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*Panel Discussion: The Foundations of Coordinated Border Management*

**The Need for Coordinated Border Management**

Many of you are skeptical about the need for coordinated border management - and for this purpose I mean coordination between customs administrations in different countries. Therefore, the *first foundation* for a coordinated border is to convince you that it is necessary.

Even those of you who do agree on the need for a new kind of customs-to-customs cooperation would say that this is a bad time to ask finance ministries for money to improve customs’ abilities to process trade through coordinated border management.

After all, the World Bank is projecting that the global economy will actually shrink by 3 percent in 2009. On Wednesday of this week the World Trade Organization amended its forecast of the decline in world trade from a 9 percent drop to a drop of 10 percent. In these circumstances one can only wonder whether hard-pressed governments will listen with sympathy to a head of customs who asks for money to make customs’ processing of trade more effective and efficient.

But the factors that created the current economic crisis are transitory. There are much larger forces at work that will determine what the world economy will look like in a few years – and in particular what the world will look like to customs administrators.

- **Demographics**: the world population will increase, and much of this increase will occur in countries that have relatively young populations who are positioned to develop into a more affluent, higher-consuming middle class;
- **Better education**: particularly in developing countries, will move more people into high-skilled, high-income jobs;
- **Technology**: foreign investment in developing countries will result in a wider distribution of cutting-edge research and development;
- **Greater openness to trade**: no matter how it looks at the moment, trade liberalization is spreading and barriers to trade are falling: the WTO is winning;
• **Infrastructure development:** especially in the area of transport;

• **Transparency and the rule of law** will make cross-border business less risky;

• **Better regulation** of financial systems and monetary policy will reduce trading and investing risks;

• **A quiet revolution in the cost of moving information** and services around the world will facilitate trade; two examples:
  - In 1981, an overseas phone call from the United States cost $1.34 per minute and Americans spent 30 million minutes each year on international calls. Now the cost per minute is below ten cents – even less with Skype – and Americans spent 1.2 billion minutes each year on international calls. Similar changes are happening elsewhere in the world.
  - There are now 1.6 billion regular internet users, three times the number on 11 September 2001. This has profound implications for international trade.

Most experts agree that these factors together will lead over the coming decades to a volume of international trade that will be several multiples the level of 2007.

Customs performs many important functions at the border. It collects revenue, and we like to think that it gets most of what is due. In addition, it enforces laws to protect the health and safety of plants, animals, the environment, motor vehicles, and not least important, people.

But how well will customs administrations perform these missions when their workload is three or four times greater than now? Will the customs administration in your country be a contributor to national economic expansion or stand in its way?

The key to managing higher volumes of trade without compromising on performance of important missions is to use information intelligently to assess risk, whether the threat is to revenue or to public health and safety. Other responses to risk simply do not work.

- Customs administrations that attempt to examine all shipments, and there still are some, seriously impede their countries’ international trade and handicap national efforts at economic development and poverty alleviation. You all know that, but some of you still attempt to inspect all shipments.

- Customs administrations that rely primarily on the discretion of customs inspectors to decide which shipments to inspect will find that Lord Acton was right – power does corrupt – and that their customs inspectors are becoming men of means.

- Customs administrations that employ random examination methods will waste valuable and limited manpower examining shipments that are obviously low risk, and they will also greatly diminish the benefits of scrupulous compliance by exposing all traders to the same likelihood of inspection and consequent delays.

- In theory, then, the most effective and efficient system for processing a large volume of trade while maintaining a high level of law enforcement effectiveness is through
use of automated systems that apply risk criteria based on national laws and judgments about what things are risky that are specific to each country.

I say that automated risk assessment is the best system “in theory” because of course automated risk assessment is effective only if the information fed into the automated system is reliable.

If there is substantial uncertainty about the accuracy of critical information or difficulty in determining whether the information is significant, automated risk assessment becomes impractical and even the most reform-minded customs administrator will revert to more primitive methods for dealing with risk.

In fact, if there is doubt about the validity or significance of information presented to customs then automated risk assessment, the WCO SAFE Framework of Standards, and, indeed, the WTO Valuation Code all become unworkable. And because much of the trade information used by customs administrations in importing countries originates with foreign shippers, trade information will be reliable and useful only if customs administrations cooperate to assure that it is accurate and that its significance is understood.

Inadequate cooperation among customs administrations has for years caused significant inefficiencies in trade that have only become worse in the past decade as customs in many countries has acquired a major counter-terrorism role. Customs administrations are national law enforcement agencies engaged in monitoring an activity that is invariably international. That is a serious mismatch, and it has been made worse by general indifference, sometimes actual antipathy, to improving cross-border cooperation.

The historical root of the non-cooperation problem is that threats faced by customs officers in importing countries, chiefly revenue violations and contraband smuggling, have not always been perceived in the same way by customs counterparts in exporting countries.

