World Customs Organization

World Customs Forum 2008

Managing Secure Trade Lanes and the Future of Facilitation
-Navigating the Seas of Change-

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Introduction

In December 2008, the World Customs Forum hosted a two-day conference that focussed on supply chain security and trade facilitation, two subjects of prime importance to customs authorities and the private sector. The Conference was co-chaired by Professor Dr. David Widdowson, Chief Executive Officer of the Centre for Customs and Excise Studies at the University of Canberra; Bryce Blegen, Chief Executive Officer of the Trusted Trade Alliance with headquarters in Vancouver, WA, USA and Allen Bruford, Deputy Director of the Compliance and Facilitation Directorate at the World Customs Organization. The conference was very well attended with high-level representatives from 54 countries, a significant proportion of which were developing countries. The delegates represented governments, traders, trading associations as well as international and regional organizations. The capacity audience and the lively question and answer sessions provided ample evidence of the abiding importance of these interrelated subjects as well as the unique capacity of the WCO to provide an effective forum for discussing customs matters of international importance.

Opening Address

(Kunio Mikuriya, Secretary-General of the World Customs Organization)

The current financial crisis is placing greater pressure on customs authorities and traders to minimise fraud and collect the correct amounts of revenue. Customs authorities need to join forces in order to help combat this global crisis and governments must prevent the emergence of trade barriers: the 1930s showed that these could lead to the formation of trade blocs. It is also important to recognize that the trade system itself is not the cause of the financial crisis and, in fact, represents part of the solution. The WCO fully supports the current Doha trade round of the WTO, which is based on WCO standards and recognizes that the WTO has served to enhance WCO instruments. Global developments notwithstanding, customs is making progress in relation to in trade security but still needs greater government support. The document "Customs in the 21st Century" lays down the WCO's aims in relation to security and trade facilitation and represents a template for enhancing global trade. In particular, the WCO believes that strategic risk management offers a far better approach to supply chain security than the 100 percent scanning required by recent legislation in the United States. In conclusion, the Secretary-General emphasized the need for greater discussion and clearer understanding on the future role of customs in the 21st century. Above all, a strategic partnership between the public and private sector is the only way of ensuring effective supply chain security and must form the basis of future developments.

Keynote Speech
The WCO SAFE Framework of Standards and Revised Kyoto Convention

(Allen Bruford, Deputy Director, Compliance and Facilitation Directorate, WCO)

The management of secure trade lanes is of paramount importance to customs. Although customs administrations started out as revenue collectors, the protection of economic interests and society have became more important objectives in recent years. Up to 2000, economic development was progressing well: the main focus was on trade facilitation and some even questioned the need for customs control. However, the events of 9/11 demanded a reassessment of priorities and the WCO responded by setting up the Joint Task Force in June 2002. Nowadays, the exponential increase in trade and travel, the global economic crisis, IPR infringements, the stalemate in the Doha Round and the threat of international terrorism all show that the environment for customs and trade is far from benign. The WCO needs to develop rules and strategies that cope with change. In this respect, the SAFE Framework and Revised Kyoto Convention offer the foundations for meeting the priorities of

citizens, consumers, logistics' providers and customs authorities – especially with regard to customs co-operation and the seamless movement of goods. The core elements of these instruments include the electronic manifest information; common risk management approach; inspection of high risk cargo (outbound at point of origin) and enhanced facilitation. It is also important to note that the SAFE Framework based on a risk management approach offers the only complimentary alternative to 100 percent scanning. Both the SAFE Framework of Standards and the Revised Kyoto Convention offer the foundations for the future development of trade facilitation and supply chain security strategies at the global level.

Session 1:
Secure Trade Lanes: A Model for the Future?

This session examined the challenges faced in implementing security measures from the perspective of customs, trade and academia. They included reconciling the sometimes competing interests of customs and trade, identifying reliable technologies in order to achieve secure trade lanes and accurately calculating the costs of security measures. It introduced fundamental concepts of supply chain security and highlighted gaps in the present discussion.

Keynote Speech
Secure Trade Lanes and Visibility Platforms (STLVP) – An Introduction

(Juha Hintsa, Senior Researcher, Supply Chain Security and Customs Risk Management, University of Lausanne & Cross-Border Research Association)

Secure trade lanes in the form of fast-track or green lanes have the potential to provide greater visibility in the supply chain, improve standards, remove delay and provide a robust governmental framework for security. Security consists of a combination of different management methodologies and technologies. Supply chain management can look back over a long history: it originated in the 1960s with inventory management and control and since 2000 has evolved into supply chain and customer relationship management. In this respect, trade lanes and maritime, end-to-end logistics may represent "the final frontier". The introduction and initial implementation of new technologies give rise to a "hype cycle" in which users move through three phases of inflated expectations, disillusionment and enlightenment, all of which illustrates how technologies need years to mature. The mantra "trust but verify" presents a formidable challenge in view of the complexity of the supply chain, "invisible" threats, organized crime as well as unreliable technology. Moreover, the dearth of common and practical standards hinders the understanding, acceptance and implementation of security measures. STLVP offers a number of potential benefits including the need for fewer warehouses, reduced inventory pipeline, increased supply chain performance and improved compliance. On the other hand, it also suffers from constraints and bottlenecks in relation to the auditing and monitoring of overseas suppliers, a lack of clear and uniform definitions as well as the threat of a "big brother" effect. In addition, costs must also be considered: supply chain crime may be expensive, but supply chain security comes at a high price as well. The future of STLVP depends on many factors, including the perceived need by users and governments, existence of effective technology and commercial viability.

