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Abstract

Customs is mandated to contribute to socio-economic development by, on the one hand, facilitating legitimate trade and, on the other hand, protecting national economies and societies against risks. To respond proactively to the dynamic and rapidly changing environment in the 21st century, the international Customs community needs to identify and understand key international, regional and national strategic drivers.

To this end, the 2014 edition was developed by updating or refining information of the 2012 and 2013 editions with the addition of new information, where available, up to and including December 2013. It outlines key emerging trends concerning merchandise trade, transportation and travellers, border rules and measures, business practices, trade facilitation, Customs organizations and Customs enforcement. It also briefly summarizes the potential impact on the Customs community of the emerging trends identified.

Key words

Trade Facilitation, Global Value Chains, Customs Organizations, Customs Enforcement

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Tables and Figures

1. INTRODUCTION

The world has become ever more interconnected and interdependent through expanded cross-border flows of goods, services, people, transport, capital, information and technology. Globalization makes it easier to conduct international business than in the past, and provides economies with the opportunity to fast-track development goals through increased international trade. While globalization is beneficial to legitimate trade, it also benefits illicit trade, and criminals are able to make use of more integrated markets and a freer movement of people and goods across borders. The lack of effective controls presents risks to any economy and society, and can undermine gains that can be potentially obtained.

Customs is mandated to contribute to socio-economic development by, on the one hand, facilitating legitimate trade and, on the other hand, protecting national economies and societies against potential risks. In order to proactively respond to the dynamic and rapidly changing environment in the 21st century, Customs needs to identify and understand the key international, regional and national strategic drivers. It is also important for Customs to identify its impact on the role, capacity and governance of Customs.

To this end, the 2014 edition was developed by updating or refining information of the 2012 and 2013 editions (Yasui, 2012; WCO 2013a) with the addition of new information, where available, up to and including December 2013. All the information in this paper was taken from open sources. Following this introduction, the second section outlines key emerging trends in the international environment surrounding Customs. The third section briefly describes the potential impact on the international Customs community of the emerging trends identified in the second section.

2. EMERGING TRENDS

2.1 Global merchandise trade, transport and travellers

World merchandise trade and economic growth[1]

Growth in world merchandise trade in 2012 was estimated at 2.3% in real terms[2] (WTO, 2013a, Table 1). This figure is well below its long-term average rate, 5.4% in 1992-2012, and even lower than projected in the previous year of 2.5% (WTO, 2012a; 2013a). The slowdown is mostly attributed to a zero growth rate in import demand of developed economies and a slower pace of export growth in both developed and developing economies. In terms of monetary value, world merchandise exports reached US$18.4 trillion in 2012, representing a slight increase over the previous year. Merchandise imports reached US$ 18.6 trillion in 2012.

Nevertheless, world merchandise trade has grown faster than global output for an extended period of time (WTO, 2013a). In 2012, it was slightly higher than global GDP growth (2.0%). This trend is set to continue; global trade growth was projected at 2.5% in 2013 and 4.5% in 2014 while global GDP growth was estimated at 2.0% in 2013 and 2.6% in 2014 (Table 1).

[1] World merchandise trade and economic growth are annually published by a number of organizations, including the WTO, the OECD, the World Bank, and the IMF. They were slightly different one another, but their trends were generally similar. Among them, this paper took the figures published by the WTO, because the 2012 figures were available by September 2013 (WTO, 2013a; 2013b; 2013c).
[2] "*In real terms*" means that the figures are adjusted to account for inflation and exchange rate fluctuations.

Table 1: Growth in volume of world merchandise trade and GDP (2009-2014[a], annual percentage change)

	2009	2010	2011	2012	2013P	2014P
Volume of world merchandise trade [b]	-12.5	13.8	5.4	2.3	2.5	4.5
Exports						
Developed economies	-15.2	13.3	5.1	1.1	1.5	2.8
Developing economies and CIS	-7.8	15.0	5.9	3.8	3.6	6.3
Imports						
Developed economies	-14.3	10.7	3.2	0.0	-0.1	3.2
Developing economies and CIS	-10.6	18.2	8.1	4.9	5.8	6.2
Real GDP at market exchange rates	-2.4	3.8	2.4	2.0	2.0	2.6
Developed economies	-3.8	2.7	1.5	1.2	1.2	1.9
Developing economies and CIS	2.1	7.4	5.5	4.7	4.5	4.9

[a] Figures for 2013 and 2014 are projections, [b] Average of exports and imports.
(source) Reproduction of Table 1, WTO (2013a, *p.3*)

Trade patterns

On the export side, China was the largest exporter in the world in 2012. Exports from China were valued at US$ 2.0 trillion, followed by the United States with US$ 1.6 trillion (WTO, 2013b; 2013c). On the import side, the United States remained the largest importing country with goods valued at US$2.3 trillion followed by China with US$1.8 trillion. If considered as a single entity, the European Union (EU) is the larger exporter with US$2.1 trillion and the second largest importer with US$2.3 trillion after the United States.

Developing economies and the Commonwealth of Independent States (CIS) have collectively increased their share. In 2012, they accounted for nearly half of world merchandise trade. Conversely, the Least Developed Countries (LDCs) [3] remained marginalized from world trade; their collective share in world trade remained solid at 1.1%. Developing economies and the CIS traded each other, as the share of *South-South* trade in world merchandise trade increased from 8% in 1990 to 24% in 2011. Similarly, the share of *North-South* trade also increased slightly from 33% to 38%, while *North-North* trade experienced a reduction from 56% to 36% over the same period (WTO, 2013b).

In 2012, manufactured goods represented 64% of world merchandise trade in terms of value, having continuously declined from 75% in 2000. The share of agricultural products has stayed around 9%, while for fuel and mineral products it increased to 23% from 18% in 2005, which can be attributed to high price rates at that time (WTO, 2013c).

Intra-regional trade

Another trend is that international trade become more regionalized than in the past. The 2012 trade statistics indicated that 50.7% of world exports were sent to countries in the same region (WTO, 2013c) representing a small decline on the 2011 figure of 51.9%. Intra-regional trade remained high in Europe (68.6%), Asia (53.4%) and North America (48.6%),

[3] 48 LDCs according to the UNCTAD as at December 2013 and further information is available at: http://unctad.org/en/pages/aldc/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx.

but low in South and Central America (26.9%), the CIS (18.5%), Africa (12.7%) and the Middle East (8.6%) (Table 2).