We all know of cases where the customs authorities in one country are fully aware of – and not inclined to interfere with – extraordinarily large sales of tobacco and alcohol products at points of exit to a neighbouring country that has higher taxes on those items.

But times have changed. The threats faced by customs today — including the possible exploitation of international trade by terrorists to transport dangerous articles across borders — give customs administrations a more urgent need to work with each other, but they must work together in both of the two areas of security that are of concern to customs administrations.

First is physical security. To their great credit, heads of customs around the world have resisted ill-considered political attempts to impose a requirement for so-called 100 percent scanning of cargo containers in international trade. Instead, using a variety of increasingly sophisticated automated risk assessment systems, customs officers sift through electronic data about each container to identify factors associated with elevated levels of risk.
But in some instances they appear to be working harder rather than smarter: they are seeking more information, and getting diminishing value from it, when what is really needed is to make better use of the information already available by cooperating in joint risk assessment with customs in the country of exportation.

Perhaps the best illustration is the use of shipper identity information. For purposes of physical security shipper identity may be the most important piece of information available to customs. But customs in an importing country cannot by itself make full use of shipper identity information. It is much less likely to have background information about a foreign shipper than law enforcement agencies in the country from which a shipment is sent. I can give you specific examples of that from my own experience and you probably have similar experiences of your own.

It is obvious that in order to obtain the maximum benefit from shipper identity information both exporting and importing customs need to contribute to risk assessment. The way to accomplish this without unnecessary delays and duplication of effort is to allow a standard electronic cargo manifest or goods declaration to be filed simultaneously with both exporting and importing customs, at an interval before exportation that is appropriate for each mode of transport.

Customs at each end could then perform risk assessment and inform each other of any significant results. Each customs administration would, of course, retain the right to perform its own examinations but the need for duplicative examinations, perhaps the need for any examinations at all, would be reduced. And physical security would be significantly improved.

The same logic applies with respect to revenue security. Many governments represented in this room still derive a substantial part of their national revenues from customs duties. For those governments a threat to customs revenues is a threat to national interests that is more real than the threat of terrorism.

Their primary concern is that imported goods are undervalued or otherwise misdescribed on customs import declarations to reduce customs duties and other ad valorem taxes. Almost invariably, the information on a customs import declaration originates with a seller in another country and is simply passed along by freight forwarders, carriers, and customs brokers. Of course, these parties can be held legally accountable for inaccurate information, but most customs administrations understand that customs brokers and carriers are simply agents who have no practical way to confirm information supplied by a foreign shipper.

To get confirmation of information on import declarations, customs administrations in importing countries have attempted repeatedly to obtain assistance from exporting countries, primarily to verify selling prices of goods. But exporting countries are not keen to place difficulties in the way of their exporters by making it harder for them to avoid higher foreign taxes by double-invoicing their sales, and so they decline to provide the information on the reasonable ground that it is burdensome to respond to routine requests for information not arising from a criminal investigation and the less reasonable ground
that the information itself is confidential, although it is the same information that they
obtain themselves on their own import declarations.

In the absence of cooperation from other customs administrations, importing governments
take whatever measures they believe necessary to protect their customs revenues,
including time-consuming physical examinations of goods, use of reference prices in place
of declared values, and use of so-called pre-shipment inspection companies to verify the
value, quantities, and qualities of goods destined for their borders prior to exportation. Of
course these measures seriously impede trade with other countries but customs
administrators in importing countries believe that they have no other choice.

Both sides are to blame here. Too many countries have maintained extremely high, trade-
suppressing tariffs on imports well into the era of globalization; these tariffs should have
been reduced a long time ago. On the other hand, exporting countries, in their desire to
protect access for their exports, almost certainly aid and abet double invoicing and similar
dubious practices by some of their exporters.

The bottom line is that governments and their customs administrations will not tolerate a
lot of mystery about freight containers entering their territories, whether out of concerns
about terrorism or loss of critical revenues. No matter how many agreements,
conventions, and best practices the WTO and the WCO put forward, governments will
continue to intervene in a heavy-handed manner until their concerns are resolved. Trade
facilitation programmes of every kind, including modernization of customs laws,
introduction of automated systems, adoption of modern customs practices, and capacity
building by international organizations and financial institutions, will eventually fail or fall
well short of expectations simply because they are all ultimately premised on an
assumption – availability of reliable trade documentation – that is in fact not valid. For that
reason, greater trade transparency is in the interest of all governments, and certainly in
the long-term interest of private traders.

The WCO Data Model

The foundations of greater trade transparency through coordinated border management
have already been put in place. Thirteen years ago at the annual meeting of the so-called
G7 countries in Lyon, the leaders did something they had never done before: they turned
their attention for just a moment from wars, the economy, the environment, and thought
for a moment about us, about how customs processes trade.