Enhancing Visibility and Security on the China – EU Trade Lane

(Dr. Frank Arendt, Director of the Department of Information Logistics at the Institute of Shipping Economics and Logistics in Bremen, Germany)

The INTEGRITY Project, funded by the European Commission is investigating the subject of inter-modal global door – to – door container supply chain visibility. This is based on the Shared Integrated Container Information System (SICIS) which allows AEOs and authorities to access planning and status information of selected transports. The overall aim is to create a win-win situation by finding one approach that meets the needs of security and logistics and that proves acceptable to all stakeholders in the supply chain. In this respect, supply chain visibility must serve the needs of both cargo owners (logistics perspective) and customs authorities (security perspective). The INTEGRITY project has created its own security corridor which stretches from the port of Shenzen in China, to the European hinterland via Rotterdam and Felixstowe. The "INTEGRITY Corridor" is based on a co-operation with the EU/China Customs Project "Smart and Secure Trade Lanes" (SSTL) and is to monitor 5,000 containers. The project is also looking at a wide range of measures used to enhance supply chain security, many of which (e.g. scanning and x-ray equipment) have proved successful. These measures should provide enhanced supply chain visibility for customs and cargo owners, taking their

different needs into account. In conclusion, there is a need to create incentives rather than new regulations and to make processes and agreements acceptable to the major stakeholders. In addition, an effective supply chain visibility platform should avoid a "big brother" effect.

A Simulation Model for Secure Trade Lane Benefit Assessment

(Dr .Rob Zuidwijk and Dr. Albert Veenstra, Erasmus University)

This presentation analyzed the benefits of visibility in trade lanes. Quantitative methods are needed to demonstrate the impact of supply chain visibility on social, economic and environmental performance. However, visibility itself is not enough and control loops are needed in order to monitor and respond to supply chain related events. Supply chain security requires a single system to be implemented, the needs of all stakeholders to be taken into account and the collateral benefits of security to be recognized. SICIS offers the necessary "inter-organizational system". Benefits are identified by comparing scenarios that incorporate progressive system features; these are used in control loops as a means of enhancing performance. According to this formula, the data requirements of SAFE Framework of Standards offer benefits in relation to customs declarations, risk assessment of shipments and intelligence gathering. The analysis of data allows measures to be taken that improve the efficiency of the supply chain in a variety of ways including lower administrative costs, enhanced security and safety and reduced disruption. For example, reducing uncertainty eliminates the need for "slack" time as a means of coping with uncertainty. In conclusion, it is important to assess collateral benefits using effective methodology because they play a key role in accommodating customs standards whilst creating incentives for stakeholders to satisfy security requirements pro-actively.

Calculating the Cost of Security: Activity-Based Cost Model

(Nicholas Gillen, University of Lausanne & Cross-border Research Association)

The costs of security can be calculated by applying an activity-based costing ("ABC") model to the supply chain using relevant statistics as a basis. So far there has not been any operational measurement of the costs of security. The goal of activity-based costing is to investigate causal relationships between resource consumption and production. ABC systems are applied in relation to support activities and the various needs for such activities. There are many examples of how security drains a company's resources (e.g. the purchase and installation of new equipment, the employment of security staff as well as higher bills for insurance and overhead costs). The research into security ABC takes account of a range of security measures, including security fences, background checks on employees and security training. Factors driving costs include the perimeter of the facility, the number of contracts, and number of security programs. The operation of the ABC model was illustrated in relation to a sample activity of lighting and the relevant software. In conclusion, Mr. Gillen underlined the fact that trade requires a means of accurately assessing the real costs of security measures. Although the ABC model is effective in this respect, companies must also ensure that their expenditure records specify outlays on security more precisely.

Secure Trade – A Business Perspective

(Robb Stevens, Customs Compliance Manager, Fonterra Ltd.)

Fonterra Ltd. is a producer of dairy products and New Zealand's largest company. In recognition of the critical importance of supply chain security, it participates in the voluntary Secure Exports Scheme (SES) operated by the New Zealand Customs Service in partnership with the private sector. This scheme benefits both business and government and balances the costs of security. For example, customs can improve border protection and harmonize processes on the basis of the WCO framework; in turn, business benefits from reduced rates of pilferage and greater predictability and certainty in the supply chain. The government and private sector must share the costs of security, including the acquisition, operation and maintenance of security equipment, training costs as well as research and development. Such a cost-sharing arrangement appears equitable considering that both sides benefit from security and also ensures that the costs of securing the supply chain do not restrict trade. However, cultural change at international level and standard operating procedures to inspect containers are still needed. As far as traders are concerned, trade restrictions must be avoided and security requirements kept reasonable. In conclusion, a secure supply chain is good for business and represents a shared responsibility of the government and private sector.

