origin laundering is not new, what is so special about the present situation? It is unique in that Customs enforcement services across the globe are now facing the challenge of dealing with the same group of sophisticated professional adversaries.

Historically, import duty frauds were perpetrated by the importers themselves, sometimes with the collusion of their suppliers abroad, so the impact of the fraud was generally limited. Now, however, individual origin frauds can involve as many as a thousand consignments and dozens of importers, and the duties evaded can run to 20, 30 or 40 million euro – in a single case! And who has been responsible for achieving this phenomenal increase in the level and efficiency of Customs origin fraud? – none other than the professional fraud facilitators.

Although this article focuses primarily on traffic into the European Union (EU), the phenomenon is a global one, affecting all States which apply high origin-related duty rates to specific goods. And despite the fact that these professional fraud facilitators advertise their services openly on the Internet, their activities remain below the radar in many countries, due to the sophisticated techniques they employ to avoid detection by standard control and verification procedures in the countries of importation.

So who are these super fraudsters of the Customs world? On the basis of available evidence they are mainly logistics companies, based in China, and operating behind a screen of shifting identities and fluctuating networks of companies which are established across the globe, but primarily in Southeast Asia.

These companies may or may not really exist, but they will always be registered with the national authorities in the countries of transhipment. Interestingly, the networks of companies may also include legitimate companies which have been the subject of identity theft and whose details are being used without their knowledge.

Companies within the networks are used to channel goods from China with a new false origin into the EU, as well as Argentina, Australia, Brazil, Mexico, Russia, Turkey, and the United States. Recent anecdotal evidence indicates the existence of a similar origin-laundering operation for traffic in the opposite direction into China itself.

The mechanics of the activity are very simple. These fraud facilitators provide a complete fraud and transportation package to exporters in China, as well as to importers across the world. For a set fee – one provider was quoting a charge of 3,500 US dollars per forty-foot container to the EU – the operator will ship the goods from China to the chosen country of transhipment where the goods are transloaded into new containers, and then shipped onwards to the country of destination. Favoured countries for such re-export activities include Malaysia, Thailand, and Chinese Taipei, but the service is also offered via Bangladesh, India, Indonesia, the Philippines, Singapore, and Vietnam.

The goods arrive in the country of destination with a new and documented origin of the country of transhipment, accompanied by commercial invoices from a registered company there, a certificate of origin from the national authorities (usually genuine), a new bill of lading issued from the port of transhipment, and, in some cases, a copy of the Customs export declaration showing that the goods were exported from the
Customs territory of the transhipment country.

This is the clever part of the exercise. In addition to the physical transhipment and change of containers in the chosen port or free zone, the organizers create a fictitious audit trail for the consignment which is sufficient to withstand the normal control and check-back procedures in the country of destination. They achieve this by using different company identities for the transhipment operation and for the fictitious exportation so that all links between the importation into the country of destination and the re-export in the country of transshipment are severed.

In some cases they also use a different product description for the transhipment goods to withstand any cross-checking. This professional approach also allows the operators to disguise their activities from the national authorities in the country of transshipment, and to substantiate requests for the issue of genuine certificates of origin.

For those interested, a simple Internet search will quickly identify several sites offering such origin-laundering services, but it should be borne in mind that these company identities can change and will not appear in any documentation presented at importation in the country of destination. Companies so identified include:

- Shenzen Top & Profit International;
- Dongguan Heshun Import & Export Co Ltd;
- Globe Success International Transportation (Shenzhen) Ltd;
- Eversky International Forwarding Agency Co Ltd;
- RE EXPORT (Ningbo);
- Sinoshipment (Ningbo, Shanghai, Tianjin, ...).

See the Internet screenshot below which gives a clear and succinct example of a typical fraud service provider.

Risks, challenges and opportunities

The risks resulting from the activities of these professional fraud facilitators for national authorities in the countries of destination are self-evident. They include a substantial loss of revenue, and the undermining of the remedial effectiveness of the trade policy measures which introduced the anti-dumping duties in the first place. The opportunities resulting from this activity are less evident, but they do exist – at least for Customs administrations which are prepared to tackle this organized fraud phenomenon.

The opportunities arising from these changes in the pattern and technique of origin fraud only become evident from an investigative perspective. The techniques utilized by the fraud facilitators demonstrate a detailed understanding of the Customs and port authorities’ control procedures – both documentary and electronic – in the countries of transshipment and the countries of destination. The application of these techniques ensures that the traffic is undetected at importation, and routine post-importation verification controls are ineffective.

However, they are not sufficient to withstand detailed investigation and, provided there is a commitment on the part of the Customs authorities in the country of importation to tackle these issues, and supporting cooperation from the authorities in the country of transshipment, such traffic can be relatively easily identified and investigated. This activity requires no
significant additional investment of time or resources, and is highly cost-effective.

The opportunities created for Customs investigation services by the new pattern of origin fraud stems from the fact that the frauds are much bigger – and therefore more easily detected – and, once a single line of fraudulent traffic has been identified, it provides the thread which leads to many more.

In the past, fraudulent lines of traffic were predominantly stand-alone, for a single company or a single product. Now they share a common network, which, once identified, can lead to the termination of related frauds, significant revenue recoveries, and effective implementation of trade policy measures.

Some success has been achieved in identifying and investigating such lines of fraudulent traffic and in recovering evaded duties. Many of the companies within these networks have been identified, but the opposition is professional and mobile, and capable of reacting quickly to changes in controls or when subject to investigation.

For maximum effectiveness the Customs investigation services concerned need to share information in real-time, coordinate joint actions, and move fast against a common enemy. It is time for Customs administrations to go global on this issue.

David Murphy is an internationally recognized authority on commercial Customs fraud, with a unique global overview of this specialist domain. He has worked frequently and successfully with national authorities in some 45 different countries on major Customs fraud investigation issues. He recently retired as the Head of the Customs Investigation Unit in the European Anti-Fraud Office (OLAF) at the European Commission, where in 2013 he and his team were responsible for the recovery of some 74 million euro in evaded import duties.

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Kenya’s Excisable Goods Management System: using track and trace technology

By Karambu E. Muthaur,
COMPLIANCE OFFICER, LARGE TAXPAYERS OFFICE, KENYA REVENUE AUTHORITY

Excise stamps were initially introduced in Kenya in 2002 for affixing on packets of cigarettes, and in 2006 they began being affixed to wines and spirits too. The main objective behind the use of excise stamps was to combat dumping and illicit trade both by manufacturers and importers – the stamps would serve as proof that duty had been paid, and act as a tool to account for production, thereby enhancing efforts to deal with revenue losses by ensuring tax compliance.

The introduction of excise stamps together with the change in the tariff from ad valorem to specific duty improved the collection of excise tax on cigarettes from a monthly average of 230 million Kenyan shillings (just over 2 million euro) to a high of 380 million Kenyan shillings (about 3.3 million euro). Illicit trade also reduced due to market surveillance by the Kenya Revenue Authority (KRA), and as the big players joined in the enforcement efforts.

The problem
The importance of excise stamps as a control tool, however began to decline, as unscrupulous manufacturers sought to employ schemes aimed at defeating the system. Among the challenges faced were the counterfeiting of stamps, loss of stamps through poor record keeping and theft, lack of an automated excise stamps control system which led to difficulties in tracking them, and inadequate market surveillance due to limited personnel and surveillance equipment.

As a result of these challenges, the KRA started losing billions of Kenyan shillings each year to excise fraud through undeclared production, switched product declarations, under valuation, inward smuggling, “flow back exports”, and counterfeited goods.

The old paper stamp failed in its work as a compliance measure, as it was a “mute stamp” carrying no data, and therefore a very poor tracking and authentication tool. In addition, it was also easily counterfeited with most people able to closely match the authentic security features, and lacked production accounting technology thus making market surveillance difficult.

The solution
In order to comprehensively deal with the problems that had been identified, the KRA sought a track and trace tool that would help to significantly reduce misdeclarations and under-declarations, enable field auditing and authentication, and provide business intelligence to enhance tax planning. The new regime had to also help distributors, retailers, and consumers participate in the fight against illicit trade by having the means to select genuine products through a simple product authentication process.

To achieve its aims, the KRA engaged a company in December 2012 to provide an “Excisable Goods Management System”. The System has the following components:

- excise tax stamps for domestically-produced and imported tobacco, wine and spirits products. These stamps have four levels of security features – overt, semi-covert, covert, and forensic;
- track and trace accounting system. This module includes a Data Management System (DMS), as well as a web application for (1) forecasting, ordering, payment, and activation of stamps by manufacturers and importers, (2) reviewing and approving forecasts, orders, and payments by KRA, and (3) reporting and analysing system events and transactions, such as forecasts, orders, payments, deliveries, and activations;
• secure Supply Chain (SSC) application, for stamps inventory and supply chain management;

• hand-held auditing devices, for use in the field by KRA market surveillance officers to read, authenticate, and trace the covert codes printed on secure excise stamps;

• credit card-style validators with optical filters, for use by manufacturers, importers, distributors, and major retailers to validate tax stamps within their supply chains;

• integrated production accounting system. This includes a Scanning and Activation System (SAS), for production monitoring and control, and the online activation of stamps on fully automated manufacturing lines, a desktop stamp scanning and activation station, for semi-automated scanning and data upload, and business intelligence (BI), for reporting and analysis by KRA’s management and compliance officers.

After phasing out the old generation excise stamps, the new generation of excise tax stamps was introduced in March 2013. The track and trace accounting system was launched on 1 October 2013, and the production accounting system was implemented in the first quarter of 2014.

The Customs and Excise (Excisable Goods Management System) Regulations, 2013 provide that all excisable goods apart from motor vehicles should be affixed with an excise stamp as specified by the Commissioner (of Customs and Excise).

Currently, excise stamps are affixed on wines, spirits, and cigarettes. However, plans are underway to expand the scope of the Excisable Goods Management System to cover beer, soft drinks, and other excisable goods, as required by law.

**Market Surveillance Unit**

The KRA formed a Market Surveillance Unit in December 2013, with a total envisaged workforce of 300 officers. At present, the Unit has a total of 56 officers, and the intention is to recruit another 50 this year, bringing the total to 106 officers. It is mandated to carry out random checks in the field, to ensure that excisable goods are affixed with excise stamps, and that the stamps are activated, as required by law.

This involves the use of hand-held devices that have both offline and online verification functionality, and provide real-time (on the spot) authentication of excise stamps. The device checks both the authenticity of the stamp, and the tracking and tracing data of the stamp. It also helps monitor the KRA market surveillance officers in terms of their location and volume of work.

**Successes**

KRA has reported the following results from the implementation of the Excisable Goods Management System to date:

• more than 350,000 products have been seized, and more than 400 offenders charged;
• 100% prosecutorial success;
• collection of excise revenue on spirits increased by 53% during the enforcement period, i.e. December 2013 to the present;
• improved access to information, and hence enhanced business intelligence;
• significant reduction in the illicit tobacco trade;

• increase in import declarations of wines.

The success of the Excisable Goods Management System has attracted the interest of other countries, such as Gambia, Ghana, Tanzania, and Uganda, some of which have sent attachés to the KRA to learn about the System. Study visits by several other officials are being considered.

**More information**

www.kra.go.ke
Illicit trade in timber: an outline of the problems facing Peru

By the Intelligence and Tactical Operations Team, NATIONAL SUPERINTENDENCY OF THE TAX ADMINISTRATION (SUNAT), PERU

The land of Peru can be divided into three natural areas: the coastal region, the mountains, and the forests. With the latter extending over more than 70 million hectares (700,000 km²), and covering 60% of the national territory. Most of this forest area consists of what is commonly known as the Peruvian Amazon. This immense humid tropical forest, traversed by the River Amazon, contains numerous natural resources, including oil, gas and, above all, wood.

