Customs

management:

Towards a new paradigm of management in Brazil

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Structure of presentation

- 1. Introduction
- 2. Risk management
- 3. Technical barriers to trade
- 4. Macroeconomic context and Brazil
- 5. Actions by the Brazilian Customs Administration
- 6. Organizational architecture: Need for improvements
- 7. Conclusions

Introduction

- **Thesis**: An increase in physical inspections (2011-2012) may be confused with technical barriers
- Alternative for improvement: March 2012, National Centre for Customs Risk Management (CERAD, in Rio de Janeiro)
- **Methodology**: Exploratory survey. Data sources: IBGE, DEPLA, SECEX, MDIC, FUNCEX

Risk management

- Concept of **risk**: Strategic prevention and response to potential threats (Autry, Bobbitt, 2008)
- **Risk** is dynamic (Fanta, 2010)
- Customs **risk** management allows *intelligence*-based resource allocation to combat bad practices (Truel, 2010)
- The main risks related to export and import are content (narcotic substances, dual-use substances and wildlife); tax evasion in terms of value and volume; tax code and country of origin; infringements of intellectual property (piracy and counterfeiting) (Hintsa et al., 2011)

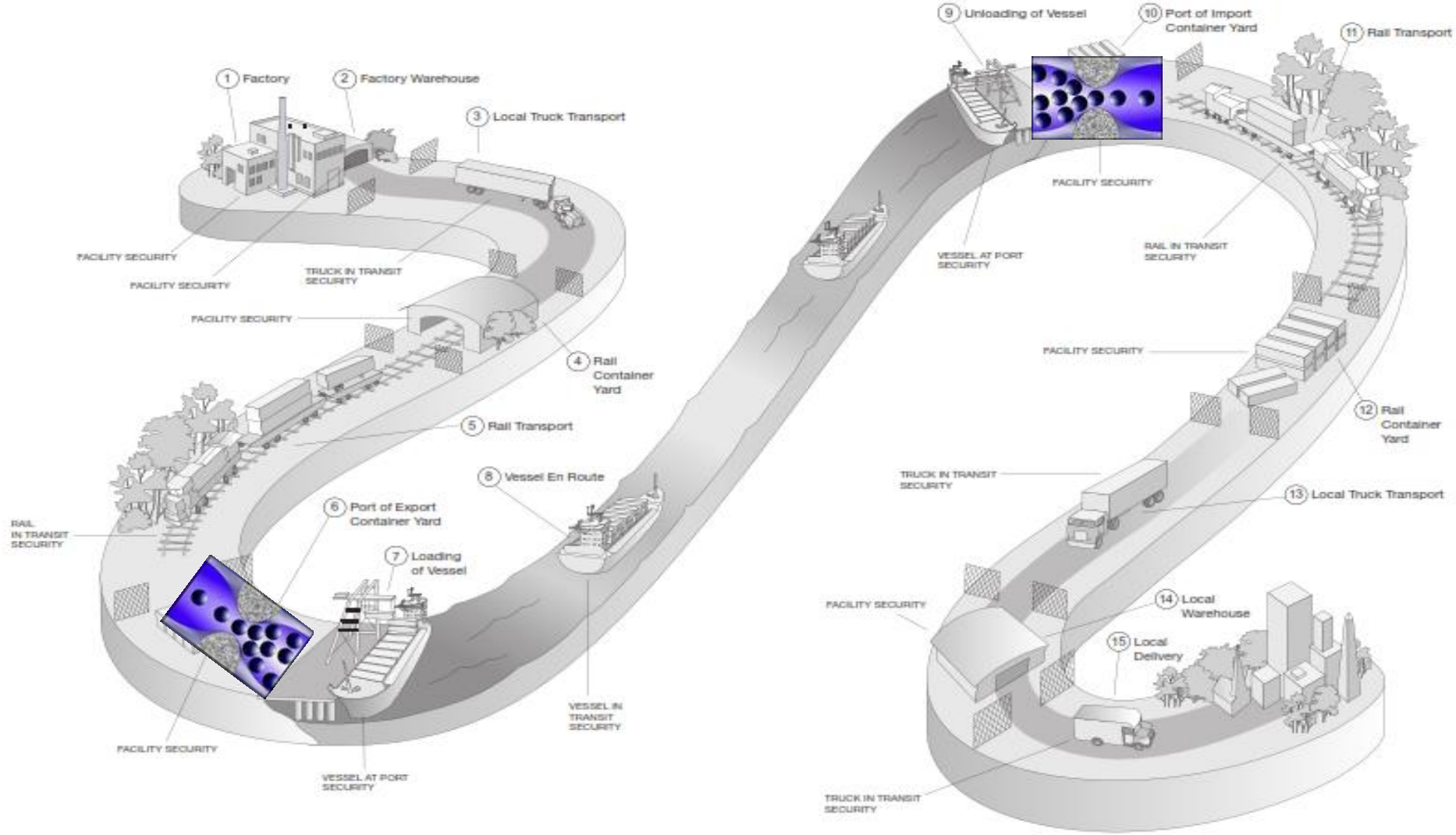
Advantages of reducing risks

(Autry, Bobbitt, 2008)

- High performance of the supply and value chains;
- Customer satisfaction;
- Cost reduction, because of reliability;
- Lower lead times for consumers;
- Waste reduction;
- Increased delivery reliability;
- Fewer controls on a country's input and output (when passing through Customs);
- Investment protection and increased competitiveness;
- Continuous supply chain.

Technical barriers to trade

- Goldratt & Cox (2004): A bottleneck determines the speed of all processes
- Customs cannot be a bottleneck in the global supply chain