Secure Trade Lanes in Practice: A View from the Trade

(Jim Phillips, Senior Manager Customs, General Motors)

Since 9/11, US agencies have created a number of programmes to secure the supply chain that involve a voluntary co-operation with the private sector in the United States and the testing of new technologies. The major programmes in this respect are Operation Safe Commerce (OSC), the Customs-Trade Partnership against Terrorism (C-TPAT) and Free and Secure Trade (FAST). It is doubtful whether the mere participation in such voluntary programmes proves the trustworthiness of trading partners and the question also arises as to how companies should deal with trading partners who fail to participate in a security programme. Testing is an important aspect of security and is sometimes very well done. However, it is important that it be carried out in the field so that the novel devices in question (data collection and transmission devices, smart containers etc.) can be exposed to actual conditions affecting freight traffic. With regard to tracking systems, (such as INTEGRITY's SICIS), the main question is whether they capture sufficient data for governments and companies to invest in them. There are a number of important questions to consider in relation to data. When exactly do traders become aware of an event? When is additional data needed? What purpose will it serve? Who can access it? In conclusion, secure trade lanes provide useful information and can provide benefits to trade and governments but at a cost. In this respect, it is of critical importance to ascertain the technologies that work and those that do not. The cost implications also need to be quantified in terms of the devices, transactions and delays.

User Requirement Identification Process for a Secure Trade Lane and Supply Chain Visibility Platform – The Case of INTEGRITY

(Baris Bicimseven, Researcher, Customs Risk Management, University of Lausanne & Cross-border Research)

Mr. Bicimseven presented the findings of a questionnaire on the expectations of traders from retail, electronics and logistics services in relation to secure trade lanes. It contained 30 questions relating to specific processes in the supply chain and the answers provide an accurate picture of the needs of traders in relation to secure trade lanes. The needs of customs administrations with regard to the SICIS system had also been collected using Dutch and UK Customs as examples. The potential customs benefits arising from advance, good quality data include improved intelligence gathering, risk assessment, transparency of supply chain and traders, identification of authorizations and facilitation of legitimate trade. With regard to data element analysis, SICIS will improve current practices by automating the capture of document-based information and capturing additional information without causing delay. The main expectation appears to be that SICIS should be a real-time milestone generator that captures cargo information in the chain at an early stage. Trade lane partners agree that the data collected by SICIS should be well-protected with secure access and that data should be fed into existing systems. Further steps in this research project include a consideration of the structure of data access authorization under SICIS, ascertaining cargo data that users are willing to share, the exchange between SICIS and other systems as well as the feasibility of gathering data at factory level.

Session 2:
Secure Trade: Driving Innovation in Technology and Services

This session concentrated on the demands of supply chain security in terms of technology and services. Presentations dealt with the technology used for advance data filing, data management and sharing as well as the scanning and inspection of containers. Further areas of discussion included the legal framework for advance data submission, the advantages and disadvantages of supply chain technology on customs and trade and the changing roles of customs brokers and services providers in light of security requirements.

Keynote Speech:
Emerging Trade Facilitation Technologies

(Timothy M. Persons, Ph.D. Chief Scientist, U.S. Government Accountability Office)

The Government Accountability Office has followed the development of supply chain security programs since their introduction in 2002. US security measures are made up of a range of measures, including the 24-hour rule,

Container Security Initiative (CSI), C-TPAT and mutual recognition, the Secure Freight Initiative (SFI) and, in future, 100 percent scanning. The SAFE Framework of the WCO provides the international framework of supply chain security. There are challenges confronting each of the US measures. Mutual recognition is one of the major topics in supply chain security today but there are challenges in establishing criteria for granting and maintaining mutual recognition, sharing data with foreign governments and ensuring comparable levels of security. Another highly controversial security development has been the mandate for 100 percent scanning in the future. However, questions surround this measure as well, not least whether it will actually enhance security and what impact it will have on the developing world or CBP's policy of pursuing layered security strategy. The various technologies used in securing the supply chain also face challenges in relation to data protection, costs, functionality on the field, security effectiveness and health and safety issues (in relation to inspection technologies). Challenges are not just limited to individual security measures but also the agencies that administer them. For example, the U.S. CBP's current role as the lead agency in border protection has led to instances where its non-security customs functions have been neglected. In conclusion, it is recommendable that advance cargo information be shared vertically and horizontally among the various sectors; that a process be developed for ranking containers by risk and that technology be implemented within a well-crafted framework. The collateral benefits of container security in terms of preventing smuggling and duty evasion should also be recognized.

Regulation-driven Business and Technology Needs

(Franky De Pril, Partner, Global Strategic Trade Team; Chris Horckmans, Director, Customs and International Trade, Brussels)

Nowadays, cost-cutting is high on companies' agendas. To this end, they are pursuing different strategies, including the expansion into new markets and optimization of their operations. In both cases, the requirements of compliance and risk management must be taken into account. By balancing all three elements, companies can obtain significant benefits and reduce risks. With regard to security programmes, companies are ambivalent to the Authorized Economic Operator programme – arguably regarding AEO status as an optional extra. Within the European Union, this status can lead to short and mid- to long-term benefits. Possible benefits arising from the EU's Multi-Annual Strategic Plan (MASP) should also be taken into consideration. This aims to create a platform for future "electronic customs processes" within a "secure" global environment. A further aim of EU security policy is global alignment with initiatives in other jurisdictions. Challenges faced by business in implementing security measures include complying with the various data interfaces used by supply chains and different technology requirements as well as coping with the effects of safety and security measures. Security should not be viewed in isolation but as part of the overall business strategy and reflect the importance that businesses attach to supply chain efficiencies, predictability, simplicity and harmonization. Although businesses are reluctant to commit to security initiatives owing to their cost and complexity, regulators have effectively put them on a path of no return in this respect. Considering this fact, the question arises whether the AEO could provide the platform for reconciling the needs of business and supply chain security.