EXPORTS OF THIS wood and its products recently became a focus of attention for Peru Customs (SUNAT), after intelligence they had gathered revealed that organized criminal networks were involved in illegal logging, the use of forest documents with unreliable information, and the mislabelling of timber exports. The World Bank estimates that illegal logging accounts for approximately 80% of all logging carried out in Peru, and Peruvian authorities, like the Supervisory Body for Forest Resources and Wildlife (OSINFOR), indicate that this results in losses in excess of 250...
million US dollars (USD) per year, or 1.5 times the value of Peru’s legitimate timber industry.

**Timber trade regulation**

The government classifies forests in Peru as production forests for timber and non-timber forest products (the category is divided between active production forests and reserve production forests for future harvest), protected forests (national, regional or private parks and reserves), and community forests (divided among titled native communities, voluntarily isolated communities, campesino (subsistence farming) communities, and unclassified forests). Inside the community forests, native and campesino communities are officially only granted usage rights (*cesión de uso*).

Under the law, to extract wood from a forest for commercial purposes, the operator of a forest concession must prepare a General Forest Management Plan (PGMF) to project what trees are expected to be extracted over the next five years and where. Once the PGMF has been approved, the concessionaire must submit an Annual Operating Plan (POA) for each year of operation, presenting the results of the harvest inventory carried out in the field and stating which trees are going to be harvested.

A Forest Authority official will review the POA information and compare it with the results of prior field inspections, if those inspections have been done, considering that they are random, and will then approve a specific number of trees and volume that may be extracted in that area over a specific period. Should a POA contain an endangered species, the officer will also have to conduct a prior field inspection in order to confirm the trees’ existence, and verify the accuracy of the information included in the POA.

Once the PAO is approved, the concessionaire may begin to cut and sell wood. Each time a concessionaire removes timber from the concession, it must be accompanied by a document known as the Forest Transport Permit (GTF), which details among other information the species and volume of the material and its place of origin. The GTFs are issued by concessionaires, and checked by regional Forest Authority offices whenever wood is transported.

Using information contained in these permits, the Forest Authority registers the cumulative volumes of timber taken from a concession each year in another document known as the “Balance of Extraction”. As wood is extracted and transported to sawmills, the volume is “subtracted” until the balance reaches zero, or the harvest year time period expires. Once the balance of a particular species is exhausted, the concessionaire cannot legally transport any more wood of that species.

An additional monitoring mechanism is operated by OSINFOR. This government body is responsible for supervising and checking legal titles (concessions, licences, and authorizations) granted in Peru, and therefore carries out post-harvest field inspections of select concessions to ensure that the wood sold by the concessionaire was in fact harvested from the parcel declared. It must also ensure the sustainable exploitation of forest resources; while an agency specializing in environmental matters has competency for investigating any environmental offences.

**Illegal logging**

Despite these formal regulations, unsustainable and illegal logging is widespread in Peru’s forestry sector [SNV 2005; Urrunaga et al. 2012], and informal arrangements are dominant along the value chain [Smith et al. 2006; Sears and Pinedo-Vasquez 2011]. Illegal logging is a lucrative business – expenses other than transport costs are low, and there are no concerns about decent wages or potentially damaging environmental practices.

According to OSINFOR, “illegal logging is one of the thorniest problems encountered by the Peruvian forestry sector in the last ten years. In general, illegal logging mainly involves timber species with a high commercial value, such as mahogany, cedar, and virola”. According to the Environmental Investigation Agency (EIA), a non-governmental organization (NGO), a large old rainforest tree may produce around three cubic meters of export-quality wood, and exporters receive about USD 1,700/m³ for mahogany, and almost USD 1,000/m³ for cedar.

However, the international NGO points out that traders in illegal wood face one significant challenge. While there are plenty of remote areas in Peru where illegal logging can go undetected, the trader must still get the wood out of the forest, past forest authority checkpoints, through Customs, onto ships, and into the importing country. Without the formal paperwork and in the case of cedar and mahogany – two species protected by the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES) – export permits authorized by the forest authority, the wood cannot go anywhere.

According to the same source, the mechanism that traffickers have therefore developed is simple to describe: a dishonest concessionaire submits for approval lists of trees that are supposedly located in the concession, and the authorities approve the extraction of this non-existent wood. Backed by these “volumes” of imaginary trees, the corresponding official documents (GTFs) are sold in the black market and used to launder wood extracted illegally from elsewhere – national parks, indigenous territories, other public lands. Checking whether the origin of the wood is correct will require returning to the original concession to verify if logging was actually done.

**Operation Amazonas**

In order to draw attention to the problems associated with illegal logging, and improve practical cooperation between national authorities involved in overseeing the wood product supply chain, SUNAT set up an operation called “Amazonas”, which ran from March to June 2014.

In the process, SUNAT turned to the WCO for support, which became its main ally in organizing the operation, assisting it to coordinate the logistics and make the necessary preparations, thereby enabling SUNAT to involve other organizations, such as INTERPOL, the Customs services of other countries, and the national bodies responsible for supervising wood products.

At the international level, the participation of Brazilian Customs proved particularly valuable. It enabled a shipment from Peru to be checked on Brazilian territory in order to verify that the description and quantity of the wood transported did in fact correspond to what had been entered on the declaration, and that there were no illicit products concealed in the load. No offence
was detected on that occasion, but the result was closer cooperation with Brazil and a precedent that will make it possible to envisage similar such interventions in the future.

Locally, the participation of partners, such as OSINFOR, also proved valuable. Using its powers under Peruvian forest law, OSINFOR made sure that the wood products monitored during Operation Amazonas were covered by a title document that had been verified or checked, and found to be in conformity with national legislation in force. It was also able to report any suspicious circumstances.

In coordination with the other government agencies involved in combating illegal logging, SUNAT undertook interventions at timber product supply centres and on their service roads, the aim being to identify wood products that lacked supporting documents concerning legal possession or transit, and the necessary forestry documents.

These interventions led to 21 detentions/ seizures of wood totalling 15,693 cubic metres, the equivalent of 640 twenty-foot container loads or six Olympic-sized swimming pools. The offending goods included timber requiring a CITES permit, which the traffickers were trying to smuggle across the borders with Brazil and Colombia. Two vessels used for transporting the timber and a quantity of wood-processing machinery were also intercepted. All these goods were valued at around USD 20 million.

The checks were also targeted at shipments of wood regarded as high-risk, even though accompanied by a GTF. The data on the export documents for these products was cross-checked between SUNAT and OSINFOR, and those shipments where the information was found to be unreliable were intercepted.

This collaboration with OSINFOR made it possible, ex-post exportation, to detect an additional 3,423 cubic metres of wood – equivalent to 137 twenty-foot containers – with forest documents that did not contain reliable information; OSINFOR’s checks having revealed that the wood in question could not have come from the extraction area indicated on the GTF.

Types of fraud
Operation Amazonas revealed the following types of fraud:

- incorrect classification – Diversion from tariff heading 44.07 (Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm) to tariff heading 44.09 (Wood (including strips and friezes for parquet flooring, not assembled) continuously shaped ( tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded or the like) along any of its edges, ends or faces, whether or not planed, sanded or end-jointed). It is estimated that the majority of wood products for export to China are declared under another sub-heading because of the restriction on the export of wood products of heading 44.07 imposed by SUNAT, who require the prior presentation of the report on the visual inspection of the shipment issued by the agency responsible for forest law enforcement;

- declaration of one species in place of another – Some exporters lie about the appellation or mention the generic name of the wood instead of the scientific name of the tree species, because the species is one of the products considered high-risk by Customs, and therefore subject to rigorous controls. This applies, in particular, to CITES-protected species;

- fraudulent use of GTFs – Without a GTF the wood cannot be moved around the country, for delivery to the port of shipment. By cross-checking the data with that held by OSINFOR, it was found that several shipments of wood had been “laundered” with the aid of documents containing false information. The wood had come from a site different from that indicated on the GTF, and had been illegally extracted.

Challenges and prospects
On the subject of illegal logging, the WCO Secretary General, Kunio Mikuriya, declared that “The illegal timber trade contributes to deforestation and thus global warming, making it imperative for Customs and law enforcement authorities to act, and to act now against this pernicious smuggling if we are to mitigate environmental degradation.”

Beyond the Peruvian specifics, even beyond the forest sector, Operation Amazonas speaks to a problem that applies to the entire international trade in plants and wildlife: in many countries a “stamp” on an official document is not a sufficient guarantee of something’s actual legality!

In such an environment, the challenge posed by Customs controls can be met only if there is cooperation among all the government agencies responsible for supervising and checking legal titles. Without this cooperation, it is impossible to ensure the traceability of the trees that have been removed.

For its part, SUNAT intends to strengthen its ties with OSINFOR. An inter-agency agreement is being drawn up, and training courses and a mechanism for exchanging information on CITES-protected species of fauna and flora are going to be developed for officials of the two organizations. Also, this experience has given Peruvian authorities the opportunity to check their controls and related legislation, and to be provided with feedback to improve them.

All importing countries are required to monitor trade to ensure that shipments of CITES-protected animals and plants are accompanied by legitimate licences. However, in many countries, it is currently entirely legal to import and market timber and timber products, produced in breach of the laws of the country of origin – i.e. the country where the trees were harvested.

Wood-importing countries should require the products that they purchase to have been legally harvested. This is already the case in the United States under the Lacey Act, which makes it possible to prosecute anyone knowingly in possession of illegally sourced wood. The aim is to impose penalties on the possession or importation of illegal timber in order to suppress demand, thereby eliminating or reducing the profits derived from this traffic.

Australia and the European Union have taken similar measures.

Comparable legal measures are urgently needed in all significant consumer countries to ensure a consistent international approach to the trade in illegal timber.

More information
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THE 5TH OF September is Denmark’s national flag-flying day for deployed personnel. On this day, Danes who are currently, or have been, deployed on international missions abroad are honoured, providing an opportunity for the nation to acknowledge the exceptional contribution that Denmark’s deployed personnel make, and have made, in a number of the world’s conflict zones.

Usually, officers from the army, navy or police are honoured on this day, but rarely Customs officers. But things were different this year. Much to the delight of the Danish Customs and Tax Administration (SKAT), seven of its container scanning experts were awarded the Danish Defence Medal for International Service, which honours civil servants who have represented Denmark in international missions.

These Customs officers had been sent to support the Danish and Norwegian teams responsible for shipping chemical weapons out of Syria, as part of the United Nations’ (UN) efforts to remove Syria’s chemical warfare agents. The six and a half month mission started in December 2013 and ended in July 2014.

UN Security Council Resolution (UNSCR) 2118 imposed responsibilities and a timeline on Syria for the destruction of its chemical weapons and chemical weapons production facilities. In this regard, a joint UN-Organisation for the Prohibition of Chemical Weapons (OPCW) mission had been mandated to oversee the timely elimination of the Syrian chemical weapons programme in the safest and most secure manner possible.

According to the plan endorsed by the international community, the most dangerous chemical warfare agents had to be removed from Syria and destroyed. The “Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction” disallows the movement of such deadly agents outside the country holding them, but UNSCR 2118 allowed extraordinary measures to be taken in Syria.

Denmark and Norway had agreed to jointly transport the chemical warfare agents from Syria to Italy, where they were to be handed over to a United States (US) navy ship for destruction in international waters. The joint operation included naval frigates and specialized cargo vessels from both countries.

