



Brussels, 26 January 2015.

FUTURE OF CUSTOMS

(Item II. on the Agenda)

Background

1. At its 203rd/204th Sessions in March 2014, the Permanent Technical Committee (PTC) proposed to place the topic of the Future of Customs on the agenda of the next meeting. At the PTC meeting in October 2014, beyond having put future-oriented topics like e-commerce or regional integration on the agenda then, the WCO Director of Compliance and Facilitation encouraged delegates to submit written contributions to this topic that was scheduled for the agenda of the March 2015 PTC meeting.
2. This paper has been developed by the Secretariat as a starting point for discussions. The topic on the Future of Customs will be launched by a panel session on the first day of the meeting.

The trading environment

3. As a way of introduction, it is important to take into consideration the characteristics of the trading environment today, including trends, patterns and emerging issues which directly impact Customs business.
4. Cross-border e-commerce is increasing at an astonishing rate around the world due to a combination of factors such as continuously advancing internet technology and economic development in developing countries.
5. The WTO Trade Facilitation Agreement concluded in December 2013 has brought Customs along with other border agencies in the focus of public attention and has raised expectations in terms of improvements at the border. It has also raised the momentum to invest into trade facilitation projects and achieve significant improvements in cross-border procedures.

6. Still at WTO level, there has been a recent breakthrough in the negotiations on an expansion of the Agreement on Information Technology. In the light of new technological developments, efforts have been underway since 2012 to extend the Agreement to cover approximately 200 additional products, including many new generation communication, data and medical devices. Some estimates envisage a liberalization package that could range from US\$0.8 trillion to US\$1.4 trillion of annual trade, which is bigger than the current trade in automotive products and three times bigger than trade in the clothing sector.
7. A number of Free Trade Agreements (FTAs) which are currently under negotiations, such as the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP), which some call mega-regional agreements, are expected to have significant impact on trade patterns.
8. In addition to the mentioned recent trade developments, the five BRICS economies took a major step during their sixth summit in Brazil in July 2014 when they formed two multi-billion-dollar funding structures to promote cooperative economic development - the New Development Bank and the Contingent Reserve Arrangement.

“Customs in the 21st Century” – seven years after

9. The WCO Customs in the 21st Century (C21) strategic document from 2008 provides the following definition of the role of Customs: *“The role of Customs is to control the movement of goods and thereby secure the state’s interests and safeguard revenue collection. The key aims have been to ensure compliance with state policies and laws applicable to the cross-border movement of goods, to combat smuggling, and to secure borders, whilst ensuring the facilitation of legitimate trade.”*
10. It appears fair to say that this definition also after 7 years of existence of the C21 strategic document covers most, if not all of the role of Customs. Nevertheless, different organisational developments have since taken place that might impact on the role of Customs in the future.
11. One example is the increasing trend of several Customs administrations dealing with the cross-boarder movement of people. Countries adopt different arrangements at the borders. In some cases many different agencies work alongside with Customs in ensuring successful border management. In others, Customs plays a very prominent and responsible role of coordinating controls with other relevant agencies, and for instance very often carries out preliminary inspections on behalf of other agencies. In some countries Customs and Immigration work closely together (or have been merged) in controlling the movements of passengers with a view of detecting drug smuggling, terrorism and other illicit activities, which is why Advance Passenger Information (API) and Passenger Name Record (PNR) are becoming indispensable tools for border management. A potentially beginning development can be observed in some Customs administrations for instance in the WCO Europe Region where Customs has become involved in the area of illegal workers.
12. We also see some Customs administrations merging with tax agencies. Customs administrations in many countries retain an important function as the largest contributor to government tax revenue. In many cases, general and specific consumption taxes on imports represent a more significant revenue source than Customs import duties. Any potential leakage of Customs revenues can significantly undermine national economic development and competitiveness. For this reason, there have been important efforts

going on in the past years to ensure that Customs and Tax authorities work closely together to ensure efficient and effective revenue collection. Such efforts from WCO side include further cooperation with the OECD, for instance in the area of exchange of information.

