



## **WORLD CUSTOMS ORGANIZATION**

### **Communication on the Global Financial Crisis**

#### **for the 2 April 2009 G20 Summit**

#### **1. Introduction**

The World Customs Organization (WCO) is appreciative of this opportunity to share with you information on the WCO's research, recommendations, and response actions related to the global financial crisis. The WCO, with its membership of 174 countries whose customs administrations cover 98% of global trade, is well positioned and equipped to: (1) promote measures to support international trade during this time of economic turmoil; and (2) conduct research on how the crisis is affecting international trade. It is our hope that this information will be relevant and beneficial to your deliberations in London on 2 April 2009.

At the G20 Summit in November 2008 in Washington, D.C., G20 economies stressed the rejection of protectionism as critically important, as well as the need to refrain from putting in place new barriers to trade. In this respect, the WCO underscores the importance of trade facilitation and avoiding new barriers to trade, including non-tariff barriers to trade in customs operations.

*At the conclusion of this Communication, the WCO proposes three recommendations for G20 consideration.*

#### **2. Customs and International Trade**

Governments, through their customs operations, conduct a wide spectrum of international regulatory duties on the cross-border movement of goods and persons, including collecting revenue that funds government operations; consumer protection; national security; and environmental protection. Simultaneously, the WCO promotes the notion that these legitimate regulatory activities should not, and need not, impede the smooth flow of goods. In other words, while government has the responsibility of conducting controls at the border, it also has the responsibility of facilitating trade in international supply chains.

The term *Trade Facilitation* means "the simplification and harmonization of international trade procedures", where trade procedures mean the "activities, practices and formalities in collecting, presenting, communicating and processing data required for the movement of goods in international trade".

During this time of economic and financial crisis, customs can play a central role in facilitating trade and hence be a driver of international trade by simplifying customs procedures, avoiding unnecessary physical inspection of cargo, and reducing the lead time between the lodging of a customs declaration and customs clearance of the goods, thus resulting in lowered business costs. We have also found that improvements in performance for some customs administrations have engendered motivation for improvement in other customs administrations and other border agencies.

It is the WCO's view that efforts to impose non-tariff barriers (such as unnecessary increases in the physical inspection of cargo) are not helpful for promoting international trade, especially during a time of plunging international trade.

### **3. WCO Research on the Global Financial Crisis**

The WCO conducted two rounds of survey research, in November 2008 and February 2009, on how the global financial crisis is affecting customs administrations and international trade. The WCO has made the following findings:

- Most customs administrations reported declining international trade volumes (imports and exports) in December 2008 compared to previous months and December 2007. Preliminary data shows the downward trend intensifying in January 2009.
- As a result of declining imports, many developing countries are suffering a reduction in the collection of customs duty, that duty being essential to fund the basic operations of government.
- There is a deteriorating market for trade finance.
- Some customs administrations are taking positive action in response to the crisis. They are putting in place deferred duty payment plans; looser re-payment plans for traders who have experienced temporary financial setbacks; and faster customs duty drawback. They are also showing flexibility in respect of security (guarantee) requirements.
- A number of customs administrations are continuing to pursue modernization policies, such as increased risk management in order to reduce the impact of customs formalities on legitimate trade, and the creation of customs-to-business partnerships that grant benefits to businesses which comply with customs regulations.
- Governments are slow to adjust revenue targets despite the falling trade, and some customs administrations are obliged to increase physical inspection of cargo for revenue purposes.
- Some trade policy agencies are pursuing anti-facilitation measures such as unnecessary increased physical inspection of cargo in order to comply with national standards and for other non-revenue purposes.

#### **4. WCO Global Financial Crisis Response Package**

The WCO and its Members are taking a proactive and comprehensive approach to addressing the crisis in order to encourage confidence in the global trading system. The WCO Global Financial Crisis Response Package is organized into two components:

- A. WCO recommendations of what customs administrations should pursue during the crisis.
- B. WCO actions to assist customs administrations during the crisis.

