CUSTOMS MODERNIZATION PROCESS AND PERFORMANCE MEASUREMENT

Prof. Jovanka Biljan, PhD
St.Kliment Ohridski University – Bitola
Faculty of Tourism and Hospitality – Ohrid
Department of Customs and Freight forwarding
Customs - definition

• Government agency entrusted with enforcement of laws and regulations to collect and protect import revenues, and to regulate and document the flow of goods in and out of the country.
  – The official department that administers and collects the duties levied by a government on goods.
  – The place at a port, airport, or frontier where officials check goods, travelers, or luggage.
International trade chain

- Buy
  - Importer
  - Exporter
  - Insurance Company
  - Chamber of Commerce
  - Export/Import Agent
  - Licensing Agency
  - Embassies
  - Credit Checking Company
  - Other Intermediaries

- Ship
  - Freight Forwarder
  - Transporter
  - Carrier
  - Shipping Line
  - Inspection Company (PSI)
  - Forwarder
  - Other Intermediaries

- Pay
  - Customs (Import/Export)
  - Health Authorities
  - Port Management
  - Customs Brokers
  - Other Intermediaries
  - Bank
  - Financial Institutions
  - Other Intermediaries
Customs modernization process

- Preconditions
- Definitions
- Scope
- Implementation
Evolution of Customs

Revenue Collection of import taxes (duties & excise)

Protection of Economic Interests (domestic industry)

Protection of Society <health, safety> (drug trafficking, firearms, environment, counterfeit etc.)

Economic Development <trade, investment> (trade facilitation)

Security <terrorism> (shifting focus to entire supply chain)
New trends in contemporary trade world as main preconditions for Customs modernization

- Increased globalisation of trade;
- Rapid growth in international cargo;
- A highly competitive international business environment;
- Establishment of the World Trade Organisation (WTO) and regional trading arrangements;
- Reduced tariff barriers through the WTO;
- Removal of many non-tariff barriers;
- Growth in e-commerce
- Increased focus on trade security.

Definition of Customs modernization

- a comprehensive streamlining of processes, formalities, procedures and documents handled by Customs
Customs modernization activities

• improving law regulations;
• risk management;
• simplified customs procedures and post-clearance audit;
• paperless environment and e-customs;
• improved human resource management and
• Customs-to-Customs and Customs-to-Business cooperation.
<table>
<thead>
<tr>
<th>International Customs conventions</th>
<th>Date of enter into force</th>
<th>Number of CP/M*</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Convention on the Simplification and Harmonization of Customs Procedures, referred to as Revised Kyoto convention</td>
<td>03.02.2006</td>
<td>76</td>
</tr>
<tr>
<td>The Convention on Temporary Admission, referred to as Istanbul Convention</td>
<td>27.11.1993</td>
<td>61</td>
</tr>
<tr>
<td>International Convention on the Harmonized Commodity Description and Coding System, referred to as Harmonized system</td>
<td>01.01.1988</td>
<td>141</td>
</tr>
<tr>
<td>WTO accession</td>
<td>01.01.1995</td>
<td>155</td>
</tr>
<tr>
<td>Convention on establishing Customs Cooperation Council, referred to as WCO</td>
<td>04.11.1952</td>
<td>177</td>
</tr>
</tbody>
</table>
The EU activities on legal improvements in Customs modernization process

• 1992 – the Community Customs Code
• 2008 - the Modernized Customs Code
• 2013-2016-2020 – the Union Customs Code
Customs Risk Management

• Main Customs dilemma:
  CONTROL OR FACILITATION

• Solution:
  RISK MANAGEMENT
  • systematic identification and implementation of all measures necessary to limit exposure to risk as potentials for non-compliance with Customs laws
The WCO activities on Customs risk management

- WCO Framework of Standards to Secure and Facilitate Global Trade
- Columbus program
- Customs in 21st Century
- Risk Management Guide
- Risk Management Compendium
Customs risk management process

Customs risk management implementation

- Defining risk areas
- Identification of risks
- Risk analyzes - determination of risk level
- Risk evaluation - whether identified and analysed risk is acceptable
- Risk treatment - determination of different risk indicators and risk profiles: kinds of goods; traders; tariff lines; prices; currencies; values, country of origin; country of destination, etc.
- Monitoring and reviewing
- Communication and consultation
Customs control channels

• Green channel: no control (immediate release without examination);
• Yellow channel: documentary control;
• Red channel: documentary and physical control, and
• Blue channel: control at a later stage (post-clearance audit).
C2B - SIMPLIFIED CUSTOMS PROCEDURES

• simplified declaration
  – Lodgement of incomplete Customs declaration
  – Lodgement of a commercial or administrative document

• local clearance
  – Placing goods in Customs procedure only with their registration in bookkeeping records of authorized economic operator whereby goods may go directly to or from trader’s premises.