On 28 June 1996, the G7 leaders announced that “…in order to facilitate the free flow of
trade, we will initiate an effort to further standardize and simplify customs procedures
among our countries. Uniform documentation and electronic transmission standards
would reduce costs for business and government, complement efforts in the WTO by
eliminating barriers to trade and development, and so promote growth.”

One year later, at the 1997 G7 summit in Denver, the G7 leaders issued a statement
noting that at the previous meeting “we initiated an effort to standardize and simplify
customs procedures. We urge our experts to complete their work in the next year and
report prior to our next meeting on their efforts to standardize both the data required by
customs and other related administrations to carry out their responsibilities and the form in which data are to be reported electronically, and to reduce data requirements to a minimum consistent with effective administration of customs responsibilities."

For the first four years work on data harmonization was pursued under the auspices of the G7. At the end of the year 2000 the project was turned over to the WCO and became the WCO Data Model Project.

The WCO has made great progress. It has developed fully operational customs messages and with Version 3 of the Data Model has now moved on to address the second part of the G7 mandate, data requirements for border agencies other than customs, such as agriculture, human health and safety, environmental protection, and transport safety.

Much of the WCO’s work has been done in this room by technical officers from your administrations. The customs cargo and goods declarations they have developed are the culmination of thirteen years of effort and are ready to be used.

Because they harmonize data requirements the WCO declarations greatly simplify the process of trading in multiple markets for small businesses, and they reduce the chances of data errors – especially for small businesses – by using the same information for each country’s customs declarations.

I cannot emphasize strongly enough how important this is. Customs administrations invite bad data from small traders by maintaining non-uniform data requirements. Small businesses can cope with complex data requirements, but they cannot cope with many different sets of complex data requirements. Uniformity of process is important in mass production, and in the modern trading environment preparation of customs documents is mass production.

Most important, uniform data requirements make possible the kind of international cooperation that will enable customs administrations to handle a growing workload with confidence that they are neither hampering their nation’s economic efficiency nor exposing their nation to undue security risks, whether those risks are terrorism, revenue loss, or unsafe products.

**The WCO Proposal for Globally Integrated Customs**

All that remains to make a great advance in trade transparency is to develop a mechanism that allows customs administrations to use the WCO’s uniform messages cooperatively to protect both physical and revenue security. Standard cargo and import declarations, meeting the risk assessment needs of both exporting and importing customs administrations and submitted simultaneously to both, would seem to fit anyone’s notion of a “no brainer”.

But at the January meeting of the WCO’s Information Management Sub-Committee, when enterprising WCO staff floated a proposal for a global customs network that would allow a single, standard electronic message to serve simultaneously as an export and import
clearance message, the idea was derided by representatives of some of the world’s most advanced economies as “futuristic” and “pie in the sky”.

It is really very difficult to see how the capabilities of customs administrations can be improved in the face of the mounting workload that will come, and how security interests can be balanced with the need for efficient trade, if the most advanced economies fail to provide leadership. Worse, they obstruct the efforts of those who are trying to create a better balance between security and efficient trade.

Some of you are reported to have said publicly that your priority is security, not trade facilitation. I will put it to you that when economic growth in your country is stagnant and stays that way for a year or more, and when bankruptcy filings and the unemployment rate reach levels not seen since the 1930s, you will be astonished at how quickly priorities change. The most important form of security, and undoubtedly the most important political imperative, is a strong economy.

There is strong support for the important work that customs performs at the border, but that support has never been unconditional, and in most governments there is no support for a customs administration that carries out its duties in a manner that unnecessarily impedes trade with other countries.

I was in government service for 35 years. Most of that time I was in my country’s finance ministry with responsibility for customs, and five years of that time I spent in customs itself. From my experience there, and from attending meetings here at the WCO since 1979, I know that there is an enormous amount of talent in this room. No one reaches the kinds of positions you hold without having exceptional intelligence, good judgment, and the capacity to do hard work.

But too often heads of customs have been content to let others undertake reforms that involve international coordination. I look back with disappointment at the fact that many of the most important customs reforms during my career were initiated outside of customs, for example, the GATT valuation code, the G7 trade data harmonization project, and now the WTO’s Doha trade facilitation negotiations, which are entirely addressed to customs reform.

You all know that a future in which customs must cope with a much greater volume of trade cannot look like the present. The framework for collection and use of trade data by customs is not a trade policy matter: it is entirely within the competence of customs heads to manage.

Noël Colpin of Belgian Customs has pointed the way in the past. I am very hopeful that as I exit the scene this year your generation of customs managers will use the resources of the WCO to set the stage for a new kind of collaboration among customs administrations that assures that in the future customs will be a leading contributor both to physical and revenue security, and to economic development.