

ORIENTATION PACKAGE FOR DECISION MAKERS

BACKGROUND

1. The challenges of the 21st Century are placing massive demands on Customs administrations around the world. Now, more than ever before, there is a need for Customs administrations to be more effective and efficient in order to achieve the objectives set by policymakers. This requires investment in either significant reform and modernization or continuous improvements. This in turn requires the support of a broad base of stakeholders, including decision makers in Government; other government agencies, especially those that have responsibilities towards revenue, trade and border matters; a range of private sector actors; and, as the need may be, partners that can support these programmes such as other Customs administrations and the donor community.
2. This support can be secured and maintained in a variety of ways. In making the case, Customs must clearly articulate its value proposition based on current and emerging challenges and Government and private sector priorities and needs.

PURPOSE

3. The aim of the Package is to assist administrations to secure support for reform and modernization. It does this by providing information with a clear picture of the modern Customs function, the vital part it can play in achieving national objectives and the necessity of investing in Customs. It also contains advice on how to use this information. This information can be used in a variety of ways, including the preparation of business cases or presentations by Customs leaders. To this end, the Package is structured as follows :
 - Introduction
 - Main targets and objectives of Governments
 - Role of Customs and its environment
 - Reform and modernization of Customs
 - Role of the WCO
 - Conclusion
 - Annexes :
 - (a) Environmental scan
 - (b) Customs in the 21st Century
 - (c) Summary of WCO instruments, tools and programmes
 - (d) Examples of business cases for Customs reform and modernization (Note: This will be prepared as part of the CBC decision to update Chapter X of the Capacity Building Development Compendium on Donor Engagement).

USE OF THE PACKAGE

4. The Package aims to develop the understanding and support for the continual changes that Customs must achieve if they are to increase efficiency and effectiveness and deliver on their regulatory mandate according to the expectations of policymakers. It provides Customs executives with core universal messages around Customs that can be used in preparing business cases or presentations.

5. There is a level of divergence around the priorities or strategic drivers that necessitate support for Customs reform and modernization. Also, the expectations of Governments around the roles and responsibilities of Customs and its priorities differ. By way of example, some Governments attach high priority to revenue collection whilst others may be more concerned with anti-smuggling, supply chain security and the facilitation of legitimate trade. This is also reflected in national institutional arrangements and reporting lines. The same consideration applies to the expectations of other stakeholders such as business, civil society and international and regional partners. An understanding of these expectations is critical as they form the basis to make the connection for decision makers between the outcomes or results (“higher purpose”) that are sought, the need for reform and modernization to achieve this, and why this needs to be supported politically and / or financially. Customs executives therefore need to tailor-make their business case to fit in with these realities. However, notwithstanding divergence around national priorities or drivers for reform, there is a high degree of convergence around the elements of reform and modernization, the approach towards reform and modernization and, of course, the need to implement international instruments.
6. The Package can either be used as is (for example as an attachment to a Ministerial memorandum or policy note) or selected content can be used, as needed, in preparing a document or presentation. It also provides a foundation for further analysis, diagnosis or planned improvement initiatives. In other words, the Package is aimed at guiding or triggering the preparation of a document or presentation that has to reflect national priorities, strategic drivers and realities.
7. For decision makers, such as Ministers, policymakers or donor agencies, time is of the essence. The main part of the Package therefore captures the core messages around Customs and additional information is provided in the Annexes that can be used depending on the situation and needs. Moreover, any business case should avoid being inward-looking, overly technical or filled with jargon. The key is to make a connection by understanding the issues or topics of concern to the decision maker whose support is sought.
8. In the sections indicated above, use is made of boxes inserted below the text, where appropriate, to provide guidance on how the information contained in the sections can be modified when preparing a business case or presentation.

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SUPPORT FOR CUSTOMS REFORM AND MODERNIZATION

“A Pivotal Partner In Economic Growth And Society Protection”

In the 21st century, Customs is an integral part of the global trade framework and an important driver of economic and trade policy. Trade is the engine that drives the global economy. Customs administrations are key government agencies established to apply international, regional and national policies and laws to goods crossing borders.