• simplified transit procedures
  – Authorized consignor
  – Authorized consignee

• authorized exporter

• authorised economic operator - AEO
PROCESS OF AUTHORIZATION

• Written request along with all necessary data and supported documents should be submitted to the competent Customs office.
• Customs office firstly determines formal-documentary correctness, that is, whether
  – (1) the request was submitted on a prescribed form;
  – (2) the form is correctly and completely filled in, and
  – (3) all the necessary documentation is attached.
• Substantive review of the request is made to determine whether the economic operator meets the requirements for implementation of requested simplified procedure.
• The competent Customs office should conclude whether the general and special conditions are met, and to issue an authorization. Only low risk trade operators who meet all legal requirements will be authorized by Customs.
• Issuing of license:
  – Holder’s obligations
  – Time validity of a license
  – Time limit within which supplementary Customs declaration should be submitted
  – The first license for any simplified procedure is issued for the shortest validity period within one year.
• Submission of a comprehensive guarantee for securing Customs debt payment.
• The lodged incomplete Customs declaration, as well as commercial or administrative document either bookkeeping records, will be accepted only if they contain at least the data indispensable for goods’ identification, that are data necessary to determination of Customs debt and application of Customs regulations.
• Supplementary declaration
• A competent Customs office is obliged to control all activities during and/or after completion of a specific Customs procedure.
• Economic operator as a holder of the authorization shall be obliged
  – (1) to enable efficient and effective implementation of Customs control;
  – (2) to place goods in their premises, at Customs office place or at a location determined by a competent authority that will carry out the control, and
  – (3) to submit necessary documentation for inspection.
• Suspending, revoking and changing of license
Number of issued authorizations for simplified procedures by the MCA
Structure of issued licences for simplified Customs procedures by the MCA in 2007-2016 period (%)
Dynamic structure of number of Customs declaration processed in regular and simplified import customs procedures (%)
Dynamic structure of number of Customs declaration processed in regular and simplified export customs procedures (%)
Growth rate of processed Customs declarations in regular and simplified procedures in 2016 related to 2007

<table>
<thead>
<tr>
<th>Customs procedure</th>
<th>import procedures</th>
<th>export procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>regular</td>
<td>simplified</td>
</tr>
<tr>
<td>growth rate % (2016/2007)</td>
<td>28</td>
<td>418</td>
</tr>
</tbody>
</table>
ADVANTAGES FOR TRADE OPERATORS

- possibility to clearance goods 24/7
- clearance of customs goods in their premises
- reduction of clearance time
- reduction of clearance costs
- payment of customs debt at the moment of lodgment of supplement customs declaration
- increasing supply chain effectiveness
ADVANTAGES FOR CUSTOMS

• possibility for better deployment of employee
• reduction of time delays especially in high season period
• increasing performance
• lower tax and tariff evasion
• increasing the supply chain safety and security
OBSTACLES

• strict conditions that should be accomplished in the licensing process
• financial problems to obtain a guarantee for Customs debt that could occur
• prescribed form of bookkeeping for Customs purposes
• insufficient information
• prejudice that the implementation of simplified customs procedures is very complex and difficult process.
• lack of self-confidence due to high responsibilities
• high fines in case of mistakes.
Authorised economic operator - AEO

“a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with the WCO or equivalent supply chain security standards. Authorised Economic Operators include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors”

<table>
<thead>
<tr>
<th>Region</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>6 (China, Japan, Korea, New Zealand, Malaysia, Singapore)</td>
</tr>
<tr>
<td>Americas</td>
<td>5 (Argentine, Canada (3 programs and a pilot), Costa Rica, Guatemala, USA)</td>
</tr>
<tr>
<td>Europe</td>
<td>3 (EU 27, Norway, Switzerland)</td>
</tr>
<tr>
<td>Middle East</td>
<td>1 (Jordan)</td>
</tr>
</tbody>
</table>

