MEASURING-UP CUSTOMS: A TRADE COMPLIANCE COST PERSPECTIVE

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Overview

• Trade and customs compliance costs
• Performance assessment
  – Internal perspective
  – Perspective from outside
    • => Trade and Customs Compliance costs
• Knowledge of Compliance Cost still in its infancy
• Case-study of UK meat importers
  • => Valuable insight into Trade and Customs Compliance costs
• Future directions for customs, research and training
Customs & International Trade

• **Tasks**: Collect import taxes, enforce prohibitions and restrictions, collect statistics, etc.
  – Expectations of the Masters: do tasks efficiently
  – Expectations of the “customers”: do tasks with minimal impact!

• **New Objective**:
  – Help underpin “Economic Competitiveness”
    1. Trade Facilitation
    2. The efficient administration of protective customs tariffs, duty deferment and repayment facilities
      » help place businesses on equal footing with the rest of the world
    3. Collect revenue to underwrite the capacity of the state to carry out its goals (e.g. in developing economic infrastructure)

– Customs performance in each of the three has a direct impact on the trade and customs compliance of businesses
Compliance Costs

• In Tax:
  – “.. resulting from the need to comply with the tax rules such as paying for tax advice, employing someone to keep records for tax computations, time spent completing tax forms if you do it yourself or cost for paying someone else to do it for you, and so on

  – KPMG (2005) study: Tax Compliance Costs in the UK = £5.1 billion (0.45%GDP); 15% customs duties
Compliance Cost Landscape

• Direct or “Hard core” costs
  – cost of labour and time consumed, the costs of expertise purchased and supporting services, incidental expenses (e.g. computer equipment, software, travel and postage)

• Indirect costs
  – Delay, Loss of business and business opportunities

• Tax planning costs
  – Duty deferment and duty repayment

• Commencement costs
  – Changes in systems, procedures and legislation

• Psychological costs
  – Fear, stress, anxiety, frustration
  – Temptation to circumvent controls and procedures
    • Through bribery or smuggling, leading to a loss in revenue and other societal costs
Challenges:

- Inter-tangled with regular business activities and not easily separated
- Investment into Customs compliance capabilities may yield welcome but unintended benefits
- Inter-tangled in commercial arrangements:
  - Shipper/exporters (Incoterms)
  - Importer
  - Shipping Lines
  - Port operators
- Firms generally lack visibility of costs
Indirect Assessment Approaches

• Macro-economic modelling
    • 1% = USD 40 billion
  – John Wilson et al. (World Bank and APEC)
    • If APEC members who perform below average were able to improve their performance to half the APEC average, average gross domestic product (GDP) for the APEC region by 4.3%

• Comparative benchmarking and indexing (surveys)
  – World Bank: Doing Business (Trading Across Borders dataset)
  – World Bank: Logistics Performance Index (LPI)
  – World Economic Forum: Global Enabling Trade Report
  – Trade Statistics: FOB-CIF differential (Richard Pomfret)

• Diagnostic studies
  – WCO: Columbus programme
  – WCO: Time Release Study
  – Diagnostic Trade Integration Studies (DTIS)
Direct Approach: Case study – UK meat importers

• Method:
  – Detailed review of procedures, systems and fee schedules
  – Interviews and field visits
    • 3 Meat Importers
    • 2 Agents
    • 2 Border Inspection Post (BIP) Facilities; Veterinary Checks
    • Secretariat of IMTA

• What makes the sector special?
  – High value of goods
    • each of the traders imports in excess of £100million
    • 20-foot container of chilled beef: £70,000-80,000
  – Perishable and long travel distance
    • child lamb shelf life <70 days
    • NZ-UK: 32-36 days
  – Small number of employees
    • high awareness of costs
Case-study findings

• 26 distinct transactional steps
  – between the importer/agent and the relevant organisation
  – Governing regime/procedure
    • 4: import licencing
    • 4: shipping line
    • 9: port health
    • 7: customs
    • 2: port
  – Timing:
    • 4: “months ahead”
    • 9: “weeks or days ahead”
    • 10: “at arrival”
    • 3: “after arrival”

• Requires access to 6 electronic systems
• Dependent on 4-6 paper documents
Case-study findings

• Four types of compliance costs:
  1. Set-up and authorisation costs
  2. Transactional costs
  3. Inspection and control costs
  4. Post clearance costs
Set-up and authorisation costs

- Perceived to be largely negligible
  - £14,000 per year
    - Security/Bond facility for Import Licensing
      - About £10,000/year in interest charges (interest rates at Banks 3-4%; Insurance companies <1%)
    - Annual subscription fees to the two main port community system providers
    - Registration with Customs, Veterinary and Shipping Line Systems (free; one-off activity)
    - Training (ad hoc)

- Staff:
  - 2-6 amongst importers (some are part-time)
  - <20 amongst agents
  - Most staff are also involved in regular logistics type activities, note easily separated from trade compliance.
Transactional costs