1. INTRODUCTION : GLOBALIZATION, THE INTERNATIONAL TRADE LANDSCAPE AND CUSTOMS

- 1.1 Globalization is resulting in an increasingly complex world. The world is interconnected as reflected by expanded flows of goods, people, capital, information and technology. It is becoming easier to conduct business internationally. This provides countries with the opportunity to fast-track economic growth and development through increased international trade. This is not only beneficial to legitimate trade; it benefits illegal trade too and criminals are making use of more integrated markets and freer movement of people to illicitly move goods, people and money across borders.
- 1.2 The new global trade landscape therefore brings a new set of challenges. It has also resulted in the growth of the range and complexity of risks that have to be managed at the border. The lack of effective controls presents risks to any economy and society and can undermine gains that have been made. Customs administrations are mandated to contribute to socio-economic development by, on the one hand, facilitating legitimate trade and, on the other, protecting national economies and societies against the threats posed by, amongst others, organized criminal syndicates and terrorists.

2. MAIN TARGETS AND OBJECTIVES OF THE GOVERNMENT

- 2.1 As mentioned in the “Customs in the 21st Century” strategy document of the World Customs Organization, recent developments have created new demands and perspectives on the role of the modern state. New trans-national and national challenges have increased the demands on and responsibilities of states.
- 2.2 Some of the key objectives of Governments include:
 - **Economic growth and development:** This includes the creation of jobs and in many countries the fight against poverty and achieving the Millennium Development Goals.
 - **Domestic resource mobilization:** Following the global financial crisis, domestic resource mobilization is again in the spotlight. International trade taxes make a significant contribution to the national budgets of many countries.
 - **Protection of society:** Transnational organized crime and terrorism supports many of the serious threats to international peace and security. Corruption and illicit trade reduces revenue collection, harms the effectiveness and efficiency of Customs procedures, weakens state institutions and impedes economic growth.
 - **Public health and the environment:** Growing concerns regarding the environment and public health have resulted in new treaties and measures introduced by states.
 - **Professionalism, service and integrity:** It is important for Governments that state agencies are service-oriented and conduct their activities with professionalism and adhere to high integrity standards.
- 2.3 It is also recognized by states that many of these issues require international solutions.

Note :

This section is aimed at linking the targets and objectives of the Government with the contribution made by Customs in support of such targets and objectives. It is therefore advisable that recent Government policy and strategy papers should be consulted to identify these targets and objectives and to clearly indicate how Customs is supporting or intends to support the achievement of them.

3. ROLE AND CONTRIBUTION OF CUSTOMS

3.1 The “Customs in the 21st Century” strategy document confirms the role of Customs to:

“... control the movement of goods and thereby secure the state’s interests and safeguard revenue collection. The key aims have been to ensure compliance with state policies and laws applicable to the cross-border movement of goods, to combat smuggling, and to secure borders, whilst ensuring the facilitation of legitimate trade.”

3.2 Given their close connection to globalization and international trade, Customs administrations are well-positioned to support Governments and other stakeholders:

Customs and competitiveness. Customs is a central part of the globalization process and a catalyst for the competitiveness of countries and companies. Customs is responsible for administering Government agreements, policies and laws that relate to international trade. This includes agreements results from multilateral trade negotiations, customs union agreements with neighbouring states and free trade agreements. It also includes re-engineering business processes to make it easier and cheaper to move goods across borders.

“Trade facilitation is progressively being seen by governments as an important element of economic policy, with Customs having a unique position within the hub of the international supply chain.”

Customs and state revenue. The international trade in goods is subject to Governments tax systems that, amongst others, aim to collect state revenue and achieve policy objectives related to economic growth.

“The importance of domestic resource mobilization through taxation has been noted on many occasions and its linkages to sustained economic, social and democratic development emphasized.”

Customs and illicit trade. Governments prohibit and restrict the movement of goods into, across or from their territories with the aim of protecting their societies from dangerous or harmful goods. These include drugs, weapons and counterfeit goods.

“Transnational organized crime is a menace to States and societies, eroding human security and the fundamental obligation of States to provide for law and order.”

Customs and the border. Customs is the key border agency responsible undertaking functions at the border on behalf of other national administrations. Coordinated border management (CBM) is now recognized by the Customs community as a potential solution to the challenges that the 21st Century presents. Customs is well positioned to support a whole-of-government approach to border management.

“Efficient border management and coordination of the various agencies involved in border clearance is increasingly important.”

- 3.3 Customs is **well-placed and central** to contribute to the achievement of Government objectives. It is a unique and specialised agency with a deep understanding of international trade, supply chains and economic operators. It is also **internationally connected** and part of a global Customs network through the instruments and tools of the WCO.
- 3.4 A **professional and proud Customs service** that is able to meet the demands of the modern trading environment is a true asset to states, societies and the business community. Competent administration and enforcement also increases confidence in the quality and integrity of government institutions.