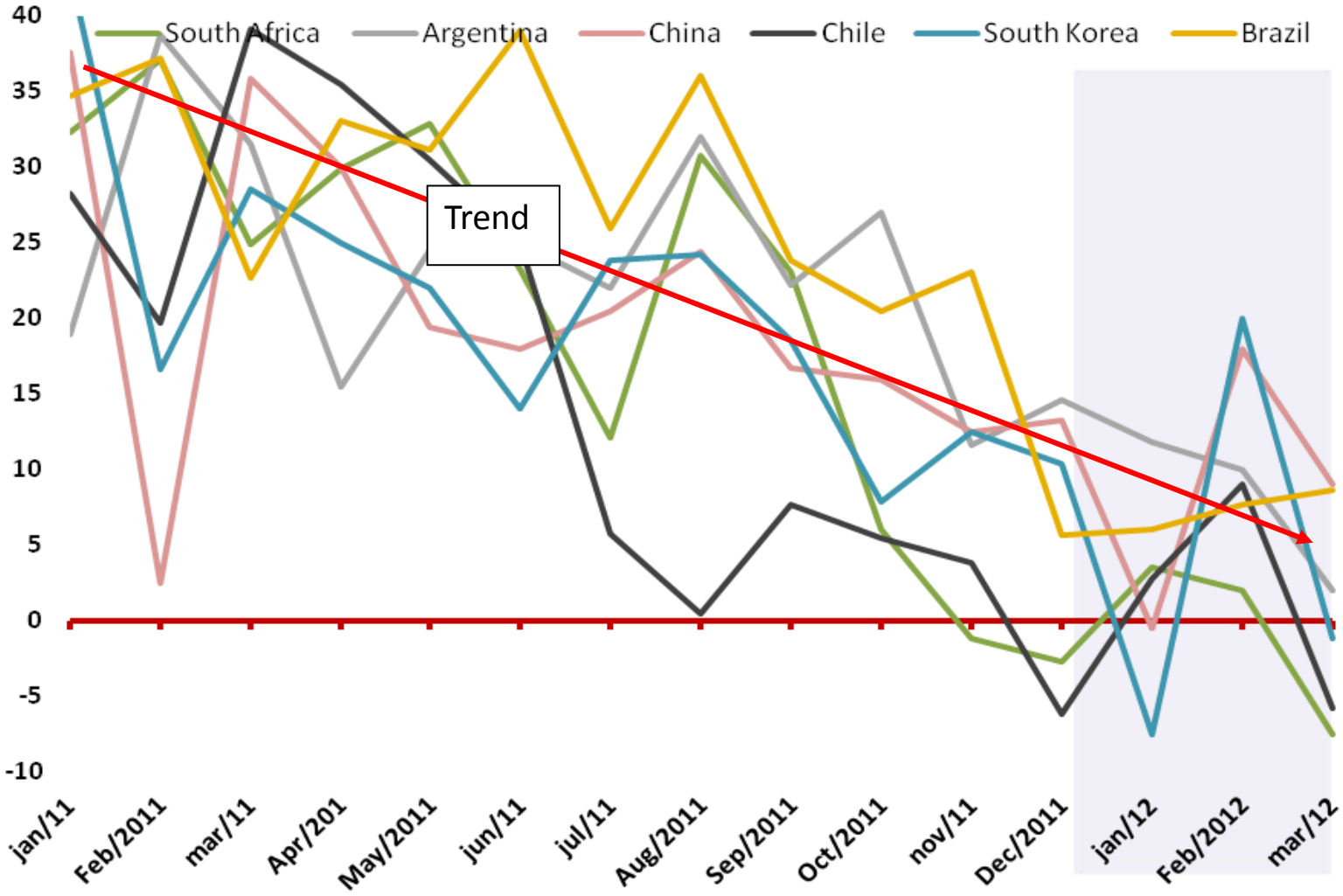


Source: FARFÁN, 2011

Macroeconomic context and Brazil

(April 2011 to April 2012)

- Recrudescence of international trade since 2008-2009
- Propensity to spend less on imported products
- Contraband and other unregulated goods have sought alternative routes of entry
- **Bigger Brazil Plan** to stimulate national competitiveness (since August 2011)



Source: DEPLA/SECEX/MDIC/Brazil, 2012

Bigger Brazil Plan and context

(since August 2012)

- The **Plan** covers three areas of measures:
- Stimulus to production, investment and innovation;
- Defence of industry and the internal market;
- Incentives for export and trade defence.

- **Fact 1**: From January to April 2012, imports increased in the majority of categories compared to the same period in 2011
- **Fact 2**: In 2012 (first quarter), the Brazilian real had one of the highest gains against the US dollar, in the order of 4.43%

Customs context in Brazil

(first quarter of 2012)

- Particularly in 2012 in Brazil, people intentionally committing fraud have used, among other measures, **incorrect tax classification** and **fraudulent declaration of origin**

- **Fact 3**: Brazilian imports from certain sources have increased for no good reason. This is the case with imports from Bahrain (+**1,548**%), Cayman Islands (+**7,506**%) Keeling Islands (+**1,360**%), Ivory Coast (+**1,313**%), Fiji (+**1,367**%), Gabon (+**2,074**%), Gibraltar (+**36,205** %), Malawi (+**119,915**%), Maldives (+**10,112**%), Mozambique (+**22,895** %) and Senegal (+**10,635**%). These are facts that justify a more accurate risk analysis

Actions by the Brazilian Customs Administration

- Operation ***Red Tide*** began in March 2012: Slower Customs inspections and a 'damming' effect on all imports
- **Are longer controls associated with higher quality controls?**
- **Are technical barriers or low resources affecting controls on the increased number of imports (licit and illicit)?**

- **Fact 4**: Need for improved capacity building: Better controls and requirement for enhanced risk management

What is not happening

- ‘Intervention by exception’
- This is a term used to describe a regulatory compliance strategy that is based on the principles of risk management. It implies regulatory intervention when there is a legitimate need for it, that is, intervention based on identified risk (Widdowson 2003; Widdowson 2010)

Organizational architecture: Need for improvements

- Traditionally, Customs risk management has been accomplished through targeting practices. However, a more organic approach to regulatory management should be pursued, by analysing customer behaviour, using different strategies and increasing **intelligence** sharing (beyond information) among Customs administrations (WCO 2011)

Organizational architecture: Need for improvements

- Assertion by the Customs Administration: Low levels of human and material resources (**Fact 5**)

- **Part 1** (PICARD 2012 presentation): Towards a new paradigm in the Brazilian Customs Administration: CERAD
- **Part 2**: Analysis and monitoring measures taken henceforth