Table 2: Share of regional trade flows in each region's total merchandise exports (%)

Exporting \ Destination	North America	South & Central America	Europe	CIS	Africa	Middle East	Asia
North America	48.6	9.1	16.0	0.8	1.6	3.2	20.6
South & Central America	24.9	26.9	17.0	1.1	2.8	2.3	23.0
Europe	7.7	1.9	68.6	3.8	3.3	3.3	10.1
CIS	4.6	0.9	53.4	18.5	1.7	2.5	15.7
Africa	11.7	4.8	38.2	0.3	12.7	2.7	25.3
Middle East	8.7	0.8	11.0	0.5	2.9	8.6	54.2
Asia	17.3	3.5	15.2	2.1	3.1	4.6	53.4

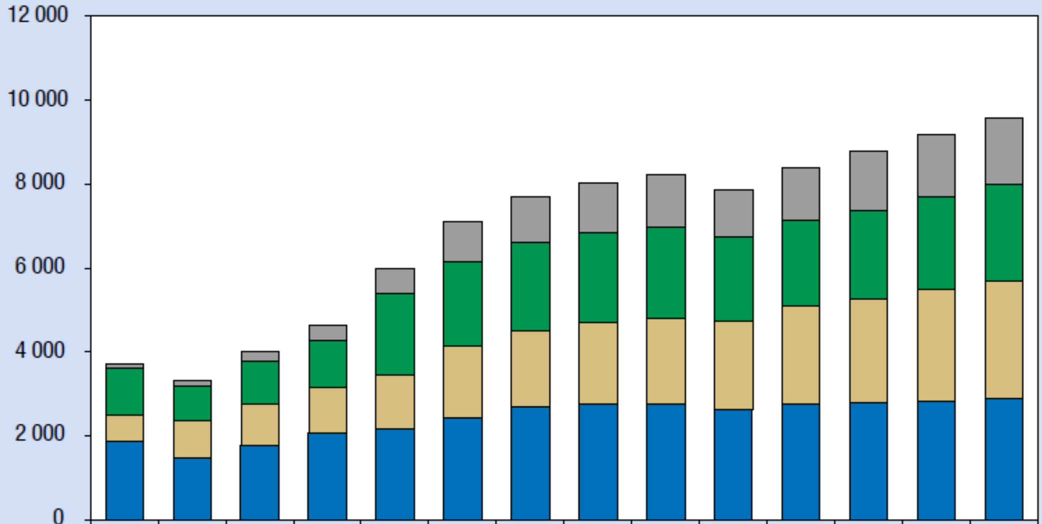
(source) Reproduction of part of Table I.4, WTO (2013c, *p. 21*)

International transportation

1) Sea cargo

In 2012, about 9.2 billion tons of goods were loaded and unloaded in ports worldwide (UNCTAD, 2013). It was reported that more than 80% of world merchandise trade was carried by sea as measured in weight. Growth in global sea cargo in terms of weight in 2012 was 4.3%, slightly down from 4.5% in 2011. Developing countries accounted for 60% of global goods loaded and 58% of global goods unloaded in 2012. Oil and gas remained the top commodities transported via sea cargo with 31% of world seaborne cargo in weight, followed by five major bulks (coal, iron ore, grain, bauxite/alumina, and phosphate rock) and other dry cargo representing 29% and 24%, respectively. Composition of types of cargoes has stabilized from 2005 onwards (Figure 1).

Figure 1: International seaborne trade (selected years, millions of tons loaded)



	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Container	102	152	234	371	598	969	1 076	1 193	1 249	1 127	1 275	1 421	1 480	1 578
Other dry cargo	1 123	819	1 031	1 125	1 928	2 009	2 112	2 141	2 173	2 004	2 027	2 084	2 184	2 300
Five major bulks	608	900	988	1 105	1 295	1 709	1 814	1 953	2 065	2 085	2 335	2 486	2 665	2 786
Oil and gas	1 871	1 459	1 755	2 050	2 163	2 422	2 698	2 747	2 742	2 642	2 772	2 794	2 836	2 904

(Note) Five main dry bulks are: coal, iron ore, grain, bauxite/alumina, and phosphate rock. Data for 2013 is forecasted.
(Source) Reproduction of Figure1.2 of UNCTAD (2013, *p.7*)

Containerized trade accounted for 16% of global seaborne by weight in 2012, and reportedly more than half by value (UNCTAD, 2013). Containerized cargo was the fastest growing type of seaborne cargo and has experienced steady growth for decades. In 2012, its growth in weight was 4.1% over the previous year, significant down from 11.4% in 2011 and 13.1% in 2010. This was mainly because volumes on the East–West trade, in particular the Asia–Europe trade route significantly reduced. As measured in 20-foot equivalent units (TEUs), it also indicated a slow growth with 3.2% in 2012, compared with 7.1% in 2011 and 13.1% in 2010.

The UNCTAD report (2013) confirmed the predominance of two long-term trends in 2012, namely: bigger ships and fewer service providers, and this trend would continue in 2013. Responding to the growing demand, carriers choose to deploy larger ships rather than increasing the number of ships. The total amount of container-carrying capacity has increased by more than 80% since 2004 while the average number of ships per country has remained almost constant. The number of carrier companies operating per country in most markets was decreased from 22 in 2004 to 16 in 2013.

2) Air cargo

Air transport carried goods valued at US$ 6.4 trillion in 2012, accounting for 35% of world merchandise goods in terms of value (IATA, 2013). This represents an increase from the figure of US$5.3 trillion in 2011 (IATA, 2012). In terms of volume, however, air transport carried some 50 million tonnes in 2012 approximately the same amount as in 2011. As air freight is the transport mode of choice for businesses requiring transport of high-value and time-sensitive goods, goods which used to be transported by air were actually transported by sea in cases where time was not of the essence. Based on the assumption that fuel prices remain stable and economic growth is steady, world air cargo is expected to grow at 5.2% per year over the next 20 years as measured in Revenue-Tonne-Kilometre (RTK) (Boeing, 2012).[4]