Technovision: A Powerful Framework to Plot the Customs Current and Future Business Needs on the Innovations and Technologies of the Future

(Hans van Grieken, Vice-President Business Innovation, Capgemini, Netherlands (represented by Ron Tolido))

There is currently a lack of common language in security systems that can hamper effective co-operation. Ideally, system components should be able to talk to each other in terms of e.g. security, transaction and resources. The semantics of information are particularly important in this respect. Therefore, the Open Group is developing standards to create an information flow without boundaries, based on open standards and global interoperability. The aim of the project is to enable access to integrated information within and among enterprises. This reflects the general tendency today to focus on architecture and methodologies that provide a common language for co-operation. "Infostructure" is a concept that aims to provide access to information in real time e.g. by means of a smart seal. In the publication *The Book of Jericho 2.0, Security Architecture from Old to New* by Marco Plas gives an overview of how security architecture can cope with the risks presented by information technology and provide companies with the openness they need to survive in terms of collaboration and responsiveness to market opportunities. In this respect, the collaboration of the public can be beneficial as argued by Wikinomics, a publication that sees the future of business in harnessing the creative power of mass collaboration on the Internet. One example, is the Business Transformation Enablement Programme (BTEP) used by the Canadian government (a set of tools to provide an integrated approach for strategic management and alignment and business transformation) whose effectiveness is enhanced by open standards.

US Importer Security Filing (ISF): How the Trade Anticipates Providing Advance Trade Data

(Melissa Irmen, VP Products & Strategy, Integration Point, Inc.)

The interim final rule for importer security filing was published in the Federal Register on 25 November 2008 and will enter into force on 26 January 2009. There will be a transition period of 12 months during which CBP will not enforce the rule strictly, thereby giving companies time to overcome implementation difficulties. ISF is better known as the "10 + 2 rule" and consists of ten of data elements relating to the parties involved and the cargo and two pieces of information that the carrier must provide (vessel stow plan and container status message (CSM)). In addition, there are five data elements required in relation to shipments transiting the US. Security filing statistics relating to Advanced Trade Data Initiative (ATDI) have been collected; for example, as of Friday, 17th of October 2008, 59, 256 ISFs had been received containing a portion of the 10 data elements. There are challenges in processing the results that are of concern to trade, including the timing of the bill of lading, elements of the addresses and changes made to data after filing. In view of this, CBP has taken many comments of trade into account and provided flexibility in the content and timing of some data elements as well as reductions in monetary sanctions for violations. Finally, technology plays a crucial role in relation to ISF from the perspective of both CBP and filers.

Day 2, Session 3:
Advance Shipment Data: Moving the Borders Outward

This session concentrated on the concept of "pushing the borders outwards" by means of advance data submission in order to identify cargo-related threats before they reach the destination port. Presentations dealt with the implementation and operation of initiatives at national, regional and international level that facilitate this strategy as well as the effects on trade - particularly in terms of costs and benefits.

EU: New Trade Data Flows

(Michael Lux, Head of Unit, DG TAXUD, European Commission)

Mr. Lux dealt with the issue of pre-arrival declarations including responsibilities, practical aspects as well as the advantages and disadvantages of single filing. The filing of single declarations, which combine the data requirements of the pre-arrival entry summary ("ENS") message with the customs declaration, offers a number of advantages: customs does not need to match information from different sources and risk analysis can be performed immediately once the declaration has been entered into the IT system or accessed by customs. However, there are also disadvantages associated with this opportunity for single filing, including the fact that some of the information required may be in the possession of different persons. In order to eliminate the requirement of a duplicate filing in both the export/import country, special arrangements can be agreed so that the country of import can use the filing and risk-analysis results in the export country. Currently, such agreements are the subject of negotiations with Norway, Switzerland and China. The implementation of single-filing is to be accomplished by 1 July 2009 although there will be a transitional period in relation to pre-arrival declarations until 31 2010. A transitional period has also been requested in relation to pre-departure declarations as well.

CBP Proposal for Importer Security Filing and Additional Carrier Requirements ("10 + 2 Initiative")

(Rich Di Nucci, Director, Secure Freight Initiative, OFB/CBP)

With the "10 + 2 initiative", otherwise known as the Importer Security Filing ("ISF"), CBP was aiming to improve the accuracy of targeting: a comparison with the existing data requirements shows the new rule to improve the detail and timeliness of the information received by CBP. The ISF is also intended to complement the C-TPAT programme insofar as it enables CBP to make earlier and better decision-making and improves the validation of supply chain security reviews. The need for improved information had been ascertained by the CBP targeting taskforce on the basis of a qualitative review of existing data elements. When formulating the new proposals, CBP worked in co-operation with trade and political entities. In line with the SAFE Port Act of 2006, consultation was carried out with stakeholders and the costs, benefits and feasibility of the new data requirements considered. The consultation process included national (e.g. Trade Support Network, American Association of Exporters and Importers) and international entities (e.g .World Shipping Council). Also, the security filing policy was overseen by various committees at the Senate and Congress. The new phase of ATDI

testing is very promising with excellent participation across the trade sectors, strong data flow and outstanding results overall. That said, public reaction has been mixed, with concerns expressed about the potential for supply chain delays, timeliness of data access, protection of privacy etc. On the other hand, carriers have been generally positive about providing the 2 additional data sets of security filing.