The Danish Customs container scanning experts were tasked to control the content of the containers handed over to the Danish and Norwegian teams by the Syrian authorities at Syria’s Port of Latakia. Their role was to ensure that the containers were loaded with the chemical substances and nothing else, notably to protect the health and safety of the soldiers and staff participating in the mission.

To do so, the officers used the SKAT mobile scanner as well as various other devices for measuring air quality inside a container. For obvious security reasons, the team was based in Cyprus, and the flotilla would sail to Syria only on specific days to pick up the containers once the convoys transporting them had arrived after a dangerous journey. In total, 274 containers – i.e. 1300 tonnes of chemical products – were scanned and checked by the Danish Customs experts.
On 23 June 2014, the last declared chemical weapons were shipped out of Syria. The chemicals, including mustard gas and the raw materials for manufacturing sarin nerve gas, were put through special Field Deployable Hydrolysis Systems in a US cargo vessel based at the Port of Gioia Tauro in southern Italy, in order to neutralize them. The destruction of the most dangerous chemical weapons began at sea on 7 July 2014, and the resulting waste will be taken to dumps equipped to handle hazardous material.

Participating in such missions is rather unusual for the SKAT and its staff, but when Danish government representatives approached the administration for assistance, just before Christmas 2013, the SKAT did not hesitate in responding positively to the request. In fact, the SKAT was honoured to be able to contribute to the international community’s efforts to foster peace across the globe.

More information
www.skat.dk
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Singapore’s approach to streamlining trade documentation

Over the years, Singapore Customs has developed sophisticated IT platforms to enable the exchange of Government-to-Government, Business-to-Business and Business-to-Government information in order to facilitate the flow of goods. This article gives an historical overview of the important steps it has taken in building its national trade infrastructure, and introduces the main services offered that benefit the government and the private sector of Singapore.

The idea for Singapore’s National Single Window (NSW) was borne from discussions in the 1980s on continued economic growth. Through extensive meetings and discussions with government agencies, companies, organizations and industry associations, all parties agreed that significant savings would result from reducing the burden of trade documentation handling.

In December 1986, the TradeNet® project was announced with a target to bring the system online within two years. Building TradeNet® was a technical challenge. To have it go live on time, the TradeNet® team focused on simplifying information required for the exchange and transaction processing components of the system. Other capabilities to handle more complex processes were planned to be implemented in a phased approach.

Singapore launched TradeNet®, the world’s first NSW, on 1 January 1989. By December 1989, TradeNet® was handling about 45% of all trade documentation for sea and air shipments. The success of the project led to the government mandating the use of TradeNet® for all trade transactions in 1991, two years ahead of schedule.

TradeNet® is available 24 hours a day, 7 days a week. Permit application approvals are conveyed electronically to the sender through TradeNet® within 10 minutes in 99% of the cases. The cost and turnaround time for the preparation, submission, and processing of trade and shipping documents have been significantly reduced. By adopting a risk management approach using information declared by traders in TradeNet®, cargo which is assessed to be of low risk is cleared quickly and seamlessly without unnecessary delays at the border.

TradeNet® has undergone regular updates and enhancements to streamline trade documentation procedures, align to new international standards, and promote consistency and uniformity in product classification. In the last version upgrade in 2012, changes were made to align TradeNet® with the latest WCO Data Model and to incorporate the revised Association of Southeast Asian Nations’ (ASEAN) Harmonized Tariff Nomenclature (AHTN), with an approximate 15% increase in the number of tariff lines to take into account WCO and ASEAN amendments. Amendment and cancellation rules for payment permits involving non-dutiable goods were also streamlined to help ease traders’ cash flow burden.

TradeNet® caters for Business-to-Government (B2G) and Government-to-Government (G2G) connectivity. A key business innovation related to Singapore’s NSW journey is the introduction of TradeXchange®, to serve as a neutral and trusted integrated IT platform that enables the exchange of both Business-to-Business (B2B) and B2G information, and seamless inter-connectivity among commercial and regulatory systems for the Singapore trade and logistics community, to facilitate the flow of goods.

Launched in 2007, TradeXchange® is a multi-agency initiative led by Singapore Customs, the Economic Development Board, the Infocomm Development Authority, and Spring Singapore (an agency that helps enterprises grow and builds trust in Singapore products and services). The Singapore Government appointed a private sector company as an independent contractor to
TradeNet® caters for Business-to-Government (B2G) and Government-to-Government (G2G) connectivity. A key business innovation related to Singapore's NSW journey is the introduction of TradeXchange®, to serve as a neutral and trusted integrated IT platform that enables the exchange of both Business-to-Business (B2B) and B2G information, and seamless inter-connectivity among commercial and regulatory systems for the Singapore trade and logistics community, to facilitate the flow of goods.

Develop, operate, and maintain, as well as drive the adoption of this project. The company works with other content and service providers to offer other value-added service on TradeXchange®.

TradeExchange® provides a single data exchange platform for the trading community to integrate their trade processes, allowing them to pass on documents and information in industry-accepted standardized formats. It was envisaged that such a common platform will provide greater efficiency and clearer visibility to businesses across the supply chain.

TradeXchange® also serves as a ‘one-stop’ connection hub [Instead of building and maintaining multiple connections to multiple parties, VAS providers and service providers just need to build and maintain a single connection to multiple parties through TradeXchange®] to VAS providers, TradeNet® Frontend Providers, and logistics service providers, enabling them to expand their service offerings, and provide a more efficient end-to-end solution to their customers. Businesses benefit by enjoying clearer supply chain visibility, faster shipment turnaround and productivity due to the reduction in errors, and timely exchange of information.

To ensure successful implementation of the approach, 'TradeXchange® facilitates and catalyses the integration of the various parties based on prevailing international/industry data standards, and made available the interface specifications to allow other players on similar value chains to also ‘plug-in’ to TradeXchange®.

Today, more than 200 companies, including manufacturers, logistics providers, airlines, insurance companies, and banks have benefitted from TradeXchange®. Companies use TradeXchange® in areas such as trade permit preparation, applications for trade finance, and marine cargo insurance. As of the end of 2013,
IBM raises productivity by 82% through TradeXchange® integration

**IMPROVED TURNAROUND TIME, efficiency through integration of processes, and reusing approved permit data saves IBM 130,000 Singapore dollars (approx. 80,000 euro) a year!**

Trade permit application is often a manual and tedious process for many shippers, and retrieving copies of the approved permits from various Logistics Service Providers (LSPs) adds to the time consumed.

To improve turnaround time and increase efficiency, IBM implemented the use of the TradeXchange® Trade Permit Preparation and Permit Return Service, integrating trade declaration processes, and reusing the approved permit data for subsequent operational processes.

**Challenge: 100% accuracy in permit declarations**

IBM is a global technology and consulting corporation with revenues running into the billions. IBM Ireland Product Distribution Limited (IBM IPDL) in Singapore has shipments that include strategic goods, which demand 100% accuracy in permit declarations.

To fulfil this critical requirement, IBM IPDL had to put in dedicated resources to ensure the accuracy of permit declarations to Singapore Customs. In an effort to increase productivity and improve trade declaration turnaround time, IBM IPDL and their LSPs, through their respective TradeNet® Frontend Providers, integrated their trade declaration processes with TradeXchange®, eliminating the need for manual data re-entry.

**Improved data accuracy, faster processing time**

Before the implementation and integration with TradeXchange®, IBM IPDL had to email and/or fax shipping documents to their LSPs to apply for permits from Singapore Customs. This typically took an average of 578 man-hours each month for IBM IPDL to prepare the documents, and for their LSPs to re-enter the information for declaration purposes, and to compile and generate monthly reports for submission to Singapore Customs.

Following successful integration with TradeXchange®, there has been a significant time reduction of 82%, using an average of only 102 man-hours each month to complete the whole process. This solution allows IBM IPDL to extract the relevant shipping information from their Enterprise Resource Planning (ERP) systems and send it over to TradeXchange®. Their LSPs would then login to the TradeNet® Frontend System to add to the auto-populated information before submission to Singapore Customs for approval. IBM IPDL now receive all their permits electronically and instantly upon approval via the TradeXchange® Permit Return Service. This Permit Return Service greatly facilitates IBM IPDL’s reporting and reconciliation efforts by allowing the extraction of data from the approved permits for cross-checking and tracking in their ERP systems. Overall, this service saves IBM IPDL an approximate total of 5,712 man-hours annually, translating to some 130,000 Singapore dollars in cost savings.

Goh Beng Chee, Senior Manager (Business Controls, Finance) at IBM IPDL said, “Through integration with TradeXchange®, we have effectively increased our productivity by more than 80%. Stakeholders and partners have also taken the opportunity to streamline their work processes, leading to better customer satisfaction.”

**More information**

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TradeXchange® had enabled the industry to achieve accumulated manpower saving equivalent to 28.9 million Singapore dollars (approx. 17.8 million euro). One such example is IBM (see the IBM boxout).

**What’s next?**

Singapore Customs is currently working to re-invent TradeNet® and TradeXchange as an update to its national trade infrastructure. For instance, a study is now underway to look at ways to make TradeNet® more business-friendly with new features. The Director-General of Singapore Customs, Ho Chee Pong, stated that “Singapore Customs is committed to continuously improving our national trade infrastructure to bring about greater synergies across the supply chain in deepening the integration of Singapore’s trade and logistics IT systems, processes, and information.”

More information

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Facilitating trade in Cameroon through contractual arrangements between Customs and the private sector

By Ms Minette Libom Li Likeng, DIRECTOR GENERAL OF CAMEROON CUSTOMS

In February 2010, as the Director General of Cameroon Customs, I signed the first performance contracts with certain frontline services in the city of Douala, the economic capital of Cameroon, which generates almost 91% of the country’s Customs revenues. The aim of this venture was to encourage Customs officers to adopt good professional practices, and to ensure that the reforms undertaken were being implemented effectively.

Cameroon Customs extended these contracts in 2011 to some importing companies in order to reduce the time and cost of Customs transactions at the Port of Douala, the main port of entry for member countries of the Central African Economic and Monetary Community (CEMAC).

Choice of operators
Businesses wishing to enter into a contract with Customs must first submit an application. The Administration will decide on the action to be taken on each application depending on the volume of the operator’s business, the regularity of its operations, its financial standing, the amount of duties adjusted in its declarations, and the recurrence of such adjustments.

An operator’s volume of business is evidenced by the number of declarations registered or the amount of duties paid. The two conditions are not always cumulative. The former can be used to assess the frequency of a company’s imports, while the amount of duties paid is used to measure the operator’s financial strength.

An operator with a large number of imports and a high amount of duties to pay will obviously be better placed to gauge the impact of the facilities granted by Customs. The amount of taxes and the number of declarations reassessed will help to pinpoint the operator’s behaviour in its Customs transactions. An operator that is frequently involved in fraud is a risky applicant, having regard to the facilities provided under the contracts.

The threshold of acceptability of a business is the median value, based on the historic data for all operators processed by the Automated System for Customs Data (ASYCUDA). Twenty-four companies, all of them recruited on this basis, had performance contracts in September 2014.

Challenges to be met by operators
Companies having a contract are assessed every three months against half a dozen indicators, all of which are challenges that they have to face. In general, the operators do not start on their Customs procedures until their goods are unloaded, either as a matter of habit or due to their lack of organization. The contracts include indicators obliging the operator to remove its goods from the port more rapidly, by carrying out several procedures in advance.