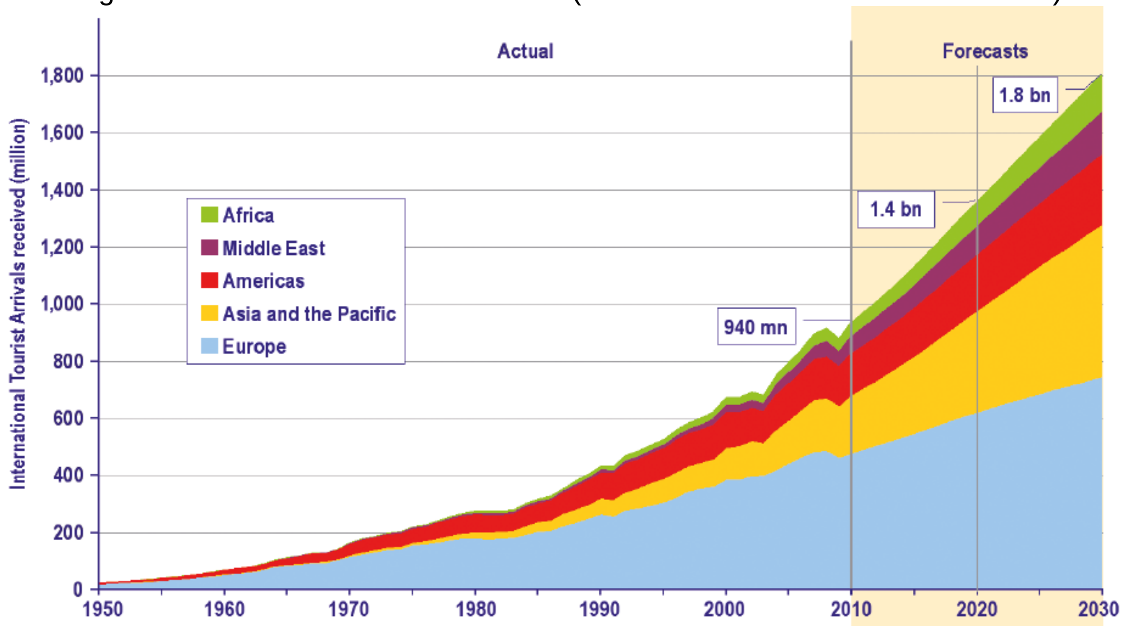
Regarding express cargo as measured in RTK, it grew by 24.8% in 2010 and 10.2% in 2011, and increased its share in world air freight to 13.8% in 2011 from 12.6% in 2009 (Boeing, 2012). International express, together with postal consignments, is frequently used to deliver goods bought over the internet directly to consumers overseas. The average size carried by express shipment increased from 2.7 kg in 1992 to 6.2 kg in 2011. The international express sector was projected to grow at 5.3% per year through 2031.

Travellers

International tourist arrivals grew by 4.0% in 2012 over the previous year so as to reach 1 billion for the first time in history (UNWTO, 2013). The figure has doubled since 1995, and was projected to grow steadily to 1.8 billion by 2030 (Figure 2). More than half of these tourists crossed borders for leisure, holidays and recreation, whilst the remainder did so for business, visiting friends and family, health, religion, etc. 52% of them travelled by air and 40% did by road. Europe was the top destination of choice in 2012. The Asia/Pacific region was projected to increase its share of incoming international tourist travel from 22% in 2012 to 30% in 2030 in accordance with the latest statistics available which demonstrate its rapid ascension as a destination of choice for travellers.

[4] Revenue-Tonne-Kilometre (RTK) means weight multiplied by distance for charged cargoes.

Figure 2: International Tourist Arrivals (actual trend and forecast 1950-2030)



(source) UNWTO (2013, *p.14*)

2.2 Border rules and measures

Regional Trade Agreements (RTAs)

Regional Trade Agreements (RTAs) have proliferated over the last two decades. According to the WTO RTA Database, 251 RTAs concerning merchandise trade existed as at December 2013 (Table 3), of which 144 RTAs entered into force in and after 2003.

The RTAs for merchandise trade consists of three types: Free Trade Agreement (FTA), Customs Union, and Partial Scope Agreement (PSA). An FTA eliminates tariffs on merchandise trade between parties. A Customs Union substitutes a single Customs territory for two or more Customs territories. It establishes a set of common external-tariff (CET) on trade with non-parties, and eliminates tariff on trade between parties. It is distinct from an FTA which allows a different tariff on trade with non-parties. While both FTAs and Customs Unions are respectively defined in Article XXIV of GATT, a PSA is not legally defined under the WTO framework. It generally covers a limited range of goods for preferential tariff treatment, and it is normally notified to the WTO under the enabling clause (Table 3).

Table 3: Regional Trade Agreements (goods) in force and notified to the GATT/WTO [a]

	Enabling Clause [b]	GATT Article XXIV	Total [c]	Share
Free Trade Agreement	13	209	220	87.6%
Customs Union	8	10	17	6.8%
Partial Scope Agreement	14	0	14	5.6%
Total	35	219	251	100.0%

[a] The RTAs were counted until 31 December 2013, where accession agreements were excluded.
[b] The Enabling clause is officially called the "*Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries*", adopted by the GATT in 1979.
[c] Two FTAs and one Customs Union were notified under GATT Article XXIV and the Enabling Clause.
(Source) Reproduction of part of "*Summary tables containing WTO Figures on RTAs*" in the WTO RTA Database, available at: http://rtais.wto.org/UI/PublicConsultPreDefReports.aspx

Among the tree types of RTAs, an FTA is the most common, accounting for 87.6% of the RTAs in force (Table 3). A significant part of world merchandise trade took place between RTA partners. Given that a number of FTA negotiations are currently underway, including "*mega-FTA*" in particular the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the United States (European Commission, 2013a) and the Trans-Pacific Partnership (TPP)(USTR, 2013), it seems like that the trend in favour of FTAs will continue for the time being.

There have been a few studies on the utilization rates for the preferential tariffs under the RTAs, defined as trade values actually subject to preferential tariffs amongst the total trade values of bilateral trade. Under the China-ASEAN FTA, for example, Li (2013) assessed the rate from ASEAN to China at 19.3%. The WTO (2011) estimated it at 16% of global merchandise trade if intra-EU trade was excluded. This could be mainly attributed to onerous rules of origin and low preferential margins between MFN and preferential rates for many goods. The preferential margins eroded as the MFN rates dropped in many countries. The WTO (2011) estimated that goods with more than 10% of the preferential margin accounted for less than 2% of world merchandise trade.

Trade restrictive measures

Responding to a request by the G20, the WTO, together with the OECD and UNCTAD, has prepared reports on trade measures taken by the G20 economies on a semi-annual basis. The G20 economies collectively cover roughly three quarters of world trade. The tenth monitoring report (WTO, 2013d) indicated that 116 new measures that were considered as restricting or potentially restricting trade were introduced from mid-May to mid-November 2013 (Table 4). They covered 0.9% of world merchandise imports. The most frequent measures observed during this period were: the initiation of trade remedy actions such as anti-dumping investigations, accounting for 60% of the measures, followed by import tariff increases. In terms of the average number of measures per month, this period recorded 19.3, a slight increase from 15.6 of the previous period.

Over the last four years, the G20 economies have introduced a total of 899 new trade restrictive (or potentially restrictive) measures. The majority of them still remain in force while only 20% had been removed by mid-November 2013. As a result, it was estimated that trade affected by the measures still in force cumulatively accounted for 3.9% of world merchandise trade (WTO, 2013d).

