

**COMMUNICATION FROM JAPAN**

The following communication, dated 1 June 2005, from the Delegation of Japan, is being circulated in advance of the Negotiating Group meeting of 13-14 June.

**EXPLANATORY NOTE ON RISK MANAGEMENT – JAPAN’S EXPERIENCE**

**I. INTRODUCTION**

1. This paper elaborates the idea of risk management in trade procedures as it was proposed in TN/TF/W/17 and introduces the experience of Japan with this concept, focusing in the area of customs procedures. We hope that this submission will contribute to deepening the understanding of risk management among the Members. We also hope Members recognize that this concept can be applied not only to customs but to other trade procedures required by governments.

**II. DEFINITION OF RISK MANAGEMENT**

2. Occasionally, trade facilitation and customs control are viewed as conflicting concepts. However, both concepts are simultaneously realizable by introducing the idea of risk management, where in-depth inspection is conducted when the risk is considered to be high and where immediate import permits are given when the risk is considered to be low. Therefore, risk management is an indispensable element for trade facilitation while maintaining appropriate control.

3. The benefits of this concept have been widely recognized in other relevant international organizations. For example, the following excerpt from the WCO Guidelines on the Revised Kyoto Convention could be a useful reference in understanding the concept of risk management:

"For Customs administrations there is always an element of risk in facilitating the movement of goods and persons. The extent of controls to ensure compliance with the laws and regulations which the Customs are responsible for enforcing should be proportionate to the level of assessed risk.

"Customs administrations today are required to provide extensive facilitation while maintaining control over the international movement of goods, means of transport and persons. The level of risk is determined in the context of the priorities of the Customs administrations e.g. whether the priority is collection of duties and taxes or checking prohibitions and restrictions or any other specific area that has been identified."<sup>1</sup>

4. Based on this thinking, the General Annex Chapter 6 of the WCO Revised Kyoto Convention requires customs to use risk management for customs control purposes as follows:

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<sup>1</sup> WCO, *Kyoto Convention – General Annex – Chapter 6 Guidelines on Customs Control*, July 2000.

Standard 6.3

In the application of Customs control, the Customs shall use risk management.

Standard 6.4

The Customs shall use risk analysis to determine which persons and which goods, including means of transport, should be examined and the extent of the examination.

Standard 6.5

The Customs shall adopt a compliance measurement strategy to support risk management.

### **III. JAPAN'S EXPERIENCE IN THE AREA OF CUSTOMS**

5. Recognizing the benefit of utilizing risk management as an underlying concept to effectively cope with the increasing volume of trade with limited human and financial resources available, Japan, in the area of customs procedures for example, has introduced this concept on a step-by-step basis and has been applying control proportionate to the assessed risk based on customs' experience, information, analysis of risk indicators such as importer, producer, port of departure, import value, and type of goods. Furthermore, in view of the benefits that risk management can bring to customs administration, Japan has been providing technical assistance in this area to developing-country officials, either by our own initiative or in cooperation with the WCO.

6. For example, smuggling of import prohibited goods is considered a risk to customs administration for the danger it poses for social stability and public health. To effectively cope with such a risk, customs accumulate past import records and relevant information for each importer, in an integrated and organized manner. Next, for individual import declarations, on the basis of risk indicators that are likely to lead to detection of smuggling (importer, type of good, volume, value, source of goods, etc.), customs decides to conduct an in-depth inspection of imported goods if the risk of smuggling is considered to be high or immediately allow import if the risk is considered to be low. This risk assessment is continuously updated based on the latest import records thereby enabling customs to assess risk in import declarations on the basis of the latest information. This has allowed customs to simultaneously pursue the policy objective of facilitation and control. Furthermore, with a view to realizing both objectives in a more efficient manner, Japan customs implemented CIS (Customs Intelligence Database System) in 1991 for accumulating information pertaining to import declarations. In addition, the concept of risk management is being used in export procedures and other trade procedures such as quarantine.

7. The introduction of such a concept has enabled Japan to implement various trade facilitation measures for a legitimate flow of goods while taking appropriate actions against illegal transactions or movement of goods. These measures include, but are not limited to, the following:

- Simplified Declaration Procedures (since 2001)  
Release of goods before declaration for customs duty payment
- Instant Import Permit Upon Arrival System (since 1996)  
Import permit immediately after the goods are brought into Customs Areas
- Pre-Arrival Examination System (since 1991)  
Completion of customs procedures before the arrival of cargoes
- Deferred Payment System for customs duty and other taxes (since 1989)  
Payment of customs duty and other taxes within 3 months after release of goods

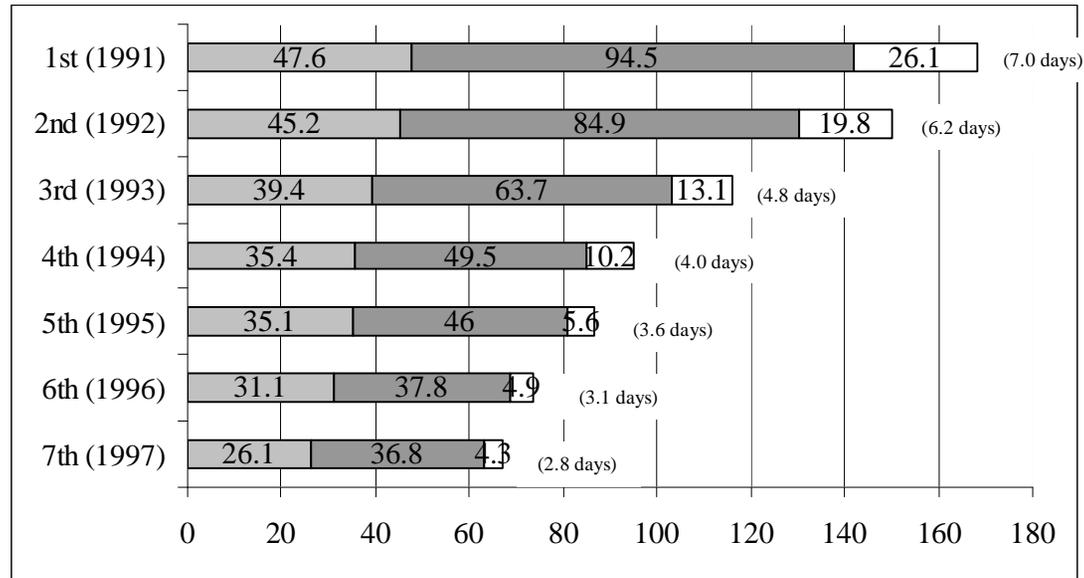
#### **IV. TIME RELEASE SURVEY**

8. In our proposal on Article X in TN/TF/W/8, we proposed the publication of a standard processing period for major trade procedures. In Japan's case, as a result of introducing the measures mentioned in paragraph 7 above, the time required for the release of goods has been substantially reduced and the result of the time release survey has been published (see annex 1 and 2). At the same time, appropriate customs duty collection and efficient control against the import of prohibited goods have been maintained. According to a survey conducted by the private sector in Japan, it is reported that not only the use of IT but also the improvement of the regime itself have greatly contributed to such a reduction in the time required for release of goods. Japan has been introducing this survey method in APEC and other relevant fora and has been providing technical assistance to developing countries, either by our own initiative or in cooperation with the WCO.

Annex 1

Import Lead Time required for Release of Goods  
(Sea Shipment)

Changes in Import Lead Time since 1991



Annex 2

Definition of Import Lead Time

The time required for the release of goods from the arrival of cargo to Customs import permission