4. REFORM AND MODERNIZATION OF CUSTOMS : CUSTOMS OF THE FUTURE

- 4.1 The common globally accepted mission of Customs is to develop and implement an integrated set of policies and procedures that ensure increased safety and security, as well as effective trade facilitation and revenue collection. This is achieved through efficient and effective use of tools and information in dealing with the international movement of goods, conveyances and people connected with the goods.
- 4.2 The aim of Customs is to ensure maximum compliance with all the laws that it administers for Government. At the same time, such compliance must be achieved in a manner that does not impede trade and economic growth by imposing an excessive compliance burden on business. The “Customs in the 21st Century” strategy document contains the 10 building blocks for modern Customs and the essence of this can be summarised as follows:

Intelligence-based risk and information management to facilitate the movement of legitimate goods and to focus resources on high-risk areas. The expanding mandate and workload of Customs requires that scarce resources need to be targeted on high-risk, non-compliant traders.

Timely and effective risk-based decisions require **modern information technology** that enables the secure, real-time exchange and receipt of information, risk profiling and processing of declarations.

Modern procedures, techniques and equipment are applied where risks trigger interventions. These include audit and systems based controls and the use of equipment such as scanners.

Strategic partnerships are required with a range of stakeholders. These include other Government agencies to work towards coordinated border management (for example, single window systems), Customs-Business partnerships (for example, stakeholder fora and programmes such as AEO and trusted traders) and Customs-to-Customs cooperation on the exchange of data, mutual administrative assistance and mutual recognition arrangements.

A **sound legal framework** is needed that promotes transparency and predictability and that creates the enabling framework for the application of modern procedures, techniques and equipment. It also needs to provide Customs officers with the necessary powers to execute their duties.

Finally, this requires a **professional organization** that is capable of achieving its goals and targets with the necessary resources to meet priority needs. The demands placed on Customs and the elements of modern Customs require an organizational development plan that is owned by Customs. Execution requires new capabilities, including leadership and

management and business management skills such as organizational risk management, project management, change management and communication. In addition, an organizational culture is required that supports service delivery and high levels of integrity.

5. THE ROLE OF THE WCO

The WCO, as the inter-governmental organization representing 177 Customs administrations, has started to develop responses that empower Customs administrations, collectively and individually, to respond to the challenges that they confront. This is accomplished by developing the international instruments and tools and supporting implementation through capacity building.

5.1 WCO instruments and tools

The WCO has also developed a range of other instruments and tools to enable its Members to be more responsive to the challenges of the 21st Century.

The relevance and impact of the WCO's instruments and tools have been recognized by other international organizations such as the World Trade Organization and the World Bank. By way of illustration, the revised Kyoto Convention has served as a blueprint for the reform and modernization of many administrations around the world. This Convention supports Customs to more quickly clear legitimate goods and thus improves economic growth.

The WCO has also put in place mechanisms to promote international cooperation in facilitating exchange of information and intelligence and joint operations.

5.2 WCO support with reform and modernization

The WCO, as the global centre of Customs expertise, strives to play a central role in supporting its Members with reform and modernization. The result is a more comprehensive, needs-driven and focused approach.

WCO Capacity Building Strategy : This strategy is aimed at supporting WCO Members to develop or acquire the skills, competencies, tools, processes, and resources needed to improve the capacity of the administration to carry out its allotted functions and achieve its objectives. Making the commitment to embark on a comprehensive Customs reform and modernization program is not done in isolation from the global Customs community. Together with the political will and the partnership approaches within the country, the WCO is a conduit to years of capacity building experience and access to many experts in many Customs fields around the world.

WCO Capacity Building Infrastructure : In recognition of the fact that a holistic approach to Customs capacity building has to take all key strategic and political drivers into account and that thus, Customs capacity building is a key priority for Governments in their development agenda, the WCO is committed to assisting its Members with the implementation of international Customs standards and broad modernization. Equally importantly, the WCO today has at its disposal a sizable number of Customs experts from its Member administrations who have been accredited to deliver Capacity Building assistance. In all six WCO regions, Regional Offices on Capacity Building as well as Regional Training Centres, actively participate in Capacity Building delivery. Another area of emphasis is coordination with donors to match with Members' needs and to achieve a consistent approach while avoiding duplication and overlap.