Furthermore, most of the companies have had to restructure their services to adapt them to the demands of the new professional mindset initiated by Customs. According to the accounts of certain heads of companies, it seems that the changes brought about have given them a clearer picture of the ways in which their departments operate, and enabled them to monitor the work of their personnel more closely.

An operator who accepts a contract also agrees to work in a transparent manner, something that is far from easy in an environment in which several undertakings are engaged in both formal and informal trade. The indicators are also an incentive to the undertakings not to resort to fraud.

Some of the operators openly state that fraud is part and parcel of import operations, because it offsets the loss of earnings due to corruption and long waiting times for goods. It is not always easy for some of them to accept the paradigm shift.

In addition, the importer often acts as the principal, with several other parties
acting on its behalf in the Customs clearance chain. Its main challenge then is to fulfil its contractual obligations based on the work done by its various agents. These are autonomous entities whose interests do not always coincide with its own. Delays are maintained, moreover, by some of these bodies dragging their feet on purpose to justify the additional charges they are paid or to legitimize the practice of corruption for their own benefit.

Lastly, some of the operators need to change their perception of the Customs administration. Between Customs and the head of a company, there are several intermediaries who often depict Customs as a "fearsome" administration, and as a result, certain importers may be reluctant to enter into a contract with Customs.

**Altering relations between importers and their partners**

Cameroon Customs had noted that the encouraging results generated by setting up performance contracts with inspectors could be jeopardized by the fairly unscrupulous conduct of some stakeholders in the port community.

The importers were accordingly invited to participate in a scheme of contract-based links with Customs, since they are the first link in the chain of those placing orders with several other port entities, and mutual pressure could be exerted with a view to improving the procedures.

The nature of the professional relations among these entities has changed as a result. For instance, importers create competition among several Customs clearance agents, enabling those performing least well to be eliminated. In return, the clearance agents have taken up the habit of pressurizing the operator to place the documents needed for clearance at their disposal more quickly.

Certain operators have threatened to leave their bankers because they had not made the expected transfers in good time. One multinational, which could not drop its Customs clearance agent because they were both part of the same group, wrote to its agent to express its dissatisfaction with the delays that had been ascertained, and – tired of the struggle – asked Customs to step in to make the agent listen to reason.

Customs also receives regular requests to organize meetings between the operators and any stakeholder in the port community who appears to be responsible for the blockages that exist, in particular the port authority, the management of the container park, the association of consignees and some of Customs’ own departments.

**Rapprochement with the AEO concept**

The programme of performance contracts signed with importers is similar to the AEO programme as defined by the WCO. The contracts grant facilities to companies and, to a growing extent, take account of the concerns about the security of the supply chain, bearing in mind the threats associated with political turbulence, and movements of the Boko Haram sect on our frontiers.

Nevertheless, the concept of performance contracts has been retained for the following reasons:

- they allow for greater flexibility by adapting the facilities to an importer’s successive “performance levels”;
- the AEO concept is not yet a priority in the CEMAC, where the operating mechanisms are still very rigid.

**Advantages of contracts with companies**

From the time the contracts are signed, 40% of the operator’s declarations (blue channel) are cleared without controls at the port. If Customs retains the option of being present during the unloading of some of the containers, it may do so only at the place of delivery (by an onsite inspection). The proportion of the company’s goods passing through the blue channel may be increased or reduced depending on its “performance”, although it may not exceed the set ceiling of 90%.

Companies under contract benefit from personalized follow-up by Customs. The latter may exert its influence in the port community to ensure that other port entities are more expeditious in processing the business of the operators concerned. Furthermore, the operators have a focal point within Customs (the Risk Management Unit) to which they regularly refer their complaints, which are handled in real-time. Customs has also undertaken not to sanction certain minor infringements, if their processing could have an impact on the timeframes of the operators with contracts.

Today, the average clearance period at the Port of Douala is 20 days, whereas for operators with a contract it is 11 days. The checks and the time prescribed for the clearance procedure are reduced to what is strictly necessary, limiting the number of occasions of unwarranted payments and charges associated with procedural complexities.

Thought is currently being devoted to granting companies payment facilities in the form of a “collection credit” – for Customs, this means releasing declared goods immediately against the deferred payment of duties and taxes within an average period of 20 days. In return, Customs has also derived many advantages from this, gaining credibility and improving its public image.

More information

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Finding itself confronted by an unprecedented integrity issue provided a compelling impetus for the Australian Customs and Border Protection Service (Australian Customs) to give serious, focused, and innovative attention to the issue, not just to prevent a recurrence, but also to define the type of organization it intended to be in the future. This article provides background on the challenge that Australian Customs faced, and gives an overview of the steps that it has since taken to improve professional standards, promote ethical behaviour, harden resilience to corruption, and eliminate or mitigate integrity vulnerabilities.

Australia is an attractive market for transnational criminal enterprises, particularly drug trafficking. With a strong economy, well-established domestic distribution networks, and a big demand for a broad range of illicit drugs, Australians are willing to pay a relatively high price for these drugs, compared to the global average.

The opportunity for lucrative illicit profits increases the probability that organized crime groups may seek to compromise law enforcement officers by enlisting their aid in circumventing border controls. Indeed, the more effective the border control, the greater the incentive to find a corrupt pathway.

In addition, the money on offer also increases the risk that law enforcement officers themselves may seek to import illicit substances, particularly if they feel confident in their ability to defeat...
whatever systems are in place to prevent such activity occurring.

Fully aware of the risk of collusion between officers and criminals, Australian Customs has for some years now required its entire staff, including contractors, to undertake both a security clearance and a separate suitability assessment prior to joining the administration.

Australian Customs had also set up an Integrity and Professional Standards Branch, whose major role, at the time preceding the events this article focuses on, was to oversee investigations of internal criminal behaviour; also referred to as “internal affairs” investigations.

However, in 2011, an investigation uncovered clear evidence of major corruption within Customs, which highlighted a number of integrity vulnerabilities. It was a major wake-up call, and provided a powerful springboard for Australian Customs to re-think and re-forge itself.

The investigation
In March 2011, the Australian Commission for Law Enforcement Integrity (ACLEI) initiated Operation Heritage to investigate allegations reported by Australian Customs that an officer was involved in the illegal importation of border-controlled substances at Sydney International Airport. The ACLEI, responsible for investigating law enforcement-related corruption issues, was supported by the Australian Federal Police (AFP) and Australian Customs.

Due to the scale and breadth of the corrupt network and its modes of operation, Operation Heritage lasted over 18 months, and revealed a deeply concerning scenario. The conduct observed involved long-term collusion among a number of officers in the airport, with the ultimate aim of importing illicit drugs.

As far as could be ascertained, a small number of officers had begun unauthorized importations of steroids in 2007. In the intervening years, this enterprise had expanded to include more officers and the importation of pseudoephedrine – a precursor drug. Between 2007 and 2012, the network is suspected of having organized and facilitated numerous importations of border-controlled precursors from Thailand and Vietnam on a number of occasions.

In its report, the ACLEI identified that the criminal conspiracy grew out of a confluence of circumstances. The network of officers involved in the illicit importations shared some common demographics, including school links, age, and community ties. These same links and “sources of obligation” extended to friends who were active members in organized crime groups, as well as outlaw motorcycle gangs. Disregard for the law, perhaps driven by an uncritical sense of loyalty to one another, appears to have underpinned the orchestration.

A number of the individuals were users of illicit drugs, and the compromise of individuals – which could be the basis for blackmail, or just the means of assuring loyalty – may also have been a factor in how the network formed and strengthened. Misplaced loyalties and deliberate compromise appear to have formed the basis for the network, linking some border officials with each other and with organized crime.

As you would expect, this very clear evidence of corruption within the organization was a watershed for Australian Customs. It highlighted a number of vulnerabilities, and the challenge was to address the risks, particularly in relation to organizational culture. To achieve the required change, Australian Customs embarked on a journey of reform.

Their response was divided into two phases, first the introduction of additional internal powers followed by the development and publication of a comprehensive “Blueprint for Reform 2013 2018”, which describes the role of Australian Customs within the border environment and sets out the reasons why they needed to change.

Reform: the first phase
The first phase of the reform, implemented in late 2012, was directly prompted by the arrests of the individuals concerned. A number of supplementary internal powers were put into operation to combat the threat of criminal infiltration and corruption. These powers include:

- the introduction of drug and alcohol testing for all officers
  Officers can be tested at any time while they are at work (random testing). Alternatively, officers may be targeted for testing if a reasonable suspicion exists that they are impaired by alcohol or a prohibited drug, if a serious incident occurs, or if they are subject to an official inquiry;

- the ability to conduct integrity testing of officers
  An integrity test creates, under a system of strict parameters and accountability, a situation where there are reasonable grounds to suspect that an officer is involved in corruption, or criminal behaviour is observed.

  The scenario is specifically designed to test whether the identified officer responds in the appropriate way, or in a corrupt or unethical manner. Integrity testing offers an additional option for skilled investigators to dismantle the levels of secrecy and deceptive behaviour that characterize corrupt and criminal conduct, and as such is a useful adjunct to existing integrity measures;

- the legal requirement for all officers to report any serious misconduct, corrupt conduct or criminal behaviour that they witness, including activities that they themselves are involved in
  The activity does not need to be proven in order to be reported. Mandatory reporting ensures employees are not tempted to ignore corruption or misconduct, and allows Australian Customs to manage identified risks and vulnerabilities, while reinforcing the message that it is the responsibility of every worker to fight corruption.

An Integrity Support and Referral Network (ISRN) has been established to support staff with mandatory reporting requirements, and is similar to the one successfully run by the AFP. The ISRN is a network of trained employees providing a facility for officers to readily access support and advice, or to be able to come forward with information relating to misconduct, corruption or criminal behaviour. It provides employees with a fair and confidential mechanism to meet their reporting obligations;
• The power to determine that the termination of an officer’s employment was on the grounds of serious misconduct

The Chief Executive Officer (CEO) has the power to issue a written declaration which prevents a review of the termination of employment under the Fair Work Act 2009 for unfair dismissal.

This declaration must be made within 24 hours of the decision to terminate the person’s employment, and only where the CEO believes on reasonable grounds that the staff member’s conduct, or any part of it, amounts to serious misconduct or is highly likely to have a damaging impact on the professional self-respect or morale of Australian Customs staff, or the reputation of Customs;

Reform: the second phase

The second phase of Australian Customs’ journey towards reform is the implementation of the “Blueprint for Reform 2013-2018”. It was developed as a response to the findings of Operation Heritage and the first report of the Customs Reform Board, and in addition to a separate Australian Public Service (APS) capability review which had been undertaken in July 2013. Customs began implementing the Blueprint in July 2013, and is focusing on three key areas of reform – integrity, modernization, and people.

The integrity measures are designed to regain public confidence and align Customs with other Australian law enforcement agencies. The modernization measures will ensure efficient business systems, streamlined processes, and sophisticated intelligence to deal with the predicted significant increases in volumes of people and goods crossing Australia’s border. The establishment of a new “people model” and operating model will ensure a professional and agile service that is able to adapt to change, and meet the demands of the future.

Organizational changes and risk mitigation

To mitigate the chances of any recurrence, a new Integrity, Security and Assurance (ISA) Division has been set up to strengthen Australian Customs’ integrity systems and processes. They have also created the position of a Special Integrity Adviser, who is responsible for managing the investigation of complex and serious cases of misconduct, including investigations undertaken jointly with the ACLEI, and for ensuring that Customs anti-corruption processes and systems are fair.

Within the new ISA Division, Australian Customs has expanded the remit of the Integrity and Professional Standards (I&PS) Branch to directly manage all disciplinary processes undertaken under the provisions of the APS Code of Conduct. This provides a more integrated approach to managing professional conduct in the workplace, to fighting corruption and criminal infiltration, and to dealing with misconduct.