13. The ten building blocks have provided important focus to the Strategic Direction of Customs. A reflection on developments in the past seven years will show that significant progress has been achieved. For instance, awareness of the need to cooperate with other stakeholders, primarily with other border agencies and the private sector, has raised significantly, both on national and international level. Customs administrations have developed arrangements to facilitate such collaborative models for the purpose of facilitating trade, while maintaining/increasing safety and security of the supply chain.
14. There is willingness to even achieve much more, in implementing arrangements such as Coordinated Border Management and Single Window, Authorized Economic Operator (AEO) programmes and others. For instance, the number of Mutual Recognition Agreements (MRAs) has drastically risen in the past couple of years, providing further benefits to AEOs trading between the contracting parties of such MRAs. Nevertheless, the concept of Integrated Supply Chain Management (ISCM) was felt to be requiring more attention and effective implementation. (ISCM will be dealt with in more detail under another agenda item of this meeting.)
15. The objective of this document is, however, not to analyze in detail how far Customs administrations have advanced in implementing the building blocks of the C21 strategic document, although this could be an important basis for future discussions and a way to potentially structure contributions from PTC delegates during the inter-session. The aim of this paper is to launch a discussion on how the emerging responsibilities of Customs will be impacting its overall role and its traditional responsibilities. Will the long-established tasks of Customs remain as relevant also in the future, against the background of for instance addressing regional integration issues, a need for even more coordinated border management or a topic like 3D printing – where no physical goods cross borders anymore?
16. Another element requiring due consideration are the organizational implications where tasks are increased or in some cases also reduced. For example, in Customs Unions such as the EU where internal borders are disappearing, some of the direct implications include: reductions of Customs staff at national level; seeking new activities (e.g. illegal workers area and continuous improvement of Coordinated Border Management especially at the outer borders of the Customs Union); building new regulatory structures and handing over some of the national responsibilities; changes in human resource management and training etc. However, many countries are also facing continuous increase in responsibilities for Customs. In both scenarios, Customs will require enhanced management capabilities and possibly new approaches in the way it operates, new Customs-business partnership arrangements or arrangements with other border agencies, new working methods, procedures or techniques, ICT solutions, etc. which could either be included under the C21 building blocks or would possibly require the introduction of new ones.

On-going challenges, opportunities and emerging threats

17. It is felt to be useful to add some of the currently on-going challenges and opportunities, such as the demand for increased trade facilitation and support to the global value chains, but also some of the emerging threats, such as those posed by the Ebola Virus Disease (EVD), the latest increase in terrorism and others. WCO Members around the world may have observed other challenges, opportunities and threats and are highly encouraged to share them in the PTC forum.

Trade Facilitation

18. Trade Facilitation is one of the primary focus areas of the PTC and has continuously been one of the key objectives of Customs administrations, as providing advantages to the trade community contributes to economic growth and increases economic competitiveness of the country.

19. At the time of writing this document, it has been over a year since the conclusion of the WTO Trade Facilitation Agreement (TFA) and more than four months since the adoption of the Protocol of amendment to insert the TFA into the WTO Agreement, but it is still difficult to tell when the TFA will enter into force given that now the national accession procedures have just started. Nevertheless, it has been more than ten years since the negotiations on trade facilitation had been launched. During this time period, the awareness of the importance of Trade Facilitation has significantly increased, and so has the level of political will to invest into Customs modernization projects and reforms for Trade Facilitation. At the same time, this has also placed Customs and other border agencies in the focus to deliver and improve the trading environment to allow an increase in foreign investments and support to global value chains.

E-commerce

20. Despite the unarguable opportunities and benefits through the tremendous growth in internet sales, e-commerce has also unraveled a number of threats to Customs in delivering its key objectives. It is perceived that the procedures in place for controlling the movement of goods especially in the postal supply chain have not yet been fully adapted to and put up to speed with the increase in movements of parcels across borders. The Policy Commission has in December 2014 discussed the impact of e-commerce on revenue collection. In addition, WCO operation Skynet carried out in 2012 proved that the postal/express supply chain has been abused for smuggling illegal goods, namely drugs and precursor chemicals. The WCO has placed a lot of emphasis in the recent years on the need for advance information and use of automated risk management in the postal supply chain which has been in that regard lagging behind other modes of transport.
21. E-commerce has become an important item on the PTC agenda and will also be discussed at this meeting.

Connecting to Global Value Chains

22. One of the effects of globalization includes connecting to Global Value Chains (GVC) and delivering products, services and technologies that no individual country would be able, or at least would have enormous difficulties, to produce on its own. In an attempt to support the businesses to connect to global value chains, Customs administrations could benefit from reexamining their procedures for inward and outward processing and identifying how they can be further advanced to encourage especially Micro, Small and

Medium-sized Enterprises (MSMEs) to be more active on international markets. Through the power of the Internet and technology, small businesses like never before are able to reach beyond a local consumer base and provide goods and services globally. Amazing success of technology-enabled small business traders around the world observed in the last years is impacting vastly the trading patterns, but is also contributing to the economic competitiveness of nations.

Information Technology and Virtual Borders

23. Customs has been one of the border agencies with a longer history than others in using IT solutions to support its daily business. E-customs solutions involving the use of mobile technology have become more accessible in the last years. IT solution providers are competing to respond to the requirements of Customs and other stakeholders in the supply chain to enable a secure and facilitated flow of goods.
24. With a view of tackling its many tasks and responsibilities, Customs is creating “virtual borders” enabled through availability of pre-arrival/pre-departure and in some cases pre-loading information. On the other hand, there is a continuous trend of moving from transaction-based to system-based controls, where Post-Clearance Audit represents one promising way forward. Others include establishing industry-focused and account-based Centers of excellence and expertise.