• Between £382 and £673 per 20-foot container
  • Between £336 and £490 if from NZ
    – (thanks to the EU-NZ veterinary checks equivalence agreement)

• That’s: 40-80% of the onward UK haulage costs (at £850) and 18-50% of the liner ocean rates (at $2100)
Transactional costs

• Agent
  – Initial Document Check
  – Direct Trader Input fee charged by Port Community System
  – Agent’s charge for making a customs entry on behalf of the importer
  – (CVED production charge)

• Shipping Line Charges to Agent (passed on to importer at cost)
  – Port Terminal Handling Charges (£220)
  – LOLO Charges
  – Port Equipment Charges

• Port Health
  – Veterinary Checks

• Port
  – Border Inspection Post (BIP) fee / per container
  – Port: ISPS security charges per container
  – Port: Infrastructure charges
  – Port: Vehicle Booking Charges
  – Port levy for customs inspection
Inspection Costs

• Customs: risk based
  – Documents (100%; electronic and largely automatic)
  – Physical (<3%, less than 24h delay)
  – X-ray (<3%)

• Port Health (Veterinary)
  – 100% Document checks (manual and by inspector)
  – 100% Identity check at BIP
  – 50% physical check for poultry, 20% for beef and lamb
  – Inspection within half a day unless:
    • 15:00 cut-off point at Customs’ National Clearance Hub is missed (requires faxed or e-mailed copy of CVED)
      – Next working day; next week if missed on a Friday afternoon
    • Further laboratory tests (1-10%)
      – 7 days delay
Charges and fees

• [Transactional Costs
  – Flat rate customs inspection fee for handling to the inspection shed (£10-20)
  – Port Health, Veterinary Checks (£86-£96)]

• Customs Inspection costs
  – Dock labour (£179.20 plus £38.84 per man-hour)

• Demurrage, payable to the Shipping Line
  – Differs significantly from line to line
    • Might also attract additional charges for temperature monitoring and equipment
    • 7 days might add up to £1500/container
    • for 2 days it is likely to be ZERO
    • Some lines give up to 8 days fee storage but may have additional charges which come into play after 2 days
Post clearance

- Customs warehousing
- Other Special procedures
- Document storage
Lessons for customs

- Customs perceived to perform well
  - Other agencies less so
- Much of the import compliance costs are outside the control of customs

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<thead>
<tr>
<th>Agent</th>
<th>Description</th>
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<tbody>
<tr>
<td>Agent</td>
<td>Initial Document Check</td>
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<tr>
<td>Agent</td>
<td>Agent’s charge per declaration for making a customs declaration on behalf of the importer</td>
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<tr>
<td>Agent</td>
<td>Electronic submission fee (DTI fees) for customs declaration via the port community systems to the customs computer</td>
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<tr>
<td>Port Operator</td>
<td>Dock/Port levy for customs inspection per entry irrespective of whether a physical inspection is made</td>
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<tr>
<td>Port Operator</td>
<td>Handling charges for where cargo is selected for a physical inspection and/or x-ray.</td>
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<tr>
<td>Shipping Line</td>
<td>Demurrage and related charges</td>
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## Import Clearance Dependent on:

| Port Health          | • Declaration to Port Health  
|                      | • Satisfactory inspection of goods (100%)  
|                      | • Payment of inspection fees (against credit, in advance or against a demand – practice vary between authorities) |
| Customs              | • Evidence of port health clearance (fax copy of e-mail of stamped port health documents)  
|                      | • Declaration to customs  
|                      | • Satisfactory customs examination (likelihood less than 3%)  
|                      | • Satisfactory customs x-ray examination (likelihood less than 3%) |
| Shipping Line        | • Payment of all relevant charges (can be arranged against credit, on demand, or in advance) |
| Port Operator        | • Payment of all relevant charges (can be arranged against credit, in advance or on demand)  
|                      | • Collection slot (premium slots need to be booked in advanced; failure to use them will incur a penalty charge) |
So what?

- Customs performance (good or bad) is often skewed by the performance of other border agencies as well as the operational practices and arrangements between agents and importers, shipping lines and port operators.

- Performance management needs to be:
  - Internal (financial, operational, learning/innovation)
  - From the customer
    - For customs: trade and customs compliance costs!

- Case study of UK meat importers
  - One sector specific example of trade compliance costs
So what?

• Compliance costs as a performance measure
  – Economic competitiveness objectives
    • Trade facilitation
    • Administration of protective tariffs, duty deferment and duty repayment
    • Revenue collection (administrative costs)
  – Customs-business partnerships
• More detailed understanding of trade compliance costs is desirable
• Remaining questions?
  – Other sectors?
  – Economies of scale?
  – Link between compliance costs and administrative costs?
• Next steps?
  – Research / funding?
  – Staff training / PICARD?
  – Customs scorecards / development of standardised compliance cost survey instruments?