Table 4: Trade restrictive measures by G20 economies

Type of measure	**Apr to Aug 09**	**Sep09 to Feb10**	**Mid-Mar to May10**	**Mid-May to mid-Oct10**	**Mid-Oct10 to Apr11**	**Mid-May to Oct11**	**Mid-Oct11 to mid-May12**	**Mid-May to mid-Oct12**	**Mid-Oct12 to mid-May13**	**Mid-May to mid-Nov13**
Trade remedy	50	52	24	33	53	44	66	46	67	70
Border	21	29	22	14	52	36	39	20	29	36
Export	9	7	5	4	11	19	11	4	7	8
Other	0	7	5	3	6	9	8	1	6	2
Total	**80**	**95**	**56**	**54**	**122**	**108**	**124**	**71**	**109**	**116**
Average per month	16.6	15.8	18.7	10.8	20.3	18.0	17.7	14.2	15.6	19.3

Note: This table includes all measures that restrict or have the potential to restrict and/or distort trade. The measures counted in the table are not all comparable, in particular in terms of their potential impact on trade flows. It has been estimated that G-20 economies implement 148 trade restrictive measures during the period October 2008 to March 2009. This table does not include general economic support measures.

(source) Secretariat, based on Table 1 (WTO, 2012b, *p.4*) and Table 1 (WTO, 2013d, *p.4*)

2.3 Business practices

Global value chains (GVCs)

Global value chains (GVCs) have become a dominant feature of today's world trade (OECD, et al., 2013). The production value chain is predominant particularly in manufactured goods. Along the chains, firms are importing parts, components, intermediate or semi-finished goods to be processed and then exported for further processing in exported countries. These value chains have led to structural shifts in global production patterns. Together with highly-diffused technology and accumulated productive factors, countries have become less specialized in terms of their exports (WTO, 2013b). As a result, they export similar products, accounting for a similar composition in exports especially among developed countries.

The traditional measurement of trade statistics, which is based on the full commercial value in the last country of origin, fails to capture values added to the goods in each country. In order to measure trade in value added, the OECD and the WTO jointly developed a database for measuring trade in value-added as an outcome of the "*Made in World*" initiative.[5] Between 30% and 60 % of G20 countries' exports are composed of imported inputs or used as inputs by others (OECD, et al., 2013). The share of intermediate goods in world non-fuel exports amounted to 50-53% in 2000-2011, and reached 55% in 2011 (WTO, 2013c).

Intra-firm trade

Intra-firm trade is defined as cross-border flows of goods and services between parent companies and their affiliates or among these affiliates (OECD, 2002). The OECD (2011) made a rough estimation that intra-firm trade in goods accounted for one third of world merchandise trade. A reference of around 30% of global trade was frequently cited as trade in goods between affiliates of the same multinational cooperation (Hufbauer, Vieiro and Wilson, 2012; ICC 2013).

In the United States, intra-firm trade accounted for 29.1% in its merchandise exports and 50.3 % in its merchandise imports in 2012 (U.S. Department of Commerce, 2013). In terms of its total share of merchandise trade (i.e. exports and imports) in 2012, the figure represented 41.7 % in 2012, and remained stable at around 40% in the decade spanning 2002 to 2012.

Export Processing Zones (EPZs)

Export processing zones (EPZs) play an important role in the international trade supply chain. They are also referred to as Free Trade Zones, Free Economic Zones, Free Ports, Industrial Free Zones, Technological Free Zones, Special Economic Zones, and Industrial Development Zones. In 2006, it was estimated that there were 3,500 EPZs in 130 countries, employing around 66 million people. EPZs accounted for more than 20% of total exports from developing economies, although this varies from country to country (IDE-JETRO and WTO, 2011).

[5] Further information on the Made in World initiative available at: www.wto.org/english/res_e/statis_e/miwi_e/miwi_e.htm

Informal cross-border trade

There is no single definition of informal cross-border trade. Nevertheless, it may be referred to "*trade transactions between residents and non-residents across the economic boundaries of two or more countries that are not recorded by Customs Authorities*." (Ugandan Bureau of Statistics and Bank of Uganda, 2013, *p.vi*) or "*imports and exports of legitimately produced goods and services, which directly or indirectly escape the regulatory framework for taxation and other governmental procedures*" (ITC, 2012, *p. 6*).

It is extremely difficult to estimate its magnitude. Nevertheless, anecdotal evidence in east Africa showed that it represented more than official trade statistics for certain food commodities. Some efforts to capture the volume and value of informal (unrecorded) trade are underway. For example, the Ugandan Bureau of Statistics and Bank of Uganda (2013) estimated that the share of informal exports to total Ugandan exports was 16.1% in 2012.

2.4 Trade facilitation

As tariffs have significantly dropped, non-tariff barriers to trade are increasingly becoming the focus of attention. Trade facilitation reforms effectively enable economies to reduce trade costs, increase competitiveness, improve trade performance, create jobs and income opportunities, promote sustainable economic growth and prosperity, and thereby lead to poverty reduction (World Bank, 2012). The World Economic Forum (2013) estimated that trade facilitation would increase by US$ 2.6 trillion in global GDP and US$ 1.6 trillion in global exports.[6] The importance of trade facilitation has been repeatedly highlighted by a variety of high-level political advocates and business organizations, including the G20, the African Union, the APEC, the WTO, the WEF, and the ICC (WCO, 2013a).

More and more Customs in both developed and developing countries clearly mentioned trade facilitation as a priority for the Customs function. It is often written in its citizen charter, service charter, etc. There is no unequivocal definition of trade facilitation, but from the Customs' perspective, it is generally interpreted as facilitating legitimate trade whilst not compromising the regulatory controls on trade in accordance with domestic and international laws and regulations (Grainger, 2008).

WTO Trade Facilitation Agreement

The WTO successfully concluded the negotiations on trade facilitation as part of the Bali Package under the Doha Development Agenda (DDA) at the Ninth WTO Ministerial Conference in Bali in December 2013 (WTO, 2013e). After the necessary work is completed, the WTO is scheduled to adopt the Agreement on Trade Facilitation no later than July 2014, and then open it for acceptance. The Agreement will take effect once it is accepted by two thirds of WTO Members. According to one study which was commissioned by the ICC, the Agreement alone could increase world exports by US$ 1 trillion, which could increase global GDP by US$ 1 trillion and create 21 million jobs (Hufbauer and Schott, 2013).[7]

[6] It assumed that all countries raise their performance halfway to global best practice in terms of border administration and transport and communications infrastructure.

[7] Capaldo (2013) pointed out that the study relied on too many unjustifiable assumptions and methodological inaccuracy accumulates, so that the resulting figures were too uncertain to underpin any policy decisions.

Customs will have a vital role to play in order to implement the Agreement once it takes effect (WCO, 2013b). The Agreement would benefit the international Customs community (WCO, 2003) such as:

- Enhanced political will and commitment necessary for Customs reform and modernization;
- Strengthened support and increased co-operation with the business community;
- Increased awareness and understanding of Customs requirements, thereby resulting in improved compliance;
- Co-operation with other border agencies for better coordinated border management;
- More impetus for capacity building with realignment of resources to Customs.