A new professional standards practice model has been introduced to achieve a greater alignment of processes across the integrity continuum. This includes revising the management of Service wide complaints and cases, including Code of Conduct matters. The model supports the role of the Special Integrity Adviser, and will achieve improved and expeditious resolution of matters.

Awareness and education

The success of Australian Customs’ reform programme depends on the extent to which all officers contribute to the assessment of fraud and corruption risk.

The programme includes an ongoing face-to-face fraud and corruption awareness training programme, which educates employees on fraud and corruption risks, the available reporting mechanisms, and their responsibility to behave ethically and with integrity. Awareness sessions are mandatory for all employees.

Officers are also required to undertake an annual mandatory integrity fraud and corruption awareness course online. The course sets out the expectations of ethical behaviour and everyday sound decision-making processes to be applied by all officers, by taking participants through a series of thought provoking scenarios relevant to Australian Customs’ unique environment. It is coupled with scenario-based face-to-face workshops.

Given the need to keep all officers fully informed of the changes afoot, the reasons, and what was expected of them, Australian Customs’ active and multi-faceted communication programme ensured that every officer has been kept fully informed of every stage of the reform programme.

Professional standards

The investigation found that a culture had been allowed to develop in the airport that accepted poor standards and allowed the flouting of rules and regulations as the norm. This was an indication for Australian Customs that a significant aspect of the move forward would need to be a focus on people, including professional standards. Armed with the knowledge of what had been going on in the airport, Australian Customs adopted a multi-pronged approach towards minimizing future risk of fraud and corruption.

Similar to Australia’s federal and state police, Australian Customs has a requirement for its employees and other personnel who are provided with non-public access to its assets, to undergo an agency-specific character and integrity assessment process, known as an Organizational Suitability Assessment (OSA).

The OSA is designed to identify and manage risks associated with an individual or their circumstances which may cast doubt on the individual’s ability to support Australian Customs to achieve its mission, or otherwise reduce the confidence the Australian Government and the community places in Australian Customs to maintain the integrity and security of the country’s borders.
The OSA and Australia’s security clearance processes complement each other, and together provide assurance to the CEO that a person is suitable to be employed by Australian Customs or to access non-public assets. As a result of lessons learnt through Operation Heritage and in recognition of the broader personnel security threat environment, the OSA framework is now being enhanced to make it one of the toughest in the Australian public sector, especially with regards to detecting and dealing with officers who have criminal associations.

In addition to these enhancements significantly increasing capability to identify and deal with potential sources of threat, Australian Customs is also transitioning to a model whereby suitability will be monitored and assessed on a continual basis, enabling earlier identification of potential issues and concerns.

In recent months, policies surrounding the requirement for officers to report information regarding any variations to their personal circumstances have been strengthened. At present, all officers are required to report any changes in their personal circumstances. This includes changes in relationships with partners, moving house, coming into an amount of money, and changes in their health. It also includes any awareness of criminal activity, even if the officer is implicated.

**Outside employment and voluntary activities**

The policy on officers who undertake outside employment or voluntary activities has also been strengthened. Prior to commencing any employment outside Australian Customs, whether it is paid or voluntary, permission has to be granted by the administration.

This will ensure that officers are not working in industries identified as high risk or which could create the perception of a conflict of interest with their employment at Customs. Industries captured under the enhanced policy include the private security industry and those directly associated with the movement of goods, people, vessels or aircraft across the Australian border.

**Protection of whistleblowing**

On 15 January 2014 the Public Interest Disclosure Act 2013 (PID Act) took effect, replacing the existing procedures and protections for whistleblowing for all federal public servants. The legislation allows current and former public officials to disclose information about suspected wrongdoing to agency officials who are authorized to receive such reports.

This new policy works collaboratively alongside Australian Customs’ already-existing mandatory reporting requirements, and offers civil and criminal immunity for disclosers in making a disclosure, in addition to protecting disclosers from reprisal.

**Taskforce Pharos**

This Taskforce has been established within the I&PS Branch to identify any officers currently working in Australian Customs who pose a significant risk to its integrity and operations as a result of their on duty or off-duty behaviour, their associations outside the workplace, or their involvement in criminal activities.

**Beefing up technology**

The corrupt officers in the airport were using their inside knowledge and privileged access to databases and to the “secure border environment” to defeat surveillance and interdiction systems, including information about law enforcement techniques and systemic vulnerabilities.

Australian Customs had introduced a “whole of airport” operating model to address peak workloads, but this exposed more staff to sensitive information and created an increase in opportunity for corrupt conduct. By working together, the corrupt officers were able to exploit weaknesses in the supervision system, and manipulate rosters and job placements.

To counter these challenges Australian Customs is investing in enhanced security measures, with a strong focus on cyber security measures. It is intent on detecting and protecting security threats, both from external threat actors and, unfortunately, from those within the organization itself.

Policy and practice have also been implemented to further restrict the use of personal mobile electronic devices (PMEDs) in certain operational environments like the airport, or work areas with access to sensitive information, including information that could affect real-time border interventions.

The term PMEDs covers devices with telecommunications, internet access or sound or image recording capability, and includes mobile or smart phones, Blackberrys, iPads, tablets, iPods, interactive CD/MP3 players, radios, digital cameras and camera phones, personal digital assistants, USBs, and personal computers.

**Organizational integrity**

While the bulk of the reforms has focused on the integrity of the individual, there is a further level at which the concept can be applied – organizational integrity. Organizational
integrity means a culture of transparent decision-making with clear lines of accountability and responsibility within a strong governance framework.

Australian Customs has proved to be, as an entity, very good at addressing issues as they arise and responding to operational crises. It has decided to improve its focus on long term preparation to meet changing environments, and taking the lessons learnt from operations and transforming them into normal, Service-wide business practice.

Implementation of an integrated approach to risk and assurance is allowing Australian Customs to systematically identify, assess, record, manage, and report on significant risks across all areas of operations, and to subsequently question whether current levels of assurance (or resourcing of controls) are adequate or otherwise.

A rolling programme of Fraud and Corruption Risk Assessments (FCRAs) was conducted between August 2011 and November 2012, capturing integrity risks specific to each division, as well as enterprise risks that apply across Australian Customs. Common themes emerged across the FCRAs and were listed as areas of significant exposure.

A Risk Management Framework was developed from the FCRA information, which determined Australian Customs’ approach to identification and management of all risks. The FCRAs are living documents, owned and continually updated by each individual division, and embedded into normal divisional business planning activities, which further enhances fraud and corruption risk resistance.

To support Australian Customs’ approach to organizational integrity, the existing independent Audit Committee has had its remit expanded to now focus on both audit and risk. This change has quickly highlighted the value of externally reviewing and questioning Customs risk management and related frameworks.

The cumulative aim of these initiatives is to embed accountability for decision-making and assurance around risk controls into leaders, to make decisions transparent and defensible, and ensure such decisions are made on reasonable evidence of the risks around the decision. This is empowering for Australian Customs’ leaders, and represents a move away from the traditional public service approach of avoiding risk or removing risk, toward one of accepting and tolerating risk, thereby improving organizational outcomes.

Embedding an integrity culture
The integrity challenge faced by Australian Customs is more than the establishment of standards and rules. Australian Customs is also committed to embedding an enduring integrity culture. Core behaviours have been developed with the collaboration of all officers. They provide a set of unifying themes that show that, “no matter what level we are at or which section we work in”, there are fundamental commonalities that bind all officers in the way they approach and deliver their work.

Australian Customs now rewards outstanding examples of “living the established values and behaviours”, and all officers are now required to put in place a career plan. Every officer, in consultation with his/her supervisor, assesses where he/she fits best with the new workforce model, and becomes responsible for the active management of his/her career choices and aspirations.

Looking to the future
While it is regrettable that corruption has occurred within Australian Customs, significant lessons have been learnt from which other law enforcement and government agencies, both in Australia and internationally, can also learn. There are common themes, challenges, and benefits to be gleaned from sharing experiences and strategies.

Over the last 12 months, Australian Customs has shared its story internationally, as well as at home, in order to assist other organizations with their integrity challenges. Australian Customs believes that by continuing to share experiences, both positive and negative, as well as initiatives and policies, “together we can combat the shared global threat”.

More information
www.customs.gov.au
A new approach to addressing corruption

FROM THE LATE 1980s to the early 1990s, international organizations, including the WCO, engaged in development cooperation – no longer willing to turn a blind eye to a situation that risked slowing down the progress of “developing countries” – addressed the issue of corruption, and how to fight it.

At that time, the use of the term “corruption” was carefully avoided – the preference was for euphemisms, such as “ethics”, “integrity” or “good governance”, which encompassed several concepts extending beyond corruption. However, more recently, talking openly about corruption has ceased to be a taboo.

University research seems to indicate that the private sector, which itself is confronted with cases of corruption, has contributed towards this change of attitude, tackling the problem head on and ceasing to regard the public sector as solely responsible for the phenomenon.

The WCO followed this international trend, and in its various working bodies there have been many exchanges of views on the fight against corruption. But how could discussions on corruption in the Customs context be deepened, rather than merely revolve around the presentation of best practices and corruption-fighting tools?

Revisiting the traditional approach

This question was tackled by the WCO Integrity Sub-Committee (ISC) in its session in February 2013. Participants pointed out that, although a lack of “political will” is often evoked in cases where the measures recommended by international organizations are not implemented, there are many senior Customs staff who state that they have made every effort to combat corruption without obtaining results.

It is a question not so much about stimulating political will, then, but rather of taking a fresh look at the approach traditionally adopted in the fight against corruption. Engaging in this fight is no easy task for senior Customs officers who face risks and pressure if they take a position against corruption. These risks, difficult to evaluate, include a reduction in Customs revenue, users switching to neighbouring ports or countries, and social and political discontent.

The essential questions, therefore, are:

(i) how to generate and/or sustain political will by helping Directors General of Customs and their political hierarchy to put in place anti-corruption policies that are pragmatic, realistic, rapidly effective, and capable of being evaluated;

(ii) how to make the fight against corruption a priority for Customs administrations, and establish a concrete link between anti-corruption policies and reforms.

This second question highlights the need to anchor the fight against corruption in a policy of reform, in that these two aspects – the implementation of reforms and the introduction of new instruments designed to reinforce integrity – must be envisaged in the context of the institutional objectives set by an administrative authority.

New perspectives

Since 2010, the WCO has used, as the basis for its integrity-building actions, the approach adopted for all the Organization’s capacity building activities, namely (1) self-assessment (problem identification), (2) planning, (3) implementation, and (4) evaluation and monitoring. In the general framework of this current approach, the WCO is proposing two new possibilities.

First, an objective impact assessment must be a priority right from the project design phase. The purpose is to identify bad practices that are linked to acts of corruption and that have a major impact on the institution’s objectives, and to monitor their evolution as the project progresses, in order to reduce the impact of corruption on the objectives of the institution (revenue collection, enforcement, clearance times, etc.).

Second, it is essential that experts work to support the political will of the most senior managers. To this end, the WCO intends to organize a series of seminars that, as well as presenting existing anti-corruption tools, will include a discussion on the concepts of corruption and integrity that have been studied in the course of academic research. This discussion should enable senior Customs staff to develop a political vision reflecting their local professional culture.

From the outset, corruption should be envisaged as a crime that is punishable by law, and not as a fault that is a matter of morality. The issues tackled in the framework of this type of seminar are...
directly linked with corruption, namely information asymmetry, quantification, competition, the autonomy of officials, accountability, and transparency. These concepts, presented briefly below, are intended to trigger a discussion among senior Customs officers.