Big data

25. Big data is being generated by everything around us at all times. Customs administrations have the advantage of collecting and having at their disposal huge amounts of data. The question is how this data can be used along with the data available through social media to mitigate risks, address compliance issues and improve audits, but also to discover trading trends and patterns which would allow Customs to adapt its procedures accordingly.
26. Critical factors for success in transforming big data into a valuable source include statistical analyses and data mining, but also good data quality which has become an important priority on the WCO and PTC agenda.

Latest threats and challenges

27. The outbreak of the Ebola Virus Disease (EVD) has had a significant impact on trade and tourism in the affected countries and has influenced how border procedures are being performed. The latest terrorist attacks are another alarming phenomena which could call upon all key agencies, including those at the border, to reexamine their working methods and how they can mitigate security threats. The softening of regulations related to certain drugs and narcotics in a number of countries, is also another reality Customs may have to face and respond to adequately in the medium to long-term.

Integrity

28. Integrity, the basis of a well-functioning administration, remains a Customs challenge worldwide. No country, developed or developing, is immune to integrity issues and new approaches are required to tackle the ever-present risk of corruption. Performance measurement contracts and risk mapping, as well as developing procurement guidelines, are only some of the more recent initiatives in which the WCO is supporting its Members in fighting this scourge.

Customs-private sector partnership as a possible model

29. Customs-private sector arrangements have proved to be beneficial when developing new Customs procedures and solutions.
30. Here are only a few of the drivers for such arrangements:
- i. The private sector is the main beneficiary of trade facilitation measures being developed by Customs and other border agencies. It should therefore be heavily involved in the development of such solutions and in evaluating their effectiveness, but also in proposing solutions. This has been the conclusion also of the PTC during the discussions on the WTO TFA implementation at the 205th/206th Sessions in October 2014. Involvement of the private sector should be seen as a competitive advantage in the Customs modernization process.
 - ii. Learning more about the business processes of other stakeholders in the supply chain (most of which are private sector) is of significant value for Customs when developing new procedures and processes. For instance, one of the focal points of discussions on data quality in the past two years have been around the source of original data and how the Customs can reach this data and make use of it in terms of improved risk management. On the other hand, for successfully carrying out post-clearance audits, Customs officers need to have knowledge of how these businesses manage their books and finances.
 - iii. Global value chains (GVC). Learning more about GVCs can help Customs adapt its processes to support economic growth. Inward and outward processing procedures are often cumbersome and can benefit from simplifications and might be one way of supporting businesses more easily access the GVCs. The Private Sector Consultative Group (PSCG) has recently carried out a mapping of the value chain, which would be an example of how the private sector can help Customs better understand the business processes in the ever-complex trading environment.
 - iv. Private sector companies and multinationals have the tendency to work towards developing business models and cutting-edge solutions to respond to the growing competitiveness of the international market and to raise profit. Although the public sector does not have such drivers, it can benefit from the experiences of the companies and replicate some of the business models in its work.
 - v. Customs-private sector partnership is only one possible approach in raising the capabilities of Customs to deal with any emerging issues.

Potential way forward

31. How will the role of Customs nationally, regionally and worldwide look like in 15, 20, 30 years time? Will that affect the role of the WCO? Is Customs adequately prepared? Do Customs administrations have the ability and flexibility to respond to the ever-growing challenges faced with the growth of trade and changes in trade patterns? Experience shows that Customs has usually been the leading agency or among the leading agencies at the border when it comes to reform and modernization, especially when it comes to automation. But can Customs afford to purely rely on its existing abilities to adapt to change? Investing into research and development, fostering innovation, embracing information technology and thinking out of the box are only the beginning of finding solutions to these questions.

32. At its autumn 2015 meeting, the PTC will be provided with an opportunity to discuss the next steps in more detail, preferably based on the outcomes of inter-sessional work carried out by Members, observers and the Secretariat.

Conclusion

33. The PTC is invited to actively participate in the plenary discussion after the panel on the Future of Customs, among others having in mind the following questions:
1. What are the new or emerging threats Customs are being faced with or will be faced with in the future, how does this affect its roles and responsibilities, and/or does it need to envisage new ones;
 2. Do the ten C21 building blocks provide a sufficient framework for tackling the roles and responsibilities of Customs today and in the future? What are the possible new models, arrangements, solutions, techniques that have been proved to be useful or could be useful in mastering Customs business?
 3. What would be the next steps before the next PTC meeting in autumn this year? Would this include building up on the C21 building blocks through a virtual working group involving Members, regional structures, the private sector and academia?
34. The PTC is invited to discuss and determine future steps.
-