G2G Information Exchange: Impact of the WCO Data Model

(Gareth Lewis, Technical Officer, World Customs Organization)

Mr. Lewis started his presentation by examining the scope of international G2G exchanges. He outlined the various functions of modern customs administrations, observing the evolution from revenue collection to protective tasks, including security. The SAFE Framework of Standards represents the most recent development in this respect; it provides integrated supply chain management guidelines and for advance cargo information. Supply chain security is an IT-heavy issue and therefore the Revised Kyoto Convention is of great significance. It provides a blueprint for a modern customs administration and contains a number of standards that can serve to implement the SAFE Framework effectively. These include Standards 7.1 to 7.4 that contain recommendations on the implementation of IT and information exchange. Regarding G2G, it is important that governments collaborate owing to the international nature of the supply chain and avoid trade barriers. However, intergovernmental co-operation raises some important issues relating to data exchange, including liability, mutual recognition and information management. Although both the WCO Data Model and single window are familiar concepts they can be adapted to manage supply chain security effectively. Harmonization is an important issue owing to the huge amount of information requested by the large number of agencies involved. Therefore, there is a need to standardize and facilitate the exchange of data. Finally, the Unique Consignment Reference Number (UCR) also forms a critical part of the WCO's supply chain management philosophy.

Sub-committee on Customs Procedures: Single Window Working Group

(Paul Benussi, Counsellor, Australian Customs Service)

The Single Window Working Group of the Asia – Pacific Economic Co-operation aims to develop single window systems that facilitate and enhance trade within APEC economies. The "Single Window Project" is divided into two stages. The first phase was started in 2007 and involved 10 member states of APEC with the support of experts from various international organizations including the WCO. It aimed to create the basis for the single window concept in APEC by creating a framework and carrying out a stock-taking of single window related activities in all 21 APEC economies. Phase 2 aims to network single window systems to create seamless data sharing within the APEC region. The Sub-committee on Customs Procedures (SCCP) has made a number of recommendations including the adoption of the UN/CEFACT definition of single window (2), adoption of internationally recognized instruments and standards (3), establishment of a repository to capture information relevant to single window-related initiatives (4) and to prepare a strategy to achieve the single window vision (6). Phase 2 will start up in 2008/9 and seek to deliver these recommendations with the participation of 13 APEC economies. In this connection, Peru has taken the lead by already delivering Recommendation 3. In addition, Recommendation 4 will make single window information centrally available over the WCO website. Workshops relating to this project are due to take place in 2009 in Australia and Singapore.

Impact on Trade, Costs and Benefits

(Marc van de Perre, Senior Policy Advisor, CLECAT)

Logistics providers are operating in a very uncertain environment and are reluctant to commit to security owing to the burden that it places on them. However, extra facilitation can be offered in return for security and, therefore, these two aspects arguably represent two sides of the same coin. The implementation of security and facilitation has two pre-requisites: the harmonization of data and procedures on the one hand and mutual recognition on the other. As regards advance shipment data, although the regulator is responsible for determining what data is needed and how risk analysis is carried out, the trader should also have a say in how the data should be reported. The effectiveness of reporting can be improved in a number of ways (i.e. utilizing existing business processes, collecting data from the right person, adopting the single window concept and agreeing on mutual recognition). The effective reporting of advance shipment data would result in a number of benefits for trade. However, there would also be significant cost implications in the form of system development and adaptation to new procedures. In this respect, the question arises as to whether the public should also share the cost burden considering that it is the ultimate beneficiary of security measures. In addition, the question of the effectiveness

of security requires a re-consideration of the implementation of security measures (e.g. AEO), the allocation of responsibility for security and the attainability of objectives (e.g. green lanes).

Export Controls Analysis as Part of Pre-departure Release Process as Part of Trade Compliance

(Matthias Merz, Managing Director and Partner, AWB Steuerberatungsgesellschaft mbH)

US export controls regulations seek to secure trade lanes by placing stringent requirements on exporters and freight forwarders. These controls attach to countries, specific products and their re-exportation and are contained in primary and secondary legislation. Breaches of export control law are punishable by severe sanctions. The European Union has also placed considerable demands on economic participants in order to secure the supply chain as part of the Authorized Economic Operator concept. Therefore, companies should establish routines to identify potential breaches of relevant legislation with regards to goods, operations or services. Companies should be aware of requirements relating to terrorism, embargoes, dual-use goods etc. when first contacting their trading partners, exporting goods to other countries and re-exporting US products. The severity of the sanctions in this respect is illustrated by a case involving Chiquita Brands International Inc. that was fined $25 million for making payments to a designated terrorist organization. Effective compliance requires companies to check the parties to a transaction, the countries involved and the items to be exported. Mr. Merz explained the personal responsibility of each person involved and provided an overview of the components of compliance management related to export controls.

10 + 2 and the Lacey Act: Are They Necessary Evils?