##### **A. WCO Recommendations For Customs Administrations**

*Promotion of risk management and other trade facilitation measures* – The WCO recommends that customs administrations enhance or introduce risk management and other trade facilitation measures in their application of customs controls so that customs procedures are more fair and efficient leading to expedited international trade. In particular, the WCO advises customs administrations to apply inspection regimes that are appropriate in terms of the reduced trade volumes and that do not impede legitimate trade. Customs administrations should thus concentrate on the high-risk area of customs offences, such as smuggling, counterfeiting, fraudulent documentation (undervaluation, origin, etc.) and security, but not for purposes of protectionism. WCO trade facilitation principles are embodied in the *International Convention on the Simplification and Harmonization of Customs Procedures*, also known as the *revised Kyoto Convention*.

*Customs-Customs cooperation* – The WCO recommends that customs administrations enhance the global network of customs cooperation to facilitate trade through the exchange of information and intelligence.

*Consultations with trade policy ministries* – The WCO recommends that customs administrations work collaboratively with their trade policy ministries on emerging investment and tax issues.

*Customs-Business partnerships* – The WCO recommends that customs administrations forge ahead with cooperative relationships with legitimate traders in order to provide relevant information in a timely manner, minimize ‘red tape,’ and promote the smooth flow of goods. A central part of this recommendation is the use of an Authorized Economic Operator (AEO) programme where traders deemed to be low-risk are granted certain benefits, such as faster clearance times, while enhancing the overall level of security, as provided for in the WCO’s SAFE Framework of Standards to Secure and Facilitate Global Trade. Mutual recognition of AEO programmes would help to facilitate global trade from origin through to destination.

*Coordinated border management (CBM)* – The WCO recommends that customs administrations work with other border agencies for purposes of harmonizing and simplifying border procedures.

*Deferred payment* – The WCO recommends that customs administrations should consider, where feasible, applying a system where reliable traders are granted an extension of duty payment deadlines or can make duty payment at a specified time after the release of goods into the marketplace.

*Flexibility of guarantee (security)* – The WCO recommends that customs administrations should consider, where feasible, showing flexibility in the amount and provisions of bank guarantees for the duration of the financial crisis.

## B. WCO Response Actions

*Promotion of trade facilitation* – The WCO will continue to promote methods of simplification and harmonization of customs procedures and trade facilitation measures.

*WTO Doha Development Round* – The WCO, as the only international organization competent and expert on customs matters, will continue to support WTO Trade Facilitation Negotiating Group meetings. In addition, WCO experts will continue to contribute to WTO trade facilitation capacity building missions.

*WCO capacity building* –The WCO has enhanced its current capacity building assistance to developing countries by providing consultations, diagnostics, implementation support using WCO tools, training, and technical assistance on trade facilitation measures and other means of addressing the financial crisis.

*Donor consultation* – The WCO will continue to consult with donors with a view to reaching agreements on the funding of customs modernization programmes, especially for the development of trade facilitation measures.

*WCO research* – The WCO will continue to conduct research on the global financial crisis both as a means of collecting trend data and to help identify measures that can contribute to revitalizing international trade and respond to the global financial crisis.

## 5. Conclusion

The WCO continues to see downward trends in international trade in this period of global economic contraction. In response, the WCO has developed a package of recommendations and actions that we believe will support international trade during this financial crisis. It is our view that, if widely pursued, these measures will not only facilitate trade but will restore confidence in international trade as a means of bringing an early end to this crisis.

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### **Recommendation for G20 consideration:**

To encourage confidence in the international trading system during the global economic crisis, the WCO urges the G20 to note and promote the following actions:

- National and regional authorities should promote trade facilitation measures consistent with international customs and other border agency standards.
- Advanced economies and international donor organizations should promote customs modernization capacity building programmes, including the necessary infrastructure for emerging market economies and developing countries, which will promote trade and investment globally.
- The WCO and other relevant international organizations should be encouraged to monitor the trends in international trade and to identify best practices in sustaining the global trading system.

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