Information asymmetry
The existence of information asymmetry between senior Customs officers and operational services is something that is observed in every country. It often gives rise to a perception among the public or amongst staff themselves of the Customs management’s lack of political resolve in favour of reform.

Although measures to reform Customs administrations in line with international standards have, in fact, been adopted by most administrative authorities, it must be recognized that, at grass roots level, the realities are often entirely different, with officials being able to resist the change, sometimes due to the very fact that corrupt practices exist.

Measurement
It is essential to adopt a policy on quantification using data stored in the computerized Customs clearance system to counteract information asymmetry. This measurement would provide the Director General of Customs with a comprehensive overview of the activities of all his officials and operational services.

Without such visualisation, bad practices will persist, the quality and effectiveness of the services offered to users will deteriorate, and perception surveys will continue to be negative. It will also provide information on individuals, and will help to guide the adoption of technical measures in order to remedy certain bad practices, such as the manual reallocation of one officer’s declarations to another, or the rerouting of declarations for the purpose of physically checking goods, thereby increasing contacts between officials and private sector users.

Competition
In countries in which corruption is endemic, the existence of competition among officials, services, and offices must be taken into account. Substantial flows of goods transit through ports and airports, and it is not unusual, for example, for competition to be established to attract users, by undervaluing the goods.

Autonomy of officials
Another factor that should be borne in mind is that Customs officers enjoy powers of discretion, and therefore a degree of autonomy. The question that then arises is the following: how can officials be given a measure of autonomy, while ensuring that there are not too many departures from the rules?

Two options are usually available to an administration: either creating processes that are very strict and detailed, and punishing each deviance, or defining limits, and giving staff autonomy to decide how they will achieve the service’s objectives within these limits.

The first option can be dangerous, as it would be difficult to describe or imagine every situation that may occur. Moreover, staff will always envisage the integrity system through its potential failures and opportunities.

The other option is to provide staff with a working environment within which they will have as much autonomy as possible, with their actions being monitored accurately to ensure that they do not bypass the limits. Choosing this option means that:

(i) only a small number of concrete rules and limits should be enforced at the same time, so that staff can transpose such rules and limits by themselves, through an individual and empirical process, in their daily practices;

(ii) rules and limits should be prioritized, as not all non-ethical behaviour has the same impact on the achievement of institutional objectives, so it makes sense to focus efforts on what has the biggest impact on such objectives.

Accountability
The question of autonomy is closely linked to that of accountability. A Customs officer enjoying a certain degree of autonomy becomes fully accountable for his or her acts, and must be answerable for them, especially if a completely transparent quantification and performance measurement system has been set up within the administration.

Transparency
This brings us to the subject of transparency. It is not just a concept, it is a tool that can be used to combat corruption. It can serve to explain to users, for example, why certain Customs revenue goals have not been achieved. It also serves to create a climate of trust between a Customs administration and the private sector.

Experience in the Seychelles
The WCO approach, which consists of initiating a discussion on these concepts between its experts and Customs representatives in the countries having requested its support in implementing an anti-corruption policy, has been tested in the Seychelles.

The WCO had already visited the archipelago in 2012, to help the Seychelles Revenue Commission (SRC) carry out a self-assessment and develop a plan of
action on integrity, and it followed this up by providing a virtual support service.

In 2014, the WCO returned to the Seychelles to assist the SRC in developing an Integrity Framework that would help the administration with its reform process following the recommendations of the WCO and the International Monetary Fund (IMF).

WCO experts met with the SRC Commissioner, the members of the recently created Ethics Advisory Committee, as well as with representatives of the Customs agents (brokers) community. A visit to the port was also organized, in order to meet operational staff. Lastly, the issues mentioned above, including the integrity and anti-corruption concepts, were discussed openly during a workshop for senior SRC staff.

The Integrity Framework requested by the SRC Commissioner is the product of working sessions and consultations with SRC Senior management, and was drafted taking into account Seychelles’ background, reality, and challenges. Based on the identification of what has already been done by the SRC, this Integrity Framework:

(i) aims to create a consensus on a few principles, in order to embed integrity into the SRC reform programme;
(ii) examines the core conditions under which these principles may be applicable;
(iii) identifies some decisions to be discussed internally;
(iv) proposes different strategies to transform the principles into concrete actions.

Conclusion

In talking about corruption and discussing concepts, such as those described in this article, senior Customs officers are led to reflect on the application of international rules, establishing an order of priorities in terms of integrity that reflects the local situation.

The objective is to reinforce the role of the management staff at the time of defining integrity policies in the context of the reform of an administration, and to enable senior managers to think about their own commitment. As for the experts, this approach helps them to review their own practices.

To read more about integrity and corruption issues, and developments in this regard, please consult the links below:

- www.wcoomd.org/en/topics/integrity

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Challenges and successes of post-conflict and transition countries in enhancing governance: the case of Liberia

By William L. Buku,
ASSISTANT COMMISSIONER OF CUSTOMS, LIBERIA REVENUE AUTHORITY

LIBERIA’S BUREAU of Customs and Excise was established on 6 March 1952 through an Act of the National Legislature, as a Division within the Department of Revenue, with sole responsibility for collecting and reporting all revenues. The Bureau carried out its statutory functions up to 1990, when a brutal civil war engulfed the country, leaving all infrastructure devastated.

The country was divided among warring factions, with belligerents in control of all government functions, including Customs. When moving goods from one warring faction zone to another, even after the cease-fire, Customs duties had to be paid to armed militiamen. It was like travelling to another country or, more accurately, another Customs territory. There was no longer a single Customs administration, as Customs had broken down completely.

Fortunately, the war ended in 2003 as a result of a truce brokered in Accra, Ghana, which saw the establishment of an interim government in Liberia. Resurrecting the Bureau became a challenge for the government. Some Customs officers reorganized themselves in response to the government’s call, and began working with peacekeepers at the Freeport of Monrovia – the capital’s seaport – as well as at Roberts International Airport and James Sprigs Payne Airfield.

The Head of the interim government identified the highest-ranking Customs officer then present in Monrovia, a director prior to the war, and appointed him the Commissioner of Customs. Duties and other levies were paid in cash to the collectors at the ports, and then taken to a safe at the Ministry of Finance.

Rebuilding Customs
The Liberian government requested Ghana’s Customs, Excise and Preventive Service (CEPS) to assist it in reorganizing Liberia’s Customs administration, to return it to its pre-war status. CEPS responded by sending four experts not only to help with the reorganization, but also to put in place integrity measures. Regular in-service training was also introduced.

With the support of the WCO and other partners, Liberia’s Bureau of Customs and Excise began resuming its activities. However, Liberians realized that they needed to put the bitter civil war behind them and re-build their economy, and their country. Thus, the need not only to re-organize, but also to modernize, Customs became paramount, given its critical role at borders.

In terms of the comprehensive peace agreement, most of the ministries and agencies had been divided among the three warring parties, with a few governed by political parties and civil society. Customs offices were overstaffed, and many Customs officers were former fighters recruited by the various factions. The modernization of Customs under such circumstances was a daunting task.

Nevertheless, the 2005 elections brought in a new Code for public employees. The then new Deputy Minister for Revenue, who had a background in the private sector, was able to garner and provide support for the Customs reform process in Liberia. She insisted on building a small, well-trained Customs administration that would provide effective and efficient service with integrity.

The Deputy Minister identified those she could work with as “agents of change”. Although the process was painful, as it involved downsizing and right-sizing Customs, leading to redundancies, early retirements, and transfers, etc., it had to be done. One of the upsides of the changes was that the drastic reduction in staff led to an increase in remuneration for those officials who were retained.

The WCO supported Liberia’s Customs modernization programme by undertaking a diagnostic study mission in June 2009, which led to the drafting of a modernization strategic plan that included the development of policies on integrity. These capacity building initiatives culminated in the signature of a Tripartite Agreement between Liberia, Ghana and the WCO in 2011. Liberia’s Customs modernization strategy is based on four tiers:

• Automation
The Customs automation process began in July 2009 with the constitution of a national ASYCUDA Project Team, followed by intense training. The first automation was launched at the Freeport of Monrovia on 2 November 2009. Since then, the Project has been rolled out to 12 out of 17 ports. More than 95% of international trade volume in Liberia is currently processed through ASYCUDA World.

• Training, communication and change management
Customs has embarked on a vigorous training programme, not only for Customs officers, but also for stakeholders, such as Customs brokers, bankers, and shipping lines, which places emphasis on integrity. It has also included training-related provisions in agreements with collaborating partners, such as Bureau Veritas (BIVAC) – Liberia’s Pre-Shipment Inspection provider – as part of BIVAC’s contract exit strategy. Customs is also benefiting from WCO capacity building programmes, including the Fellowship Programme.

• Infrastructure development
The civil crisis in Liberia created massive infrastructure losses in every sector. To remedy this situation, an infrastructure development plan has been designed which includes components relating to modernized administrative and
operational structures. Customs is currently sourcing the necessary funding.

- **Policy and legislation**
  Customs undertook a review of its legislation, policies and practices to kick-start the reform, which was benchmarked against international conventions, protocols, and best practices. The Bureau drafted and sent to the Legislature a new Customs Code that is in full compliance with WCO instruments and tools, such as the Revised Kyoto Convention (RKC) on the simplification and harmonization of Customs procedures and the Revised Arusha Declaration on integrity in Customs, and other international norms.

**Integrity on the front burner**
In the face of all these modernization efforts, Liberian Customs has experienced numerous challenges – a resistance to change, automating in an environment where computer literacy is rare, and the persistence of human intervention (diversion from automation to manual processes) at some levels.

To meet these challenges, Liberian Customs has focused its efforts on enhancing integrity and using automation for Customs operations as a tool to improve transparency, and at the same time monitor the performance of Customs staff. Direct measures taken in the fight against corruption include:

- the creation of an Internal Affairs Unit, to serve as an internal intelligence and investigation service for the Department of Revenue;
- the development of a Code of Conduct to govern the behaviour of Customs staff, in addition to the Revenue Code and other laws;
- making declaration of assets compulsory;
- securing an office at the Department of Revenue for the Assistant Minister for Economic Crimes in the Ministry of Justice, to enable a close watch to be kept on the Department’s activities;
- the introduction of a hotline and a whistle-blower arrangement, whereby people are awarded 10% of amounts recovered as a result of information provided by them – in fact, the then Deputy Minister for Revenue made her personal telephone number available for hotline callers.

As a result of the introduction of a Code of Conduct, Customs officers are suspended for allegations of any breach in integrity, including corruption. Those found guilty are dismissed and prosecuted using the full weight of the law. Officers who are vindicated may return to work.

To enable Liberia’s Customs management to monitor the activity of officers and control bad practices, the Bureau decided to implement an automated performance measurement (PM) system using the data contained in the ASYCUDA system.

The United Nations Conference on Trade and Development (UNCTAD) had created a specific PM module for the ASYCUDA system, based on Cameroon Customs’ positive experience with the use of a PM system. Together, the WCO and UNCTAD developed a tailor-made PM application for implementation in Liberia, and provided assistance to the local project team.

The PM module contains 29 indicators based on the experiences of Cameroon and Togo, vetted by the WCO. In addition, a new set of indicators recommended by Liberia and endorsed by the WCO and UNCTAD, including one to measure the integrity of the IT system, will shortly be included in the module.

Since the installation of the module, Liberia Customs has realized that it can measure the performance of Customs staff accurately – allowing for reasonable and unbiased management decision-making. Some staff already appreciate the fact that the data is unbiased, and others are beginning to feel embarrassed that the system exposes their poor performance.