6. CONCLUSION

The challenges of the 21st Century are placing substantial demands on Governments and their Customs administrations. Now, more than ever before, there is a need for Customs administrations to be more effective and efficient. The new and emerging challenges demand a more pro-active and action-oriented approach and support for the development of modern Customs in partnership with all stakeholders: national Governments, international organizations, donors, business and the academic community.

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Customs Environment Scan 2012

1. Introduction

Today, the world is interconnected through expanded flows of goods, services, people, transport, capital, information and technology. Globalization makes it easier to do international business than in the past, and provides economies with the opportunity to fast-track when reaching 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 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 the risks. Revenue collection is a primary focus in many Customs administrations particularly in the developing countries where domestic revenue resource mobilization is a significant priority. 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 deal with the current global “*uncertainty*” - economic uncertainty, political uncertainty, security uncertainty and uncertainty surrounding available resources and capabilities - and identify its impact on the role, capacity and governance of Customs.

Following this introduction, the second section describes key emerging trends in the international environment, which may impact on the Customs community with quantitative figures where appropriate through reviewing reports and studies in open sources. The third section briefly summarizes potential impact on the Customs community from the emerging trends identified in the second section, although it should be kept in mind that the potential impact vary from Customs to Customs depending on its mandates and priorities.

2. Emerging trends

2.1. Global merchandise trade and transport

Slow merchandise trade growth after its recovery

World trade has generally recovered from a sharp contraction in 2009 resulting from the financial crisis of 2008-9, although the degree of recovery is uneven across countries. According to the figures unveiled by the WTO (2012a), world merchandise exports and imports in real terms¹ grew by 13.8% and 13.7% in 2010 over the previous year, and by 5.0% and 4.9% in 2011. As a result, each reached US\$ 1.8 trillion in 2011, the highest level in history (Figure 1). The WTO (2012a) also showed that world merchandise trade has continuously expanded faster than world production.

¹ “In real terms” means that the figures are adjusted to account for inflation and exchange rate fluctuations.

In 2011, however, world trade was significantly affected by the economic slowdown due to sovereign debt problems, political unrest, natural disasters, and high unemployment levels in many countries, amongst others. The 2011 growth rate of world merchandise export (5.0%) was lower than the 2010 growth (13.8%), and even lower than the long-term averages in 1991-2011 (5.4%). Considering multiple downside risks such as a deeper recession in the Euro zone and rising commodity prices as well as fiscal austerity in many countries, the global GDP growth rates in 2012 and 2013 were projected to be 2.1% and 2.7% respectively. Accordingly, the growth in world merchandise export was forecasted slowdown to 3.7% in 2012 and back to 5.6% in 2013.

Figure 1: Volume of world merchandise exports, 1990-2013^a
(Indices, 1990=100)



^a Figures for 2012 and 2013 are projections.
(source) reproduction of Chart 2, WTO (2012a, p.4)

Shift in trade patterns

In terms of merchandise trade in value in 2011, China remained the largest exporting economy, accounting for 10.4% of global exports, while the United States was the largest in terms of imports (WTO, 2012a). It is estimated that goods exported from the 27 EU Members States collectively accounted for around one third of global exports. Developing countries and Commonwealth of Independent States (CIS) rapidly expanded their share to 47% on the export side and 42% on the import side as the highest levels in history, with 5.6% export growth and 6.2% import growth over the previous year. On the other hand, Least Developed Countries (LDCs) remained marginalized from international trade as they accounted for around 1% of global trade.

Manufactured goods represented 67.1% of world merchandise exports in terms of value in 2010, while 9.2% for agricultural goods and 20.4% for fuel and mineral products (WTO, 2011a). The share of intermediate goods exports has greatly increased to more than half of world exports of manufactured goods. The similar composition with regard to the product groups prevailed for 2008-10.

Recovery of international transport industry

Transport industry recovered in 2010 following a significant plunge in 2009. In 2010, for example, seaborne trade recorded the highest level with an increase of 7% in terms of weight over the previous year (UNCTAD, 2011). More than 80% of world merchandise trade was carried by sea as measured in weight in 2010. Of a variety of vessel types, tankers carrying crude oil and related products continued to stand in a leading position representing 33% by weight. Containerized cargo accounted for 16% of world seaborne trade by weight in 2010, with faster expansion than overall seaborne cargo on average in 1990-2010.

