Customs management:
Towards a new paradigm of management in Brazil

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PICARD 2012, Marrakesh, Morocco
Structure of presentation

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Introduction

• **Thesis**: An increase in physical inspections (2011-2012) may be confused with technical barriers

• Alternative for improvement: March 2012, National Centre for Customs Risk Management (CERAD, in Rio de Janeiro)

• **Methodology**: Exploratory survey. Data sources: IBGE, DEPLA, SECEX, MDIC, FUNCEX
Risk management

- **Concept of risk**: Strategic prevention and response to potential threats (Autry, Bobbitt, 2008)
- **Risk** is dynamic (Fanta, 2010)
- Customs **risk** management allows *intelligence*-based resource allocation to combat bad practices (Truel, 2010)
- The main risks related to export and import are content (narcotic substances, dual-use substances and wildlife); tax evasion in terms of value and volume; tax code and country of origin; infringements of intellectual property (piracy and counterfeiting) (Hintsa et al., 2011)
Advantages of reducing risks
(Autry, Bobbitt, 2008)

• High performance of the supply and value chains;
• Customer satisfaction;
• Cost reduction, because of reliability;
• Lower lead times for consumers;
• Waste reduction;
• Increased delivery reliability;
• Fewer controls on a country's input and output (when passing through Customs);
• Investment protection and increased competitiveness;
• Continuous supply chain.
Technical barriers to trade

• Goldratt & Cox (2004): A bottleneck determines the speed of all processes
• Customs cannot be a bottleneck in the global supply chain
Macroeconomic context and Brazil
(April 2011 to April 2012)

• Recrudescence of international trade since 2008-2009
• Propensity to spend less on imported products
• Contraband and other unregulated goods have sought alternative routes of entry
• **Bigger Brazil Plan** to stimulate national competitiveness (since August 2011)
Source: DEPLA/SECEX/MDIC/Brazil, 2012
The Plan covers three areas of measures:
- Stimulus to production, investment and innovation;
- Defence of industry and the internal market;
- Incentives for export and trade defence.

Fact 1: From January to April 2012, imports increased in the majority of categories compared to the same period in 2011.

Fact 2: In 2012 (first quarter), the Brazilian real had one of the highest gains against the US dollar, in the order of 4.43%.
Customs context in Brazil  
(first quarter of 2012)

• Particularly in 2012 in Brazil, people intentionally committing fraud have used, among other measures, incorrect tax classification and fraudulent declaration of origin

• **Fact 3:** Brazilian imports from certain sources have increased for no good reason. This is the case with imports from Bahrain (+1,548%), Cayman Islands (+7,506%), Keeling Islands (+1,360%), Ivory Coast (+1,313%), Fiji (+1,367%), Gabon (+2,074%), Gibraltar (+36,205%), Malawi (+119,915%), Maldives (+10,112%), Mozambique (+22,895%) and Senegal (+10,635%). These are facts that justify a more accurate risk analysis
Actions by the Brazilian Customs Administration

• Operation *Red Tide* began in March 2012: Slower Customs inspections and a ‘damming’ effect on all imports

• Are longer controls associated with higher quality controls?

• Are technical barriers or low resources affecting controls on the increased number of imports (licit and illicit)?

• **Fact 4**: Need for improved capacity building: Better controls and requirement for enhanced risk management
What is not happening

• ‘Intervention by exception’
• This is a term used to describe a regulatory compliance strategy that is based on the principles of risk management. It implies regulatory intervention when there is a legitimate need for it, that is, intervention based on identified risk (Widdowson 2003; Widdowson 2010)
Organizational architecture: Need for improvements

• Traditionally, Customs risk management has been accomplished through targeting practices. However, a more organic approach to regulatory management should be pursued, by analysing customer behaviour, using different strategies and increasing intelligence sharing (beyond information) among Customs administrations (WCO 2011)
Organizational architecture: Need for improvements

• Assertion by the Customs Administration: Low levels of human and material resources (Fact 5)

• **Part 1** (PICARD 2012 presentation): Towards a new paradigm in the Brazilian Customs Administration: CERAD

• **Part 2**: Analysis and monitoring measures taken henceforth
Organizational architecture: Need for improvements

Over 34 official agencies have powers to carry out border and cargo controls

There is no Single Window in Brazil
Lack of officers is a reality
There are no incentives for individual officers to enhance their performance
Bureaucracy and culture of paperwork checks
Conclusions

• **Risk** management cannot be used as a trade policy instrument against the backdrop of a sluggish international economy

• **Risk** management must be uncoupled from the elasticity of demand for imports

• Simplification of Customs procedures and trade facilitation are unrelated to trade policy liberalization
Conclusions

• The proliferation of Customs control initiatives, taking longer and with higher logistics costs (increased inventory, storage and other fees), undermines national competitiveness and is not in keeping with best practices in the area of Customs risk control.

• The creation of the National Centre for Customs Risk Management (CERAD) may mark the beginning of the re-engineering required for modernization.
Conclusions

• This study recommends a **reform of the organizational architecture** of Customs in the broadest sense, not only through optimal allocation of budgetary resources in terms of managing people and equipment (as non-invasive technologies), but also through reform of the structure and processes.

• CERAD monitoring to be maintained.
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- Supported by: FAEPEX – UNICAMP and FAPESP


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