Furthermore, the implementation of the PM module has resulted in the revision of some procedures that were conducive to bad practices, leaving Liberia Customs convinced that the PM tool will impact positively on trade facilitation, risk management, and integrity.

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Integrity in Customs’ procurement: the Norwegian perspective

By Per Arvid Nordli,
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CUSTOMS ADMINISTRATIONS ARE involved in the procurement of a wide variety of goods and services, ranging from scanners, vehicles, boats and technical equipment to construction, contracting, travelling, security, and a lot more. These operations involve big money. Norwegian Customs, for example, procures goods and services totalling more than 80 million euros on average per year.

With such massive amounts of money involved, procurement operations can become an inviting playing field for corruption: companies may want to gain a competitive advantage over their business rivals by using their “connections”, or a circle of companies within the same business sector may collude on prices or rig bids.

By adding to a project’s cost – up to 50% according to international studies – corruption loses our governments and institutions money. But not just money: it is a multifaceted phenomenon that covers a variety of types of theft of the public’s political, social, and economic assets, which in turn often leads to the undermining of economies, unfairness, and political nepotism.

In more practical and direct terms, corruption affects the quality of the equipment we use and the services we provide, our ability to perform and innovate, and even the security of our officers and clients. In addition, corruption may be linked to money laundering, the use of illegal workers, and environmental threats.

Is Customs doing better or worse than other government agencies in this respect? Probably not better – but, not worse either. According to the Corruption Perceptions Index developed by Transparency International (TI), there are strong indications that public services, including Customs, are perceived as being rather corrupt in some countries. TI’s Norwegian branch even uses the bribing of Customs officers to avoid controls as a typical example of corrupt behaviour.

Minimizing the risks
Over many years, we have been in a situation where neither our internal nor external audits have revealed any suspect behaviour connected to procurement. We like to think that we have procedures in place that at least minimize the risk, but we are, at the same time, fully aware that corrupt behaviour occurs across the public sector, including state entities.

Recent examples can be found in the oil business, where a supplier of equipment to Statoil (a Norwegian multinational oil and gas company) was sentenced for having hired a consultant to produce fictitious invoices that were then used to claim payment from the company, and one big high-tech company is currently under investigation on suspicion of corruption. Both entities are partly owned by the government.

In another example, a large bus company is also under investigation, suspected of having tailor-made a call for tender to fit one supplier only. So, there is no reason to believe that any organization, whether public or private, is immune from corrupt practices.

But how can we minimize the risks of corruption in public procurement? The answer is not simple – but, having a strong procurement system in place is critical. A key precondition of all Customs procurement is that it should satisfy three basic elements: predictability; transparency; and equal treatment of all suppliers.

Norway’s strategies are based on these three principles, with the overarching goal of ensuring that our procurement covers existing and future needs in relation to correct performance, functionality, quality, and price.

To ensure effective implementation of these strategies, we always establish a procurement team and in addition, we have a setup for quality assurance consisting of an associate cross-checking that the process is carried out correctly. The process and contracts are also checked by Customs’ Internal Audit Unit.

Systems and procedures
Legislation is the backdrop to all procurement processes, and can be said to be an expression of a country’s political will. The Norwegian Criminal Act criminalizes participation in corrupt activities by Norwegian and foreign public service officers, as well as by private actors. In addition, the authorities require an environmental assessment of the supplier and of the commodity or service which is to be procured.

To ensure that a supplier meets integrity and ethical standards, it is required to comply with the provisions contained in the International Labour Organization (ILO) Convention, which covers child labour, salaries, and other ethical and integrity requirements.

Norway’s procurement procedures have been developed over time, and the measures taken thus far have proved to be successful. Below are the key steps that are followed by Norwegian Customs in a procurement process:

- Needs assessment
The first step is to establish properly whether there is a need to engage in a procurement process. Although this may seem obvious, the reality often proves different. We have to ask ourselves some key questions as to how the need has been established, what the real need is, who established the need, and whether we are sure the need is fully described and specified.

The point is that if we do not perform a rigorous assessment at this stage of the process, we may, for example, risk contracting a service for many years that ends up being irrelevant in covering our real needs. One pitfall at this stage is to be too general about definitions, including the
criteria for the choice of supplier, allowing the parties to “creatively interpret” tender papers and contracts at a later stage. We have to keep in mind from the start of the process that the needs specification must be mirrored in the contract, as we do not want to deviate from the definitions later down the line.

Other considerations on our path towards contracting should include the following: Who carries the costs of disposal and scrapping? Who follows up the contract on each side? Who is responsible for the costs and administration of competence development? And are there other important questions involved, such as the suppliers’ involvement in the running of the service or commodity?

- **Planning**
An expert group of at least two persons is established with the task of developing the content of the needs specification. Once the needs have been specified, the total value of the procurement should be assessed, including the price and total life cost – i.e. the purchase cost, including service and maintenance costs during the total expected lifetime of the said commodity or service.

Once the procurement has been decided, an officer is appointed to conduct the process, together with an associate who will check his/her actions. No one in Norwegian Customs may conduct procurements alone. Also, an internal check-list should be developed that follows the procurement process from start to finish.

- **Conduct tender**
The tender documents are then produced and advertised on Doffin/Ted – the marketplace for public tenders. During the period specified for submission of tenders, suppliers can approach Customs with their questions. They may only be contacted using official email addresses, and all contact has to be logged.

The officer in charge of the procurement process conducts a quality control of the offers received within the set time, which is then checked by his/her associate. Ensuring fair competition and transparency is key. Fairness cannot be delivered without openness and transparency. This means that all bidders have simultaneous insight into each other’s position and into how the buyer handles the processes.

Evaluations of qualifying offers are then conducted in collaboration with the expert group and, again, checked by the associate. The choice of supplier is probably the most critical phase of the procurement process once the need has been identified and the corresponding advertisement for tenders has been published. Deviation from the detailed tender description should be out of the question at this stage, and any “nice-to-have” offers from any of the competitors must not influence the choice.

This means that a strict and open system for score-setting, including price evaluation, must be in place and already advertised in the tender process. The scoring is transparent and distributed to all the suppliers that have replied to the tender. This is done by sending each of the suppliers a comprehensive letter describing how the evaluation has been carried out and the outcome for their organization. As the possibility to appeal exists, accuracy on the part of Norwegian Customs is a must.

- **Follow-up and evaluation**
The results of the procurement process are scrutinized, and the discovery of any weaknesses reported and documented. Working procedures may be revised to avoid future pitfalls. The delivery of the product is evaluated, and new areas of investment may be identified.

**Conclusion**
Predictability, transparency and equal treatment are the basic elements in all procurement processes, and we are always on the alert for any future development or enhancement of our methodology. Norwegian Customs will be happy to share its experience with other Customs administrations.

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Introduction

Located in the vast Pacific Ocean, more specifically the southwest corner, the Republic of Fiji comprises an archipelago of more than 333 islands and over 500 islets. It has one of the most developed economies in the Pacific island realm.

With the allure of sun, sea, sand and surf, Fiji conjures up images of paradise and the perfect holiday. The fast-growing tourism industry, which the nation of Fiji depends on, also means that the work of the Fiji Revenue and Customs Authority (FRCA) can be challenging.

The FRCA came into being through the amalgamation of the Fiji Islands’ Inland Revenue Service and its Customs Service in 1998. The Authority has continued to reform and modernize its processes to ensure it is on par with global standards and practices.

Its mission is to be recognized as a leading contributor to Fiji’s economic, security and social programmes, by effectively collecting the majority of government revenues, carefully protecting Fiji’s border, facilitating trade, and providing quality advice to key stakeholders.

FRCA’s vision is to be the premier revenue collection, border management and trade facilitation agency in the region. This is clearly demonstrated by the fact that Fiji currently hosts the only WCO accredited Regional Training Facility in the South Pacific.

Six key focus areas

Develop a compliance risk-management framework in order to identify and treat the risks to voluntary compliance

This will be done by:

- identifying tax and Customs groupings with similar characteristics;
- identifying risks within each group;
- prioritizing the risks against specific criteria;
- developing interventions to combat the risks – both assistance and enforcement;
- measuring the success of the interventions in order to create a learning cycle for new designs.

Optimize processes, systems, structures, legislation and policies to ensure they are modern and reflect best practice to support the aims of the FRCA

The aims are to minimize FRCA costs by maximizing the use of technologies, support the identification and targeting of risk, minimize the cost of compliance to business, reduce the opportunity for internal fraud, and implement recommendations of the WCO and the International Monetary Fund (IMF).

These aims will be achieved by:

- re-engineering current processes;
- implementing self-assessment in tax processes;
- implementing the WCO’s Revised Kyoto Convention (on the simplification and harmonization of Customs procedures) and the SAFE Framework of Standards (to secure and facilitate global trade) in Customs;
- implementing Pay-As-You-Earn (PAYE) and presumptive tax;
- ensuring the FRCA has a business design function;
- rewriting the Income Tax Act and Value-Added Tax (VAT) Decree;
• rewriting and reviewing VAT policies;
• ensuring compliance with bilateral, multilateral and regional trade agreements.

FRCA is to tailor its services and assistance programmes to the changing needs and expectations of all stakeholders
This will be done by ensuring that:
• through technology, taxpayers, importers and intermediaries will be able to interact via the FRCA 24/7 portal in areas relating to filing, correspondence, and payments;
• explanatory written media on all core processes relating to revenue collection, border security, community protection and trade facilitation are available to taxpayers and importers;
• effective and enduring relationships are developed with key stakeholders;
• ongoing understanding of stakeholders’ changing needs is maintained;
• the external communication programme is improved;
• pace is kept with stakeholders’ needs, and advancements in technology.

Border and community security will be continually improved
Such improvements will be ensured by:
• strengthening all border control functions;
• establishing a Cargo Non-Intrusive System Unit;
• establishing a central networking system with other border agencies;
• establishing an inbound Hold Baggage Scanning System (HBSS) for compulsory imagery of all inbound passengers and crew baggage, commencing at Nadi International Airport;
• implementing the WCO SAFE Framework of Standards;
• upgrading the Single Window/Customs system.

FRCA’s human capabilities will meet the changing needs of the business
This will be attained by ensuring that:
• staff meet the needs of the reforms, including self-assessment and the implementation of the WCO Revised Kyoto Convention/SAFE Framework of Standards;
• specialized technical and legal competencies are developed for the FRCA to remain abreast of the increasing complexities of global trading by international firms who trade within Fiji;
• core human resource (HR) policies are reviewed and modernized to fit the changing needs of the FRCA’s core business, such as job design and structures, industrial relations, reward and recognition, terms and conditions, performance management, hours of work, and training and career development;
• the structure of the FRCA will separate FRCA Headquarters activity and branch activity with a core ‘business design function’ included in the Headquarters’ activity.

FRCA will be accountable for the effective use of its resources
This accountability will be achieved by ensuring that a performance budgeting process and measures will be put in place to measure and report on the effectiveness of each part of each core business process.

Modernization

Legal framework/legislation/policy/standard operating procedures (SOP)
Legislation review that promotes international partnerships – Customs-to-Customs, Business-to-Customs, and Customs-to-Government; adoption of international standards; inter-agency partnerships; single risk philosophy; improved trade facilitation; business process re-engineering; and coordinated border management.
“Having reliable, up-to-date and, above all, comparable data on tax revenues invites us to be open to different possibilities and to discussions of the choices”

Jocelyn Pierre, OECD CENTRE FOR TAX POLICY AND ADMINISTRATION

THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) has, since 1972, been publishing “Revenue Statistics – OECD Member Countries” on an annual basis. These statistics, which go back to 1965, enable these countries to position themselves against each other in terms of tax levels and structures, and serve as a basis for the majority of studies describing and analysing tax policies.