Cargo by air carried a small per cent in terms of weight but jumped to around 35% in terms of value, reflected by the fact that high value and time-sensitive goods are likely carried by air (IATA, 2011). World air cargo has rapidly grown for the last decade, and was forecasted to annually grow at 6.0% over the next 20 years as measured in Revenue-Tonne-Kilometre (RTK)² (Boeing, 2011).

Of total international air cargo traffic, express cargo has rapidly expanded for the last decade so as to increase its share in world air cargo from 4.1% in 1992 to 12.6% in 2009 (Boeing, 2011). International express and postal consignments are frequently used to deliver the goods that are bought over the internet directly to consumers overseas. The average size carried by express shipment increased from 2.7 kg in 1992 to 5.3 kg in 2009. The international express sector was projected to grow at more than 6.0% per year through 2029.

2.2. Border rules and measures

Proliferation of Regional Trade Agreements (RTAs)

According to the WTO,³ 319 Regional Trade Agreements (RTAs) were in effect as of January 2012 among more than 500 that had been notified to the GATT/WTO. This means that a WTO Member was a party to 13 RTAs on average, and a majority of world merchandise trade took place between RTA partners.

The WTO (2011b) estimated that only 16% of global merchandise trade received preferential treatment if the intra-EU trade was excluded, mainly attributed to onerous rules of origin as well as low preferential margins between MFN and preferential rates for many goods. The preferential margins eroded as the MFN rates dropped through unilateral and multilateral trade liberalization in many countries, so that goods having more than 10% of the preferential margin accounted for less than 2% of world merchandise trade.

Upward trends of new trade restrictive measures

Responding to a request by the G20, the WTO, together with the OECD and the UNCTAD, has prepared a series of reports on trade measures taken by the G20 economies on a semi-annual basis. The sixth report (WTO, 2011c) revealed upward trends in the imposition of measures that were considered as restricting or potentially restricting trade from October 2010 to April 2011 as well as from May to October 2011 (Table 1).

² Revenue-Tonne-Kilometre (RTK) means weight multiplied by distance for charged cargoes.

³ By counting RTAs in goods and services separately:
www.wto.org/english/tratop_e/region_e/region_e.htm, accessed on 3 May 2012.

A total of 674 trade restrictive or potentially restrictive measures were introduced by the G20 economies from October 2008 to October 2011 in a variety of forms such as trade remedies (e.g. anti-dumping duties, safeguard measures, countervailing duties), tariff increases, non-automatic import licensing, and export measures. Although most may be justified under the GATT/WTO rules, it was indicated that only 19% of those measures were eliminated as of October 2011. As a result, it was estimated that trade affected by those measures cumulatively accounted for over 2% of world merchandise trade.

Table 1: Trade restrictive measures by G20 economies

Type of measure	First Report (Apr - Aug 09) 5 months	Second Report (Sep 09 - Feb 10) 6 months	Third Report (Mar - mid- May10) 3 months	Fourth Report (mid- May - mid-Oct 10) 5 months	Fifth Report (mid-Oct - Apr 11) 6 months	Sixth Report (May - mid-Oct 11) 6 months
Trade remedy	50	52	24	33	53	44
Border	21	29	22	14	52	36
Export	9	7	5	4	11	19
Other	0	7	5	3	6	9
Total	80	95	56	54	122	108

Note: Measures included in this table are those 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 G20 economies put in place 148 trade restrictive measures during the period October 2008 to March 2009. Table 1 does not include government support measures.

(source) reproduction of Table 1, WTO (2011c, p.4)

New rules of the WTO Doha Development Agenda (DDA) negotiations

The absence of agreement on the WTO Doha Development Agenda (DDA) raises uncertainty about the future multilateral rules. Once the DDA negotiations are concluded, however, there are a number of areas that may impact on Customs (Aniszewski, 2009).

Regarding trade facilitation, in particular, while the WTO is developing high principles with respect to trade facilitation measures, the WCO instruments and tools provide more detailed guidance on how to implement the measures at a practical level. Customs needs to implement the future WTO Trade Facilitation Agreement; most of its draft texts under negotiation are compatible with the existing WCO instruments and tools including the Revised Kyoto Convention (RKC).