(Catherine Robinson Esq., Director, High Technology Trade Policy, Office of International Economic Affairs, National Association of Manufacturers)

The objectives underpinning the 10 + 2 regulation and the Lacey Act Amendment are sound and address important concerns. However, in practice these two measures may hinder trade facilitation without achieving these objectives. The original 10 +2 rule was subject to a great deal of criticism: due in part to the lobbying of the National Association of Manufacturers (NAM), the final rule has been significantly altered to take account of this. CBP may be open to changing the rule if it creates disruption and unnecessary compliance burdens. In particular, NAM is continuing to lobby for further changes to the rule. A recent amendment to the Lacey Act prohibits trade in or the false identification of any plants or goods made of them protected by US or foreign laws. As a result, US manufacturers are required to file an import declaration for plants and this applies to products made of plants or plant-related products. Altogether, 87 of 90 chapters of the HTS are affected by the Lacey Act and, considering that the legal situation relating to illegal logging is very complex (Indonesia alone has 10,000 laws on this subject), this will place a great burden on the private sector. The new provisions are due to enter into force on 1 April 2009 and will be implemented in three stages. There is much cause for concern considering that there is no *de minimis* standard and no protection for innocent owners. Additionally, definitional questions abound. NAM is working with Congress to address these short-comings. In conclusion, it is possible to redraft both pieces of legislation so that they can achieve their objectives without burdening legitimate trade.

Session 4:
The Role of Facilitation and Risk-based Customs Processing under the New Paradigms

This session examined the ways of achieving an effective balance between trade security and facilitation using a variety of existing and innovative instruments. It was argued that mutual recognition, emerging technologies, management standards and risk-based assessment were capable of providing effective supply chain security and tangible benefits for the private sector.

Keynote Speech
Trade Facilitation and Security: The Current Situation and Ways Forward

(Dr. Andrew Grainger, Director, Trade Facilitation Consulting Ltd.)

The supply chain is characterized by immense complexity in terms of the cross-border operational system and business processes in trade. In addition, there are many regulatory authorities that carry out different activities at the border. That said, security and safety are not new objectives and are already pursued in a variety of different contexts. Security measures by national, regional and international organizations reveal a complex set of inter-relationships whose entangled state give the impression of “security spaghetti”. For this reason, it is necessary to

ensure transparency and clarity in supply chain security. Work related to this subject is being carried out by a number of bodies at national, international and EU level; its success depends on governments co-operating with the private sector rather than adopting a "force-feed" approach. In this respect, it is important to recognize that supply chain security incurs costs to both trade and government. Although there are many interests influencing the trading environment it was important to recognize that security and trade facilitation are not mutually exclusive. However, they do require effective mechanisms to deliver and safeguard reform and overcome obstacles. Ways of improving trade facilitation include better regulation and utilization of information and communication technology. Ultimately, the mass of inter-relationships that make up the supply chain means that striking an effective balance between supply chain security and trade facilitation will operate to the benefit of all stakeholders. Best practices for the future development of supply chain security, include the harmonization of regulatory instruments, mutual recognition, co-operation and the consideration of alternative models to regulation.

State of Implementation of AEO and Co-operation on Mutual Recognition

(Susanne Aigner, European Commission, DG Taxation and Customs Union)

Statistics relating to the implementation of the European Union's AEO initiative show that the application process is progressing well, with 2,200 AEO applications expected for 2008. The vast majority of the applications are for full AEO status that combines security and customs simplifications. In addition, it is interesting to see that more than two-thirds of applications are from SMEs, arguably reflecting the fact that they find it easier to comply with the authorization requirements than their bigger competitors. Customs administrations need an average of 120 days to carry out the authorization procedure. The Modernized Customs Code contains a number of innovations: whilst maintaining the AEO concept as implemented it introduces a new AEO criterion in relation to AEO – C and additional benefits for holders of the AEO status. The only way of achieving end-to-end supply chain security is by mutual recognition on the basis of the WCO's Framework of Standards. However, this would only be possible at EU and not national level. The EU is progressing with agreements on mutual recognition with China, Japan, Norway and the United States for implementation within the next three years.

Using Management Systems to Master Security Risks

(Ronald de Kok, Lloyd's Register Quality Assurance)

Although the management of risk depends on a wide range of factors, it must be recognized that companies have a number of common interests and that security measures need not compromise trade efficiency. Security is an all-embracing subject and there are many standards in existence in relation to a wide range of assets and facilities. However, as standards proliferate so traders find it harder to comply with their requirements. Therefore, it is not simply a question of striking a balance between the security and facilitation of trade; it is also necessary to decide on the optimal level of security. ISO standards are not mandatory regulations issued by a government but simply describe what should be done to comply with legislation. The application of ISO standards in other areas has led to a number of findings that can be applied just as well to security. Accordingly, it is possible to adopt an ISO 28000 management system in relation to security by harnessing sector-specific expertise in terms of best practices, latest technologies etc. regarding implementation. Quality assurance displays a number of characteristics relevant to security including the awareness of and management of risks, continuous improvements and orientation towards objectives. As far as businesses are concerned, the major concerns are to use existing business processes, avoid duplication and improve efficiency. In conclusion, industry prefers risk-based management systems and adopting ISO 28000 principles to manage security risks is relatively straightforward. All security regulations are linked by one common need, i.e. an underlying risk-based management system.