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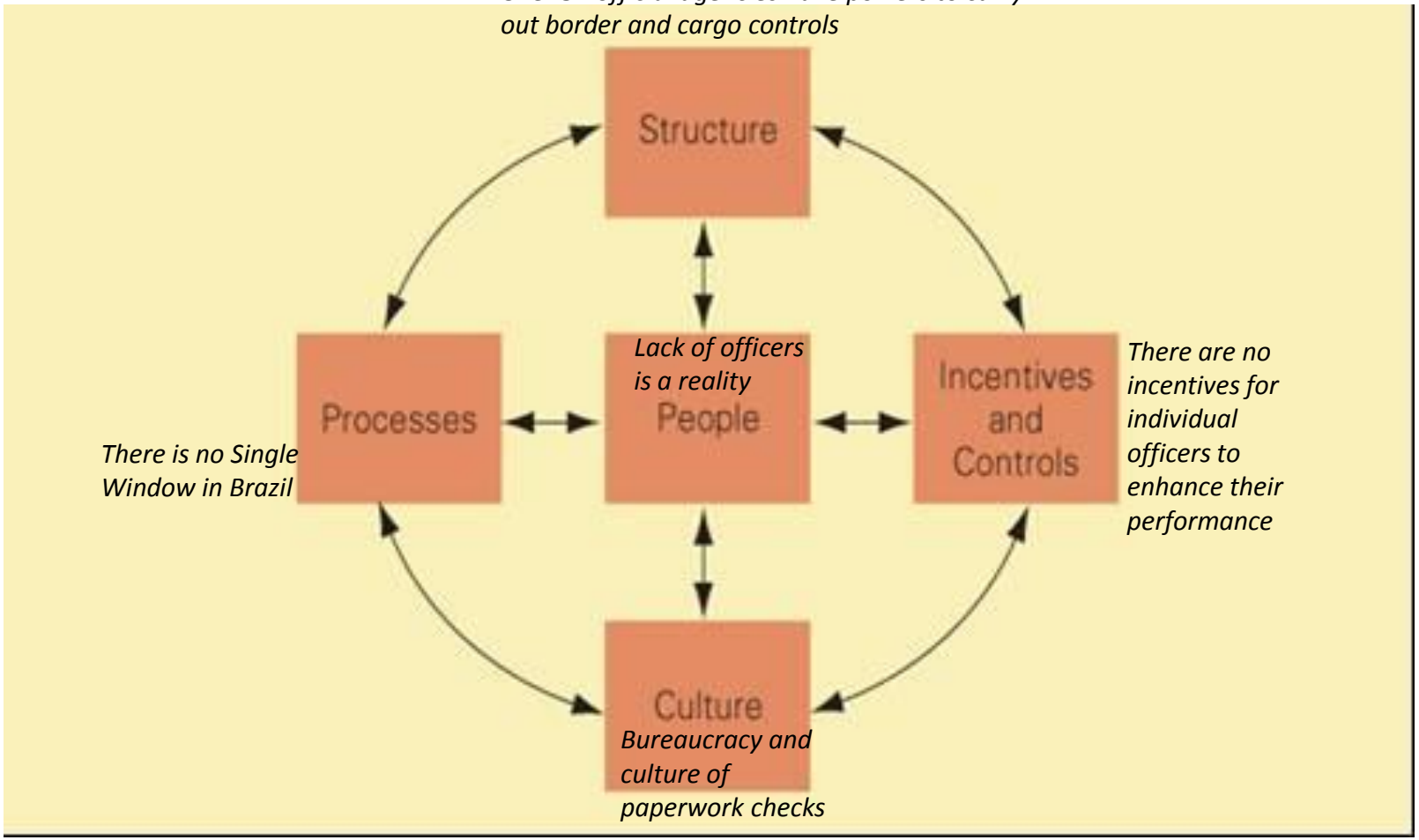
Organizational architecture: Need for improvements

Over 34 official agencies have powers to carry out border and cargo controls



There is no Single Window in Brazil

Lack of officers is a reality

There are no incentives for individual officers to enhance their performance

Bureaucracy and culture of paperwork checks

Conclusions

- **Risk** management cannot be used as a trade policy instrument against the backdrop of a sluggish international economy
- **Risk** management must be uncoupled from the elasticity of demand for imports
- Simplification of Customs procedures and trade facilitation are unrelated to trade policy liberalization

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Conclusions

- The proliferation of Customs control initiatives, **taking longer and with higher logistics costs** (increased inventory, storage and other fees), undermines national competitiveness and is not in keeping with best practices in the area of Customs risk control
- The creation of the National Centre for Customs Risk Management (**CERAD**) may mark the beginning of the re-engineering required for modernization

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Conclusions

- This study recommends a **reform of the organizational architecture** of Customs in the broadest sense, not only through optimal allocation of budgetary resources in terms of managing people and equipment (as non-invasive technologies), but also through reform of the structure and processes
- CERAD monitoring> to be maintained

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