Free Trade Agreements

One trend that has become increasingly apparent, according to the WTO RTA database, is that FTAs have incorporated more Customs-related trade facilitation measures. It is totally up to negotiating countries as to which measures are incorporated into respective FTAs. One study found that Customs cooperation and mutual administrative assistance were amongst the most common FTAs, particularly amongst those FTAs which recently entered into force (Yasui, 2014).

Aid for Trade

The Aid for Trade (AfT) initiative mainly aims to achieve development goals through building trade capacity in developing countries. The initiative has become more prominent on the agenda of various policy-makers as part of the Official Development Assistance (ODA) framework. The AfT commitments amounted to US$ 41.5 billion in 2011, down from US$ 45 billion in 2010, mostly attributable to the financial crisis that exerted downward pressure on donor countries' aid budgets (WTO, 2013f).

Aid for trade facilitation commitments amounted to US$380 million in 2011, which represents a decline of 10% from the previous year. Although this figure is proportionally quite small, it has increased nearly four times from the 2002-05 level (WTO, 2013f). A total of US$168 million (44%) was made available for regional trade facilitation programmes and US$ 40 million (10%) in multi-country programmes. While a majority of the aid for trade facilitation was contributed directly by donors, US$ 125 million (33%) was delivered through multilateral institutions such as the World Bank and regional development banks. To date, a number of trade facilitation programmes as part of better border management and regulatory reforms have been executed, and more funds may be provided to initiate new programmes in the coming years once the WTO TF is concluded.[8] Customs reform and modernization is an important component of these programmes (World Bank, 2011).

2.5 Customs organizations

Types of Customs organizations

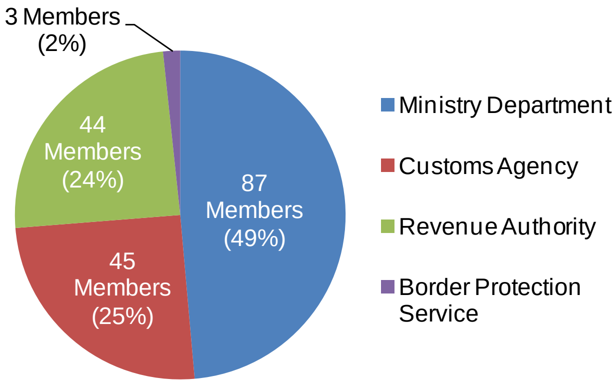
The WCO (2013c) classified Customs organizations of 179 Members into four types: *Ministry Department, Customs Agency, Revenue Authority,* and *Border Protection Service*.

[8] The EU announced €400 million of support to trade facilitation over a five-year period starting from conclusion of the WTO TFA (European Commission, 2013b), and Sweden announced that Sweden will provide an initial grant of around US$ 1.6 million in 2014-2015 for a new trade facilitation training facility in Arusha, Tanzania (WTO, ,2013g).

The Ministry Department is defined as a Customs department or division within a Ministry such as the Ministry of Finance and the Ministry of Economy. The Customs Agency entails an independent agency affiliated or subordinated to a Ministry. The Revenue Authority denotes an autonomous or semi-autonomous authority where the Customs and Tax authorities are integrated. The Border Protection Service covers immigration services, such as Visa verification at borders, in addition to Customs functions.

The survey indicated that almost half of the 179 WCO Members retain a Ministry Department. Customs Agencies and Revenue Authorities respectively constituted around one quarter, and only a small number of Customs administrations constituted a Border Protection Service (Figure 3).

Figure 3: Types of Customs organizations



(source) WCO (2013c)

Customs performance

Good performance of border procedures would lessen trade cost for business, and thus could attract foreign direct investment. Its impact may be felt even more in a trade supply chain environment where the intermediate or semi-finished goods may cross borders many times until finally becoming finished goods. To identify potential bottlenecks in border procedures, the WCO has emphasized the importance of regularly measuring times to release the goods at borders, and promoted the use of the WCO Time Release Study (TRS) Guide.

Beyond the WCO, several indexes or ranking scores on Customs and other border performance measurements across countries were regularly published. For example, they are identified in Logistic Performance Index, Enabling Trade Index, Doing Business Rank, Global Competitiveness Index, and World Competitiveness Ranking (Annex). In addition, the Global Express Associate published "*Customs Capabilities Reports*" [9] for 137 countries. Most of these reports reuse material, or were produced through surveys on business perception, which does not always accurately reflect the reality. Concerns were frequently raised on the methodology used to consolidate a variety of indicators into a single index or score (World Bank, 2013).

International development organizations are also interested in the degree to which performance of border procedures has improved after their assistance programs are implemented. The OECD trade facilitation indicators aim at assessing the border

[9] Further information on the GEA's Customs Capabilities Reports available at: www.global-express.org/index.php?id=4, accessed in December 2013.

procedures of 133 countries in 11 dimensions using 98 indicators (Moïsé, et al., 2011).[10] The Customs Assessment Trade Toolkit (CATT), developed by the World Bank, assesses130 indicators across seven dimensions for Customs performance.[11] The IADB's Customs Performance Measurement Indicator (C-PMI) contains 13 strategic indicators and 35 operational indicators (WCO, 2013d). The IMF gathers qualitative and quantitative data of revenue administrations through 62 questions under the initiative of Revenue Administration's Fiscal Information Tool (RA-FIT), of which 16 questions specifically relate to Customs administration (IMF, 2013).

2.6 Customs enforcement

The new global trade landscape has resulted in the growth of the range and complexity of risks that have to be managed at borders. Customs' role and responsibilities have broadened to encompass the execution of controls and other activities that serve a wider set of Government objectives.

In June 2012, the WCO published its first edition of the WCO Illicit Trade Report, by merging three trend reports on drugs, IPRs and tobacco which were previously published individually (WCO, 2013e). Based on the seizures reported to the Customs Enforcement Network (CEN) database, the Report aimed to identify trends and patterns of illicit trade at the regional and global level. The WCO Compliance and Enforcement Package (CEP), developed in 2012, identified five potential risk areas for Customs compliance and enforcement, namely: revenue; drugs enforcement; security; health, safety and intellectual property rights (IPRs); and environment, although they are interlinked.

Revenue

Customs import duties remain a significant source of government tax revenue in many developing countries although their share has declined as tariff rates have dropped through multilateral, regional, bilateral and unilateral initiatives. The WCO survey[12] indicated that tax evasion was the first enforcement target for nearly 70% of Customs who responded to the survey.

The WCO (2013c) collected information on Customs' contribution to government tax revenue in 135 countries in 2012 or the most recent statistics available. It was found that Customs duties alone provided more than 10% of government tax revenue in 27% of the countries concerned (Figure 4a). In most cases, Customs are mandated to collect other revenue such as VAT and/or excise duties on imported goods. Based on the figures in the report, it was estimated that Customs collected more than 10% in terms of government tax revenue in at least 90% of the countries concerned, more than 20% in at least 74% of the countries concerned, and more than 50% in at least 18% of the countries concerned (Figure 4b). These trends have continued apace in 2012.