## Operational AEO Programmes

<table>
<thead>
<tr>
<th>Country</th>
<th>Programme Title</th>
<th>Programme Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andorra*</td>
<td>AEO</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>Customs System of Reliable Operators (SAOC)</td>
<td>Export</td>
</tr>
<tr>
<td>Canada</td>
<td>Partners in Protection (PIP), Customs Self-Assessment (CSA), Partners in Compliance (PIC)</td>
<td>PIP - Import/export, CSA, PIC - Import</td>
</tr>
<tr>
<td>China</td>
<td>Classified Management of Enterprises</td>
<td>Import/export</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Customs Facilitation Programme for Reliable Trade (PROFAC)</td>
<td>Export</td>
</tr>
<tr>
<td>EU (27 countries)</td>
<td>AEO</td>
<td>Import/export</td>
</tr>
<tr>
<td>Guatemala</td>
<td>AEO</td>
<td>Import/export</td>
</tr>
<tr>
<td>Japan</td>
<td>AEO</td>
<td>Import/export</td>
</tr>
<tr>
<td>Jordan</td>
<td>Golden List</td>
<td>Import/export</td>
</tr>
<tr>
<td>Korea</td>
<td>AEO</td>
<td>Import/export</td>
</tr>
<tr>
<td>Malaysia</td>
<td>AEO</td>
<td>Import/export</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Secure Exports Scheme (SES)</td>
<td>Export</td>
</tr>
<tr>
<td>Norway</td>
<td>AEO</td>
<td>Import/export</td>
</tr>
<tr>
<td>Singapore</td>
<td>Secure Trade Partnership (STP)</td>
<td>Import/export</td>
</tr>
<tr>
<td>Switzerland</td>
<td>AEO</td>
<td>Import/export</td>
</tr>
<tr>
<td>USA</td>
<td>Customs-Trade Partnership against Terrorism (C-TPAT)</td>
<td>Import</td>
</tr>
</tbody>
</table>

*Information not available*
# AEO programmes in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Programme title</th>
<th>Date launched</th>
<th>Scope</th>
<th>Type of operator</th>
<th>Number of operators</th>
<th>Legislation</th>
<th>Further plans (deadlines)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU** (27 Member-</td>
<td>AEO</td>
<td>1.01.2008</td>
<td>Import/</td>
<td>Whole supply chain</td>
<td>8,614 applications, 5,629 certificates (04.04.2011)</td>
<td>Voluntary participation; covered under: Custom Act § 3-1 (5). Customs Regulation from §3-1-20 until § 3-1-27.</td>
<td>Evaluation of the ongoing process. Development of extended authorisation for customs simplifications (2012).</td>
</tr>
<tr>
<td>states)</td>
<td></td>
<td></td>
<td>export</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway**</td>
<td>AEO</td>
<td>03.03.2009</td>
<td>Import/</td>
<td>Whole supply chain</td>
<td>13 requests, 14 authorized (10.03.2011)</td>
<td>Customs Act § 3-1 (5). Customs Regulation from §3-1-20 until § 3-1-27.</td>
<td>Evaluation of the ongoing process (2010). Development of authorisation regarding admittance to customs simplifications (2012).</td>
</tr>
<tr>
<td>Switzerland**</td>
<td>AEO</td>
<td>01.01.2010</td>
<td>Import/</td>
<td>Whole supply chain</td>
<td>3</td>
<td>Voluntary participation; covered under National Customs Law and Customs Ordinance</td>
<td>Update National Customs Ordinance (beginning of 2012)</td>
</tr>
</tbody>
</table>

The components of the AEO program in the EU

• Three types of authorizations:
  – AEO Customs simplification
  – AEO Security and safety;
  – AEO customs simplifications/security and safety.