Emerging Technologies in Civil Security: Adapting to Today's Evolving Priorities

(Daniel G. Snow, Director, Raytheon Homeland Security)

Nowadays, governments are confronted by multifarious security threats that are not only high risk but also highly probable. They can be religiously-motivated, or economic, environmental and political in nature. They require governments to respond immediately although this may require an overhaul of established practices and operations, an extensive reorganization of government agencies and the enactment of new laws and regulations. Moreover, there is no proven solution to security threats. Concepts of operations (CONOPS) and technologies both existing and emerging are designed to combat these threats: mission CONOPS are directed towards

predicting a threat by means of risk assessment in order to protect the point of entry (POE). Here, visible enforcement and scanning technologies can serve to deter and detect criminal activity. Emerging technologies largely represent improvements on existing technologies (e.g. risk assessment, screening and tracking technologies) and focus on the screening of both people and cargo. The common criterion for all new solutions is to improve detection whilst increasing throughput. The next generation of cargo security will perform a variety of functions, including security, fleet management and in-transit cargo visibility within an intermodal environment. It will provide alternative solutions to the U.S. 100 percent scanning law, serve commercial and government customers and pursue a holistic strategy (e.g. integrate standard industry operating requirements). The implementation of new technology depends on change management in the sense of transforming personnel, processes and technology into the new mission CONOPS.

Risk-based Targeting in the New Security Environment – Fact or Fiction?

(Prof. Dr. David Widdowson, Centre for Customs and Excise Studies, University of Canberra, Australia)

Traditionally, customs has performed the role of a gatekeeper, as reflected by its traditional symbol, the portcullis. Customs is the means by which a state exercises its sovereign right to control the passage of goods and people into a country. By the late 20th century, this function had evolved into balancing trade facilitation and regulatory intervention. Since 9/11, however, the latter policy has predominated with the United States issuing a raft of measures to secure the supply chain. These measures are based on the concept of risk assessment and this has also influenced the WCO's SAFE Framework of Standards and the Authorized Economic Operator concept. However, there are issues with these security initiatives in practice. Although the AEO scheme serves to reduce the size of risk, there is an increasing tendency to seek out high risk consignments, as shown by 100 percent scanning. The AEO scheme also brings few tangible benefits for operators and is not regarded as a genuine priority by administrations. Companies mainly invest in supply chain security because it is in their own commercial interests (e.g. continuing to trade with the US). In addition, although most WCO members have signed a letter of intent to implement the SAFE Framework, its interpretation lacks international consistency which threatens the achievement of mutual recognition. Other emerging issues are the gradual increase of security-related regulatory requirements (as shown by the United States' 24 hour rule and 10 + 2) and the possibility that AEO requirements will be placed on a mandatory footing. Finally, the question arises whether traders who have AEO status need to provide advance information to the authorities who granted that status and also for the container to be scanned.

Session 5:
National Customs Priorities and Global Trade:Can SAFE Bridge the Divide?

In the interests of effective supply chain security it is important that government and business work together. The WCO's SAFE Framework of Standards provides an international foundation for such a partnership by addressing the needs of government and business. Through the creation of common standards and process of mutual recognition, it may be possible to create a globally-networked customs.

The Impact of SAFE on National Customs Processes

(Eleanor Thornton, Technical Attaché, WCO)

The SAFE Framework offers governments the basis for building a relationship between customs and trade in the interests of achieving an effective balance between security and trade facilitation. Almost all member states of the WCO have declared their intention to implement the SAFE Framework and this includes poorer states whose customs infrastructure is not as developed as those in industrialized countries. For example, the AEO concept is currently being implemented in the Americas and South Africa is also planning to implement an AEO programme. However, there are challenges in implementing the SAFE Framework and there is often an absence of a strategic long-term vision. Although customs has a political interest in implementing the SAFE, it is important that the needs of trade also be taken into consideration. The WCO can provide assistance in implementing the SAFE Framework thereby ensuring that both government and trade achieve their objectives. From the perspective of the WCO, the main question is how it can help customs develop these partnerships and standards. Above all, it is important that customs and trade work together in improving security.

Partnerships: The Key to Implementing SAFE

(Kathleen Conway, Customs and Border Protection Bureau Attaché, US Mission to the EU)

The SAFE Framework is being implemented by a number of customs administrations throughout the world. Security and facilitation are complementary and, through the SAFE Framework, they can be used to make customs processes more effective. This is reflected in the document "Customs in the 21st Century" that refers to the SAFE Framework as a key instrument. Partnership is an important aspect of the SAFE Framework as reflected in the C2C and C2B pillars. In this respect, the WCO has made great strides in bringing stakeholders together. Concerning C2B, the 10 + 2 advance data initiative has been the product of one of the most successful partnerships between government and trade. There is also a need for better communication platforms that can only be achieved through partnership with industry in the development and application of appropriate IT solutions. C2C agreements are a feature of the Container Security Initiative and, through the process of mutual recognition of security standards, it will be possible to create a globally-networked customs. With regard to the Authorized Economic Operator concept, mutual recognition agreements have been concluded with Jordan, New Zealand and Canada. One of the most important aspects of mutual recognition is the agreement of common criteria. Also, security programmes must be operational and the United States helps partner states to develop their AEO programmes. This is important considering that the AEO is based on the continual assessment and improvement of security standards.

Balancing Security with Trade Facilitation – Trusted Traders

(Malcolm McKinnon, Chief Executive, SITPRO Ltd.)