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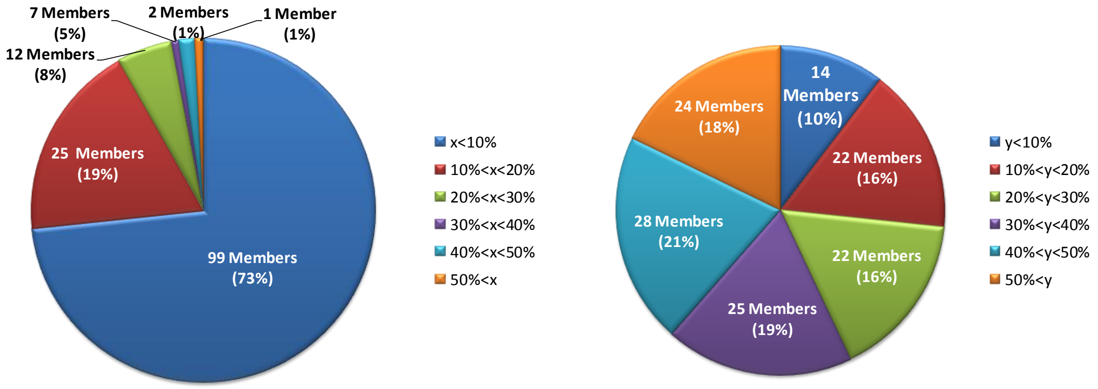
[10] Further information on the OECD trade facilitation indicators is available at: www.oecd.org/trade/facilitation/indicators.htm#About-TFI, accessed in December 2013

[11] Further information on the CATT is available at: http://customscatt.org/MainPage.aspx, accessed in December 2013.

[12] Illicit Wildlife Trade Survey of the WCO (forthcoming)

Figure 4: Customs contribution to government tax revenue
(Number and share of Members)



(a) The share of Customs import duties in government tax revenue (x %)

(b) The share of revenue collected by Customs in government tax revenue (y %)

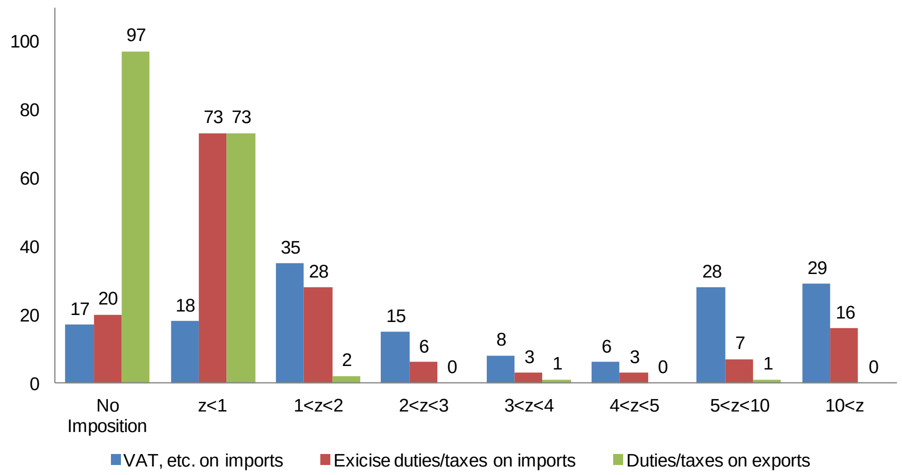
(note) Both Figure 4(a) and (b) are based on the 135 WCO Members in 2012 or the most recent years available. In Figure 4(b), Customs duty revenue is regarded as revenue collected by Customs if the latter is not available.

(source) WCO (2013c)

In addition, the WCO Report (2013c) indicated that 136 out of 156 Customs administrations were charged with the collection of VAT or other general consumption tax on imports, of which 121 Customs administrations collected more revenues than from Customs import duties (Figure 5). 136 out of 156 Customs administrations collected excise duties such as tobacco tax, alcoholic tax, and petroleum tax on imports, and 63 Customs administrations collected more revenues than from Customs import duties. With regards to the export side, no export duties or taxes were collected by 97 out of 156 Customs administrations, and only 4 Customs administrations collected more revenues than from Customs import duties.

Revenue loss caused by under-invoicing, smuggling, origin fraud, misclassification, transfer pricing, and informal cross-border trade practices, amongst others, significantly undermines national economic development and competitiveness. In particular, highly taxed excisable goods such as tobacco products incur a high risk of smuggling, and can consequently lead to significant revenue loss.

Figure 5: Ratios (z) of VAT, etc. on imports, excise duties/taxes on imports, and duties/taxes on exports divided by Customs import duties (Number of Members)



(source) WCO (2013c)

Another revenue leakage may occur when VAT or excise duties are illegally refunded when the goods are exported. There is no estimate of global revenue loss from illicit trade. Nevertheless, a rough estimate for certain type of goods is available. For example, global revenue loss from tobacco smuggling was estimated to amount to as much as US$ 40-50 billion per year (FCA, 2007). It is estimated that if the illicit trade of tobacco products were eliminated, governments worldwide could gain at least US$ 30 billion per year in tax revenue (WHO, 2013).

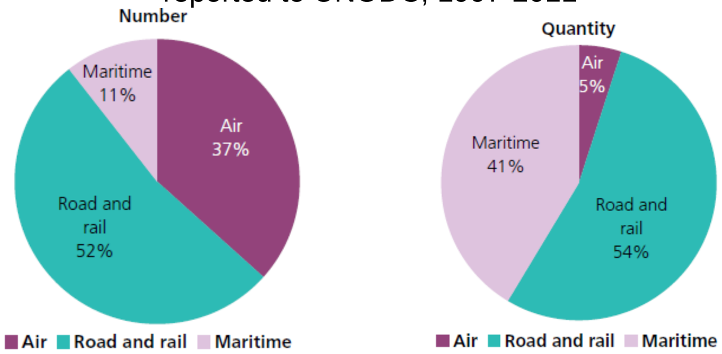
Drug enforcement

The increase in illicit drug trafficking is an issue of great concern to the international community. Illicit drugs pose a grave threat to public health and safety and the trafficking of such drugs undermines economic development and international stability. The UN Convention regarding the control of drugs remains the key international instrument in the fight against illicit drug trafficking. It is complemented by the Political Declaration and Plan of Action on International Cooperation towards an Integrated and Balanced Strategy to Counter the World Drug Problem in 2009. In 2014, the Commission on Narcotics Board will conduct a high level review of the implementation of the Political Declaration.