• General requirements:
  – An appropriate record of compliance;
  – A satisfactory system of managing records;
  – Where appropriate, proven financial solvency;
  – Appropriate security and safety standards for AEOs who want to benefit from safety and security facilitations.
Direct benefits of the AEO program in the EU

- Lower risk that flow of goods into and out of the EU will be stopped for examination;
- Possibility to request a specific place for customs checks;
- Facilitations in the form of a reduced number of data to provide in the summary declarations;
- Easier access to authorizations and permits for customs simplifications;
- A specially appointed customs support officer;
- Lower controls for paper-based inspections (audit) and physical inspections;
- Advanced notice on inspections when it does not jeopardise customs controls. When necessary a physical control may be performed even though no prior notification of inspection was given;
- Priority treatment;
- Mutual recognition.
Indirect benefits of the AEO program in the EU

• Reduced theft and losses;
• Fewer delayed shipments;
• Improved planning;
• Improved employee commitment;
• Reduced security and safety incidents;
• Lower inspection costs of suppliers and increased cooperation;
• Reduced crime and vandalism;
• Reduced problems through recognition of employees;
• Improved security and communication between supply chain partners.
# BEFORE AND AFTER IMPLEMENTATION OF ASYCUDA - the Philippine Bureau of Customs Case

<table>
<thead>
<tr>
<th></th>
<th>Before computerization</th>
<th>After computerization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required signatures</td>
<td>79</td>
<td>5</td>
</tr>
</tbody>
</table>
| Cargo release time             | 6–8 days               | 4 to 6 hours for green lane  
                              |                        | 48 hours for yellow and red lanes |
| Shipments examined             | All                    | 15% physical examination (red)  
                              |                        | 15% document examination (yellow)  
                              |                        | 70% no examination (green) |
| Supporting documents           | Payment orders         | Payments are made to required official receipts, banks and electronically and proof of bank transmitted to Bureau of payments Customs by computer |
| Place of examination           | Anywhere in the port   | Designated examination areas |
| Accountable forms              | Many forms             | Single Administrative required Document (SAD) |
| Inward manifest                | 13                     | 3 copies in electronic documents submitted format to Bureau |

• The WCO research paper (No 13, 2011) defines four broad approaches on Customs performance measurement:
  – Customs Data Mining – collection and analyses of quantitative data;
  – Service Charters – treating economic operators as clients, rather than regulated subjects;
  – Perception Indexes - aggregation of subjective survey responses submitted by stakeholders on the quality of service delivered by Customs or other governmental agencies; and
  – Monitoring Mechanisms – regular processes which aim to institutionalise performance measurement at national and/or international levels.
EFFECTIVENESS PERCEPTION OF CUSTOMS MODERNIZATION

• aggregation of subjective survey responses submitted by stakeholders on the quality of service delivered by Customs or other governmental agencies published by international organizations

• the World Bank Doing Business reports publish perception indexes
  – *Trading across borders* set of indicators comprised by measures of documents, time and costs to export and import by regions and by economy
Trading across the borders, DB2013

<table>
<thead>
<tr>
<th>Economy ▲</th>
<th>Documents to export (number)</th>
<th>Time to export (days)</th>
<th>Cost to export (US$ per container)</th>
<th>Documents to import (number)</th>
<th>Time to import (days)</th>
<th>Cost to import (US$ per container)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; Pacific</td>
<td>6</td>
<td>21</td>
<td>923</td>
<td>7</td>
<td>22</td>
<td>958</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>7</td>
<td>26</td>
<td>2,134</td>
<td>8</td>
<td>29</td>
<td>2,349</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>6</td>
<td>17</td>
<td>1,268</td>
<td>7</td>
<td>19</td>
<td>1,612</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>6</td>
<td>19</td>
<td>1,083</td>
<td>8</td>
<td>22</td>
<td>1,275</td>
</tr>
<tr>
<td>OECD high income</td>
<td>4</td>
<td>10</td>
<td>1,028</td>
<td>5</td>
<td>10</td>
<td>1,080</td>
</tr>
<tr>
<td>South Asia</td>
<td>8</td>
<td>32</td>
<td>1,603</td>
<td>9</td>
<td>33</td>
<td>1,736</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>8</td>
<td>31</td>
<td>1,990</td>
<td>9</td>
<td>37</td>
<td>2,567</td>
</tr>
</tbody>
</table>
Where is trading across borders the easiest and where the most difficult?