In the 21st century, customs is focussing on trade management and border security. It is the principal gatekeeper for secure borders. A modern customs administration should be characterized by reduced compliance costs for legitimate traders, effective targeting of high-risk movements and mutual recognition of other customs administrations' security initiatives (i.e. AEO programmes). Security measures must be based on common requirements otherwise the benefits from AEO status will not materialize. Although the SAFE Framework provides a basis for this, it is a voluntary instrument that governments must comply with. It is important to strike a balance between trade and facilitation: achieving this will strengthen relations between customs and trade and add value whereas failing to do so will harm relations and add costs. The trusted trader concept forms the basis for striking this balance. One important feature of the trusted trade concept is self-assessment, whereby economic operators perform functions normally the preserve of customs. It is not possible to police the world using one scheme owing to sovereignty concerns and cultural differences: a global security regime can only be based on mutual recognition. However, there are obstacles to this concept: the different principles and starting points of security initiatives underline the need to compromise. In conclusion, there is a need to work jointly towards the concept of a "trusted trader" that has real substance. However, the cultural shift necessary in order to facilitate such partnerships is only just beginning for customs and trade.

Session 6:
Standards as the Road to Success: Definition, Implementation and a Partnership between the WCO and Trade

The final session dealt with the creation of international standards for supply chain security as a means of realizing the concept of a globally-connected customs. In addition, the ways in which the WCO could enter into partnership with trade were also discussed. These included expanding its existing points of contact with trade as well as assuming a new role as mediator between transnational companies and customs authorities.

The WCO's Role in Global Customs Management

(Prof. Dr. Hans-Michael Wolffgang, University of Münster, Germany)

When the Customs Co-operation Council was founded in 1952, trade and industry concentrated on national markets. Customs administrations largely focussed on revenue collection and the protection of the national economic area whereas the main role of the Customs Co-operation Council was to co-ordinate the activities and policies of national customs administrations. Nowadays, however, we speak of a "global economy": customs duties have fallen progressively since the 1950s thereby exposing countries' economies to foreign competition. As a result of this economic globalization, companies have expanded their horizons, growing into transnational

giants whose market presence reaches to all corners of the globe. Transnationals nowadays dominate 66 percent of global markets (by contrast, small or medium-sized enterprises account for only 34 percent). Despite the transnationalization of industry, customs administrations have remained national, their IT systems, procedures and practices tailored to their own needs and incompatible with each other. As a result, the transnationals are confronted with a plethora of different regulatory regimes that restrict the efficiency of their operations. They need a contact partner at global level who will listen to their needs with regard to customs. The WCO is ideally positioned to perform this role: indeed, the policy document "Customs in the 21st Century" refers to its essential elements in building block 4 ("customs-business partnership") and 8 ("a professional, knowledge-based service culture"). As part of its new role, the WCO could act as a mediator between transnationals and customs administrations in relation to global customs compliance problems.

G2G & B2G Exchanges: The WCO's Role

(Gareth Lewis, Technical Officer, World Customs Organization)

The concepts of the single window and a globally-connected customs can be implemented using the SAFE Framework and the Revised Kyoto Convention as a basis. Data exchange raises some important issues: for example, there is a great need for standards relating to the exchange of information and creation of a legally-enabling environment. Concerning the former aspect, the devil is in the detail: standards are very complex but a necessary requirement for government support. Concerning the latter issue, the WCO is also working with UNCITRAL to create a legally-enabling environment. The WCO Data Model offers building blocks that facilitate the need for standards and maximum data sets. The concept of a globally connected customs is characterized by G2G data exchange and a focus on exports. It features as the first building block in the policy document "Customs in the 21st Century" and is fundamentally related to the SAFE Framework. It is based upon national G2B exchanges and depends for its effectiveness on the mutual recognition of customs processes.

The Role of the Trade in Advocacy: Can Its Role as Stakeholder be Formalized or Institutionalized?

(Jim Phillips, Senior Manager Customs, General Motors)

In 2005, the WCO Council set up the Private Sector Consultative Group (PSCG) to advise on the formulation of the SAFE Framework. The group consists of associations and manufacturers in the private sector (currently 13 associations and 17 companies). The PSCG places great value on the definition of the AEO and the recognition of international standards. It believes that AEO programmes must be voluntary, appreciate the conditions affecting different modes of transport and promote capacity building. Participation in an AEO programme must also bring tangible, clearly defined benefits and be mutually recognized. Moreover, the single window concept should be employed so that operators can submit the necessary information through one designated point. It should also be possible for them to use qualified third parties and to be directly validated by customs. The PSCG is seeking to put these principles into practice as reflected in its road map. Further aspects that the PSCG has to consider are the new U.S. security requirements (i.e. the 10 + 2 and 100 percent scanning rules). From the PSCG's perspective, the way forward lies in the harmonized implementation of AEO programmes at national level, promoting the implementation of the SAFE Framework and working to achieve security and trade facilitation.

Outcome of the Conference

There is a general feeling that the international community will continue to focus on supply chain security. For its part, the WCO is committed to a globally applicable regime. There is little question that the AEO concept offers an effective way forward with regard to supply chain security. However, there are a number of implementation issues that undermine its widespread acceptance. There is a need to ensure that the benefits offered by AEO status are not outweighed by costs. WCO members should accelerate the introduction of AEO status and work towards mutual recognition. Similarly, data sharing is in need of harmonized standards regarding the source of supply, privacy issues etc. and must be appropriately applied. Customs should acknowledge efforts by trade to implement security measures. The SAFE Framework offers a reasonable foundation for implementing supply chain security measures. There is a need to view security in its entirety and not just in part: although standardization should be the aim, there must be sufficient flexibility as well. Finally, the dialogue between customs and trade has been far better in the last three years and business appears to be making a sincere attempt to understand and improve security standards.