Additionally, a number of regional agreements such as the African Union Plan of Action on Drug Control and Crime Prevention (2013-2017) and the Accra Declaration (March 2013) aim to reinforce and coordinate the efforts of African states in the fight against illicit drug trafficking (International Narcotics Control Board, 2012, *p.49*). The Vienna Declaration, issued in February 2012 within the framework of the Paris Pact to combat illicit trafficking of opiates originating in Afghanistan, was signed by over 70 countries. Its objective is to combat the illicit trafficking of opiates and other illegal narcotics.

The UNODC (2013) indicated that maritime seizures for drug trafficking amounted to 11% of all cases across all types of drugs reported to the UNODC 1997-2011 (Figure 6). In spite of their small proportion in terms of seizure cases, each maritime seizure was on average almost 30 times larger than seized consignments trafficked by air. As a result, the share of maritime seizures jumped to 41% in quantity during the same period.

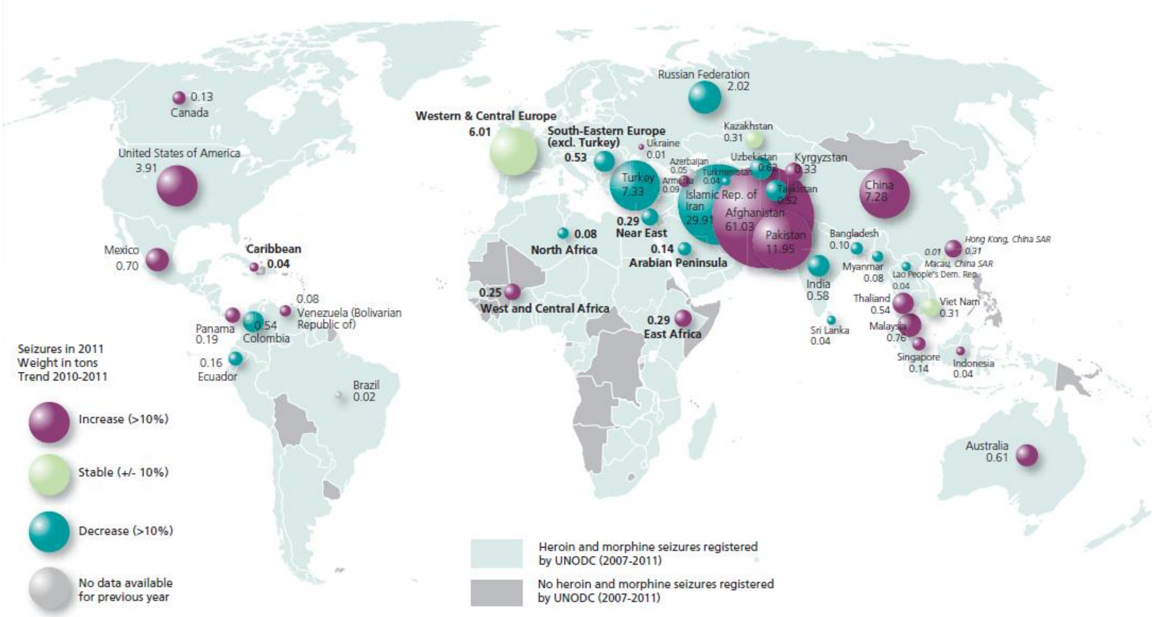
Figure 6: Distribution of mode of transportation of individual drug seizure cases reported to UNODC, 1997-2011



(note) It excludes cases in which the mode of transportation was unknown, not applicable or specified as “other”.
(source) Reproduction of Fig.22 of UNODC (2013, *p.20*)

Maritime drug trafficking poses a particular challenge for authorities. It appears that East and West Africa is gaining in prominence and rapidly transforming into transit hubs for maritime trafficking. A new maritime route going southwards from Afghanistan via ports in the Islamic Republic of Iran or Pakistan is increasingly used by traffickers to reach consumers through East and West African ports (Figure 7). Since 2009 to cite one example, seizures of heroin have risen almost 10 times in East Africa.

Figure 7: Opiates trafficking: Global seizures of heroin and morphine (2011)



(Source) Reproduction of figure in *page.x* of Annex II of UNODC (2013)

It is estimated that Customs is responsible for more than half of all drug seizures worldwide (WCO, 2013f). WCO Members reported 43,385 drug seizures in 2012 which amounted to; 1,486 tonnes of cannabis, 72.5 tonnes of cocaine, 11 tonnes of opiate products and 79 tonnes of amphetamines and methamphetamines (psychotropic substances) (WCO, 2013e). The number of seizures and the quantities of drugs intercepted in 2012 recorded by WCO Members represented a slight decrease from the previous year.

Security

The issue of security of global trade and international supply chains has attracted considerable attention in the international community in light of increasing threats of international terrorism after the 9/11 attacks in 2001. An attempt to use air cargo as a delivery mechanism for explosive devices travelling from Yemen to the United States in 2010 in addition to a spate of security threats ensured a renewed impetus on the part of the international community, including the WCO, IATA, and ICAO, to secure the international supply chain.

The acquisition of weapons of mass destruction or the strategic goods used to develop or deliver them threatens both national and international security, and a major proliferation event could have a catastrophic impact on global supply chains. Cross-border trafficking of dual-use or “strategic” goods is a key component of this threat. Faced with this concern, the WCO introduced the Strategic Trade Control Enforcement Programme (STCE) in 2013 to better assist Members to identify and seize strategic goods which could pose a serious threat to the global supply chains and international security.

The Seoul Communiqué issued at the 2012 Seoul Nuclear Security Summit (2012, *p. 9*) underscored the need to develop national capabilities to prevent, detect, respond to and prosecute illicit nuclear trafficking, while noting that several countries have passed export control laws to regulate nuclear transfers. The third Summit will be held in The Hague in March 2014.

Health, safety and intellectual property rights (IPRs)

Cross-border movement of dangerous goods that undermine public health and safety is a global problem, and continues to attract political and public attention. The dangers posed by certain counterfeited or substandard goods to the health and safety of citizens have been well recognized. Counterfeit or substandard medicines, tobacco products, and batteries constitute just some examples of everyday consumer products which are frequently counterfeited and pirated.

With regards to infringing IPRs, the WCO Illicit Trade Report (WCO, 2013e) confirmed an emerging trend in seizure cases, namely, an increase in IPR-infringing goods transported in small consignments handled by express companies and by post. This trend was confirmed by seizure reports published by regional and national authorities. For example, the European Commission (2013c) reported that the number of cases related to postal and courier traffic accounted for around 70% of all detentions in 2012. Japan Customs (2013) confirmed the similar trend that 93.4% of import seizures cases were transported by post in 2012. International mail and express seizures accounted for 80.3% of the seizure cases in FY2012 in the United States (U.S. Department of Homeland Security, 2013).