Since 2011, the OECD has extended its collection of such data to non-Member Countries of the Organization and has published statistics on the government revenue of 18 Latin American and Caribbean countries and four Asian ones. In 2015, it plans not only to increase the numbers of participating countries in these regions, but also to publish a first edition on some African countries, including Cameroon, Mauritius, South Africa and Tunisia.

The commitment to ‘enlargement’ by the OECD is based on the finding that, while there is currently some data on government sector revenue of developing countries, in particular that of the International Monetary Fund (IMF) or of regional development banks, it is not always published and is rarely comparable with each other.

This approach is also part of a series of initiatives concerning the tax and budgetary policies undertaken in OECD partner countries with local partners to facilitate the identification of potential and appropriate reforms, as well as to improve their ability to mobilize internal resources.

In this interview with WCO News, Jocelyn Pierre, Advisor to the Director at the OECD Centre for Tax Policy and Administration, explains the importance of having standardized data on government sector revenue.

How does this plan to collect government sector revenue fall within the OECD’s overall objectives?

The mission of the OECD is to “promote policies that will improve the economic and social well-being of people around the world”. It looks at many issues that directly affect everyone’s daily life, such as how much people pay in taxes and social security.

To formulate these economic policies the OECD develops economic studies drawing on its economics and statistics database, one of the best-supplied data bases in the world. The measurement, analysis and comparison of this data allow us to report on development in the long term, evaluate in quantitative terms the effects of reforms, and consider future trends.

The data, collected directly from countries, is widely used by researchers throughout the world. It is of direct use to those governing each country when drawing up fiscal policy of course, but also when sharing an experience or seeking solutions to common problems.

The OECD is addressing these statistics for the purposes of comparison, but why compare, and to what extent does comparison make sense?

Comparison is the very ‘value add’ of multilateralism. Who better than an international organization can ensure the collection and structured comparison of data over a multitude of countries?

We start from the idea that countries have institutions in common, a tax administration for instance, and values such as economic development or the fight against inequalities, which justify and allow the elaboration of data that is produced collectively and useful to all.

This does not mean to say that the countries studied all share the same objectives. Our statistics do not seek to identify any kind of ‘fiscal performance’ which would rank countries or condemn some of them. Happily, taxation does not lend itself well to ranking!

The first limitation on our work relates to taxation itself. Statistics on tax revenues are a compilation of data from registers designed for the purposes of taxation and which reflect the administrative institutions, rules and circuits of a country.

The second limitation is temporal. These institutions, rules and circuits are changing, as are the resources made available for collecting and compiling the data. The statistician, in tax matters as in others, is faced with a dilemma: the system needs to be changed when it no longer allows us to stick to reality, but not too often or there is a risk of adversely affecting the comparability of the time series.

And do not forget that temporal changes introduced by the OECD are the fruit of a subtle adjustment between the needs of each country and the general objective of comparability. The more the number of countries increases, the more difficult the task becomes.

This is where a third limitation appears, the weight of which is making itself felt more and more: geography. First because the statistical methods used were designed for OECD Member Countries in the 1970s. The progressive increase in the number of OECD countries, then the enlargement to countries outside the OECD, obliges statisticians constantly to fine-tune the definitions, collection methods, and analyses in order to maintain their full heuristic capacity, i.e. their capacity to build ideas.

To do this, they work with local statisticians, as testified by the very numerous exchanges which have allowed the production of publications on Latin America and on Asia. Enlargement, and the issues it raises, are, moreover, an opportunity for OECD Member Countries to benefit from the methodological innovations brought to light.
Another geographical limitation is that of number: we would like as many countries as possible to agree to take part in the survey so as to generate a ‘club effect’ phenomenon, whereby the real utility of a technique or product depends on the number of its users – a phenomenon well-known to economists.

Finally, let us not be naïve, no concept is universal, in the sense that it would have the same meaning, or indeed the same use, everywhere. This means that, to arrive at a common language and a unified presentation of comparable figures, a long-term process of technical work, the fruit of negotiations, abnegations and explanations, is necessary.

This is what the OECD statisticians and their partners do, under the under the guidance and vigilance of the Working Group representing the Member Countries. Each decision is documented and the consequences for suppliers of the data explained. The definition of each indicator is shown in an interpretation guide, and the connections to the choices made are very transparent.

Allow me to give you a few examples. As regards tax expenditure, i.e. forms of public aid implemented through the tax system that have the effect of reducing tax revenues, it is not always possible to produce comparable data at the international level due to the difficulty of defining a shared standard in relation to which the reduction of tax obligations may be evaluated.

Each country is already struggling with the development of a national consensus on the ‘reference’ tax regime and, depending on the country, these ‘expenditures’ are presented as ‘non-revenues’ or as ‘inactive’ budget expenditures.

Another example is when local taxes are taken into account only where they figure in national accounting. However, in some countries, local taxes are collected locally and these levies are not always carried over into the national metrology system. Added to this is the great diversity of subnational governments in tax matters.

How can these statistics help the heads of the contributory administrations, and of Customs in particular?

A first reply is very pragmatic. Officials in the volunteer countries see an improvement in the degree of legitimacy accorded by their political authority due to their cooperation with international organizations. They benefit from an external technical momentum to undertake or stimulate work which is often desired but not always encouraged.

Finally, through data processing, privileged links are forged between OECD experts and local officials of ‘informant’ services, and within the group of local officials. The latter thus find themselves in a technical environment, which allows them to learn new techniques that are valued internationally.

The second answer is more political. This data, which is reliable, up-to-date and, above all, comparable, brings a lot to the democratic debate by objectifying it. It brings transparency and reduces the asymmetry of information between the public and decision-makers, and even between decision-makers themselves.

Comparison, with others and with oneself over time, highlights progress and any weaknesses, such as what is being done and what could be done.

With regard to the practices and policies carried out by other countries, and with regard to figures from the present and the past, statistical comparison reveals room for manoeuvre: reduced rates of value-added tax (VAT) or Customs duties, environmental taxation, tax and Customs union benefits, etc.

As I have already explained, it is comparable data which is the breeding ground for relevant economic analyses and good political decisions. This means that the debates are not in vain and decisions are not made in advance. To the contrary, the fact that we have this data invites us to be more open to the different possibilities and to discussions of the choices. From the citizen to the Customs official, via parliamentarians and directors, researchers and militants, each one has their part to play in building a tax system which is both efficient and just.

What does a country’s participation in this project entail in practice, what level of commitment does it have to provide, and who should be contacted to initiate it?

The conditions are different according to the country. Generally, the Minister of Finance formally becomes part of the OECD on expressing a wish to take part. Often the heads of tax and Customs administrations are involved in raising the awareness of the Minister. The OECD Centre for Tax Policy and Administration and the OECD Development Centre are ready to support national administrations interested in participating in the project.

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Highlights from the WCO Revenue Conference

The WCO revenue Conference, held from 30 June to 1 July 2014, welcomed over 120 representatives from Customs administrations, inter-governmental organizations, and the private sector. Presentations and discussions centred on a wide range of revenue-related topics, such as the relationship between Customs valuation and transfer pricing, value-added tax (VAT) systems, environmental taxes, excise taxes, de minimis levels, informal trade practices, and regional integration including the closely linked issue of preferential rules of origin.

A representative from the WCO Secretariat presented the WCO’s ‘Revenue Package’, developed for Member administrations seeking to strengthen their capacity to collect legally-due revenue. He spoke about the need for well-targeted controls, the accurate identification and verification of Customs duties, and the benefits accruing to both WCO Members and business following the introduction of post clearance audit and advance rulings programmes. Good practices for the use of a ‘valuation database’ as a risk management tool were also presented.

In addition, the Conference featured a panel on the implications of the World Trade Organization’s (WTO) Trade Facilitation Agreement (TFA) on Customs revenue collection. A WCO research paper [Yasui, 2014] prepared for this panel contended that TFA implementation would likely have a positive impact on Customs revenue, particularly through increased trade volumes, higher trader compliance, and further recovery of revenue loss. Although several TFA measures could potentially cause a decrease in revenue, the impact of such measures could be negligible, or outweighed by the increase in revenue resulting from the uniform implementation of the TFA.

The WCO research paper concluded that additional revenue resulting from TFA implementation would be sustainable, and would have a positive impact on domestic revenue mobilization, especially in developing countries where Customs revenue accounts for a substantial portion of government tax revenue. The panellists generally agreed with the assertions made in the WCO research paper.

With respect to the complex issue of the relationship between Customs valuation and transfer pricing, the panel of experts discussed options for advancing work in this area, based on the work currently being carried out by the WCO, in coordination with the Organisation for Co-operation and Development (OECD) and the World Bank Group.

The challenges posed by the informal trade sector to efficient revenue collection were also discussed. It was acknowledged that a balance was needed, whereby Customs should encourage the formalization of procedures wherever possible, and seek practical solutions given that this was a cultural phenomenon that is likely to persist.

In his closing remarks, the WCO Secretary General commended Conference participants for actively contributing to the dialogue on this vital issue for many Customs administrations, and noted the valuable proposals for moving the WCO’s Revenue Package programme forward, in particular at the upcoming WCO Working Group on Revenue Compliance and Fraud which will meet for the first time in December 2014.

More information
www.wcoomd.org
Calendar of Events

November
- 4 - 5 WCO Counterfeiting and Piracy Group, 11th Meeting
- 6 - 7 Revised Kyoto Convention Management Committee, 13th Meeting
- 10 - 11 Finance Committee, 96th Session
- 17 - 21 Harmonized System Review Sub-Committee, 47th Session
- 25 - 26 WCO/UPU Contact Committee, 34th Meeting

December
- 1 - 3 Working Group on Revenue Compliance and Fraud
- 7 - 8 Private Sector Consultative Group, Recife (Brazil)
- 8 - 10 Policy Commission, 72nd Session, Recife (Brazil)

January
- 14 - 16 Scientific Sub-Committee, 30th Session
- 19 - 21 Data Model Project Team
- 22 - 23 Information Management Sub-Committee, 68th Meeting
- 26 International Customs Day
- 26 - 27 Global RILO Meeting, 18th Meeting
- 28 - 29 CEN Management Team Meeting, 14th Meeting

February
- 3 - 4 Technical Committee on Rules of Origin, 33rd Session
- 5 - 6 Technical Experts Group on Air Cargo Security, 9th Meeting
- 10 - 11 Audit Committee, 9th Meeting
- 12 - 13 Agreement on Trade Facilitation Working Group, 3rd Meeting
- 19 - 20 Regional Offices for Capacity Building/Regional Training Centres, 10th Meeting
- 23 - 25 Capacity Building Committee, 6th Session
- 26 - 27 Integrity Sub-Committee, 14th Session

March
- 2 - 6 Permanent Technical Committee 207th/208th Sessions
- 9 - 13 Data Model Project Team
- 9 - 10 Harmonized System Committee Working Party
- 11 - 20 Harmonized System Committee, 55th Session
- 23 - 27 Enforcement Committee, 34th Session
- 30 Mar. - 2 Apr. Finance Committee, 97th Session

It should be noted that WCO meetings are mentioned for information purposes and are not all open to the public. Unless otherwise indicated, all meetings are held in Brussels. Please note that these dates are indicative only and may be subject to change. The WCO meetings schedule is regularly updated on the WCO website.
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