Source: Doing Business 2013 Report

<table>
<thead>
<tr>
<th>EASIEST</th>
<th>RANK</th>
<th>MOST DIFFICULT</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>1</td>
<td>Niger</td>
<td>176</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2</td>
<td>Burundi</td>
<td>177</td>
</tr>
<tr>
<td>Korea, Rep.</td>
<td>3</td>
<td>Afghanistan</td>
<td>178</td>
</tr>
<tr>
<td>Denmark</td>
<td>4</td>
<td>Iraq</td>
<td>179</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>5</td>
<td>Chad</td>
<td>180</td>
</tr>
<tr>
<td>Finland</td>
<td>6</td>
<td>Congo, Rep.</td>
<td>181</td>
</tr>
<tr>
<td>Estonia</td>
<td>7</td>
<td>Central African Republic</td>
<td>182</td>
</tr>
<tr>
<td>Sweden</td>
<td>8</td>
<td>Kazakhstan</td>
<td>183</td>
</tr>
<tr>
<td>Panama</td>
<td>9</td>
<td>Tajikistan</td>
<td>184</td>
</tr>
<tr>
<td>Israel</td>
<td>10</td>
<td>Uzbekistan</td>
<td>185</td>
</tr>
</tbody>
</table>
Median export lead time (by income group)

Export lead times are three or even four times longer for low-income countries than for high-income countries.
Number of documents to export and import in selected economies

Source: Doing Business database
Cost to export and import in selected economies

Source: Doing Business database
Time to export and import (days) in selected economies

Source: Doing Business database
## Customs Time Reductions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>24</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Ruanda</td>
<td>15</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Marroco</td>
<td>11</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mali</td>
<td>15</td>
<td>15</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Macedonia</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: www.doingbusiness.com
Customs effectiveness indicators for Western Balkans

<table>
<thead>
<tr>
<th>Country</th>
<th>Score 2007</th>
<th>Score 2010</th>
<th>Rank 2007</th>
<th>Rank 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macedonia</td>
<td>2</td>
<td>2.55</td>
<td>126</td>
<td>61</td>
</tr>
<tr>
<td>Croatia</td>
<td>2.36</td>
<td>2.62</td>
<td>78</td>
<td>57</td>
</tr>
<tr>
<td>B&amp;H</td>
<td>2.32</td>
<td>2.33</td>
<td>84</td>
<td>89</td>
</tr>
<tr>
<td>Serbia</td>
<td>2.33</td>
<td>2.19</td>
<td>83</td>
<td>108</td>
</tr>
<tr>
<td>Albania</td>
<td>2</td>
<td>2.07</td>
<td>132</td>
<td>129</td>
</tr>
<tr>
<td>Montenegro</td>
<td>2.33</td>
<td>2.17</td>
<td>83</td>
<td>112</td>
</tr>
</tbody>
</table>

Note: 2007 data are for Serbia and Montenegro as one country
# Efficiency of customs clearance process in the Republic of Macedonia

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>126</td>
<td>61</td>
<td>120</td>
</tr>
<tr>
<td>Score</td>
<td>2.00</td>
<td>2.55</td>
<td>2.24</td>
</tr>
<tr>
<td>% of the best performer</td>
<td>50.1</td>
<td>63.1</td>
<td>54.6</td>
</tr>
</tbody>
</table>


Notes:
- The Reports published in 2007, 2010 and 2012 show results of the surveys conducted in 2005, 2009 and 2011, respectively.
- Efficiency of customs clearance process rated from "very low" (1) to "very high" (5).
## Tariff equivalent for reduced delays: Macedonian case

<table>
<thead>
<tr>
<th>Macedonia</th>
<th>Import</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff equivalent for time in trade (%)</td>
<td>12.9</td>
<td>9.2</td>
</tr>
<tr>
<td>Applied tariff rate (%)</td>
<td>7.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Estimated per-day equivalent (%)</td>
<td>0.9</td>
<td>0.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Macedonia</th>
<th>Import</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total tariff equivalent for reduced delays (%)</td>
<td>13.5 (0.9x15)</td>
<td>9.9 (0.9x11)</td>
</tr>
</tbody>
</table>
Conclusion

• Customs modernization process has helped in improvement of the environment in which markets, private enterprises and civil society function
  – Positive trends toward greater facilitation of legal trade
  – Stronger basis for prevention and detection of nonlegal activities
  – Overall activities implied Customs efficiency increase,
  – Reduction of time delays on import and export

• Proposals for next activities:
  – Larger implementation of AEO’s concept
  – Establishment of an effective Customs performance measurement system
Thank you for your attention

Prof. Jovanka BILJAN, PhD
jovanka.biljan@uklo.edu.mk