There have been numerous examples of multilateral and regional conventions aiming to stem the tide of infringing goods which pose significant risk to the health and safety of consumers. In addition, a number of conventions in this kind are expected to enter into effect in coming years. For example, the Protocol to Eliminate Illicit Trade in Tobacco Products was adopted by the Parties to the WHO Framework Convention on Tobacco Control (WHO FCTC) in November 2012.[13] Considering that the illicit trade of tobacco products poses a major challenge to public health and tobacco control, the Protocol aims eliminating all forms of illicit trade such as illegal production or smuggling of tobacco products. The Protocol requires ratification by 40 Parties to enter into force. To date, 39 Parties have signed it.

As another example, the Minamata Convention on Mercury was adopted in October 2013.[14] Its objectives include limiting the export and import of mercury except for disposal in a designated country, and banning cross-border movement of certain products in which mercury is used. Nearly 100 countries so far signed it. It will take effect 90 days after it is ratified by 50 countries.

Environment

The importation and exportation of environmentally-sensitive goods has become an issue of increasing concern for Customs administrations. Environmental crime is a significant and affects our society in negative ways (WCO, 2013g). Environmentally-

[13] Further information on the Protocol is available at: http://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IX-4-a&chapter=9&lang=en.
[14] Further information on the Minamata Convention on Mercury is available at: www.mercuryconvention.org/Home/tabid/3360/Default.aspx.

sensitive goods are subject to a variety of multilateral environmental agreements[15]. The role of Customs with respect to such goods is to ensure compliance with the trade-related provisions of these multilateral agreements.

Furthermore, regional, bilateral and unilateral efforts to combat environmental crimes have gained traction. For example, the EU Timber regulation (995/2010) prohibits illegal timber from entering the marketplace. Accordingly, the EU has concluded Voluntary Partnership Agreements with six timber-producing and exporting countries.[16] Once they take effect, timber from these countries will be presumed compliant and a license-issuing mechanism will be introduced to distinguish between legal timber from the countries and unlicensed timber.

Considering that illegal, unreported and unregulated fishing depletes fish stocks, destroys marine habitats, distorts competition, puts honest fishers at an unfair disadvantage, and weakens coastal communities particularly in developing countries, the EU made rules and regulations to prevent, deter and eliminate illegal, unreported and unregulated fishing, which took effect in January 2010.[17] In accordance with the new regulations, only marine fish products validated as legal by the competent flag state or exporting state can be imported to or exported from the EU.

3. POTENTIAL IMPACT ON THE CUSTOMS COMMUNITY

World merchandise trade grew more rapidly than world production, albeit slower than its long-term average. Transportation and travellers have also increased significantly. It is projected that they will continue to expand in coming years. This infers that ***Customs is required to work more for goods, transport and travellers crossing borders with the same or less resources, especially in times of fiscal austerity.***

Developing countries have expanded their collective share of world merchandise trade. South-South trade was grown. Intra-regional trade was high in Europe, Asia, and North America. The emergence of the GVC has changed the structure of production and the cross-border flows of goods. The share of manufactured goods within global exports was dropped. On the other hand, intermediate goods were undergone a significant increase in terms of manufactured exports. Thus, ***the shift in trade patterns impacts the types of transactions processed by Customs.***

In order to make GVC functional, goods are required to cross borders promptly and predictably. Unnecessary delays at borders increase trade costs, erode the competitiveness of traders, and damage business. In addition, the rise in the express cargo industry requires prompt release of time-sensitive goods at borders. Business expects better coordinated border management among border agencies. The needs of modern international business models exert pressure on ***Customs to process goods effectively and efficiently and to minimize delays at borders, in better coordination with other government agencies.***

Trade facilitation has attracted significant political and commercial interest. The WTO Agreement on Trade Facilitation was concluded in December 2013. It is expected to be

[15] They include: the Convention on Trade in Endangered Species of Wild Fauna and Flora (CITES); the Montreal Protocol on Substances that Deplete the Ozone Layer; the Basel Convention on the Control of Trans-boundary Movements of Hazardous Wastes and their Disposal; the Stockholm Convention on Persistent Organic Pollutions; the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, and the Cartagena Protocol on Bio-safety.
[16] They are: Ghana, Republic of Congo, Indonesia, Liberia, Central African Republic, and Cameroon. Further information available at: http://ec.europa.eu/environment/forests/flegt.htm.
[17] Further information on the IUU is available at: http://ec.europa.eu/fisheries/cfp/illegal_fishing/index_en.htm

adopted in July 2014, and then open for acceptance. As undoubtedly playing a vital role in implementing the WTO Agreement once it takes effect, ***Customs is required to prepare the swift implementation of the Agreement prior to its entry into force.***

Recognizing the importance of simple and predictable border measures whilst fostering an attractive environment for business and preparing to implement the WTO Agreement on Trade Facilitation, Customs administrations' requirements in terms of technical assistance and capacity building for trade facilitation programmes are expected to increase in coming years. Customs reform and modernization forms an essential pillar within these programmes. In order to implement such trade facilitation measures effectively and efficiently, ***Customs is required to become more actively involved in technical assistance and capacity building programmes with regard to trade facilitation.***

Domestic resource mobilization is accorded priority status in many developing countries, and consequently there is renewed pressure on countries to ensure that revenue is collected in a fair, effective, and efficient manner. 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. As a major contributor to government tax revenue in many countries, ***Customs is required to collect revenue in a fair, effective, and efficient manner.***

While international merchandise trade and logistics have become interdependent under a GVC environment, border rules and measures are more complicated than before. A number of trade restrictive measures have been introduced under the WTO/GATT rules. Recent proliferation of RTAs and EPZs adds further complexity to goods in terms of the geographic characteristics of international trade. Growing concerns regarding illicit trade in Customs risk areas has also resulted in multilateral, bilateral and unilateral rules and measures at importing and exporting countries. This will be enhanced by a number of international conventions to regulate cross-border movements of specific goods once they take effect. The complexity of border rules and measures dictates that ***Customs in importing and exporting countries need to be fully equipped with appropriate legal powers to enforce illicit trade and implement border rules and measures.***

Sound organizations are an essential component of modern Customs administrations, and performance measurement is an integral part of successful Customs reform and modernization programmes, irrespective of the type of Customs organization. Performance indicators may be tailor-made, depending on the priorities and strategies that undertake the wok of Customs. Good Customs performance attracts business and donors. That brings the case many indexes or scores on border or Customs performance have been published or are under development. ***Customs therefore needs to carefully consider performance indicators which are most appropriate for its priorities and strategies.***

Last but not least, trade policy decisions and trade analysis rely on accurate and updated trade statistics. World trade data is effective only if national trade data is collected on a consistent classification of goods. For this purpose, the HS nomenclature is widely used around the world. In addition, the international community requires trade data to measure value added to the goods, to capture utilization of preferential rates, and to identify volumes of informal trade, amongst others. ***Customs needs to produce accurate and updated trade statistics in a consistent manner, and revisit how best to capture trade data to meet the demands of the international community.***

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