2.3. Business practices

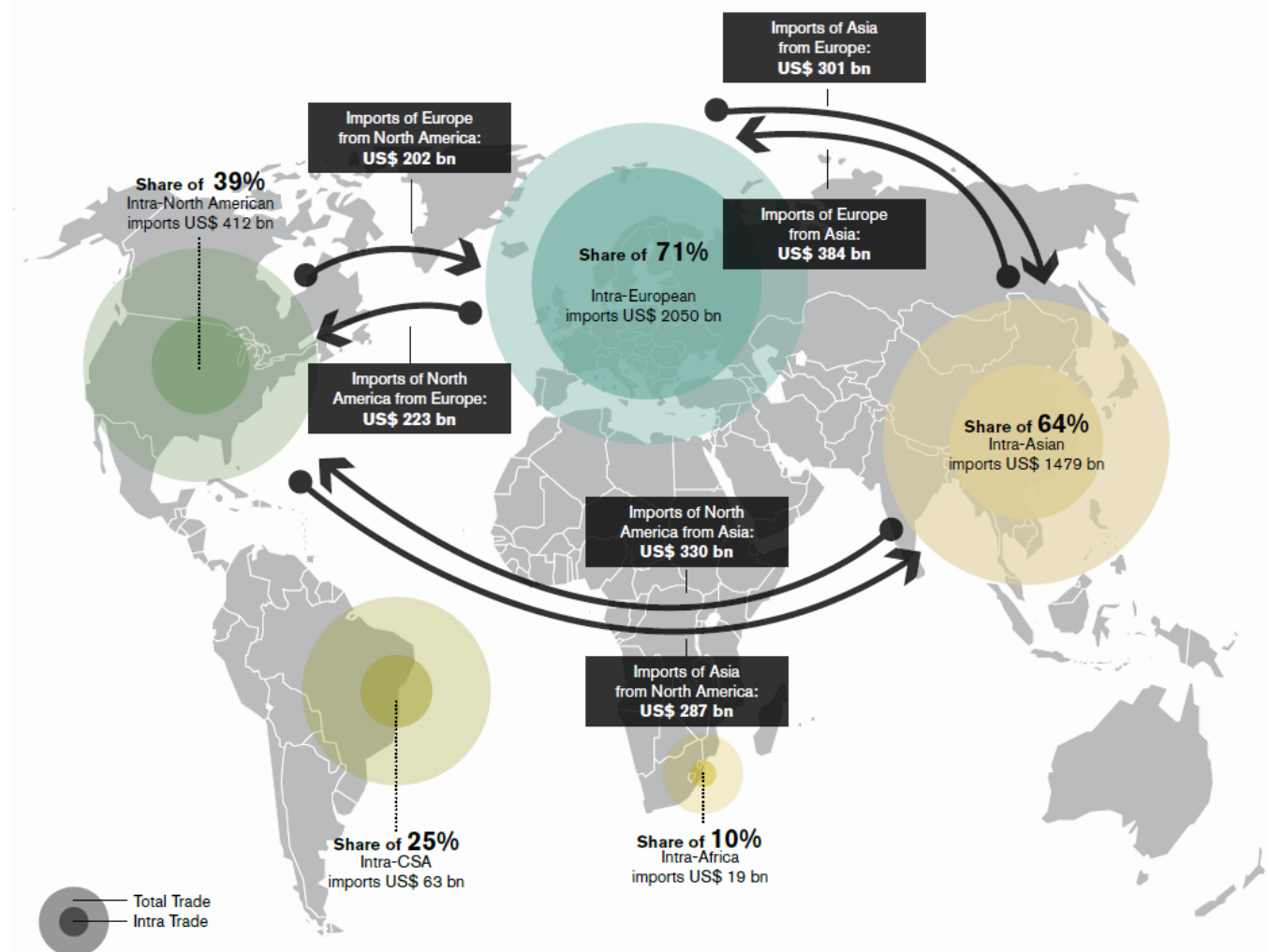
Development of international supply chain

The international supply chain has increasingly become pervasive and prominent, and thus captured more policy attention than in the past. An economy is able to boost its trade through being integrated into the global or regional supply chain. The international supply chain is comprised of many stakeholders, including traders, transport companies, insurance firms, banks, forwarders, agents, and others that participate in international trade. Inevitably, Customs has become an integral part of the international supply chain.

Fragmentation of production and the just-in-time delivery system has increased the interdependency in global production systems. The production value chain is predominant particularly in manufactured goods. More than half of manufactured exports were semi-finished goods, parts and components. As a result, the import content of manufactured exports increased from around 20% in early 1990s to 40% in 2010 (WTO, 2012b). The volume of intra-regional trade of intermediate goods is considered as an indicator of regional integration and the regional supply chain development. Particularly in the European and Asian regions, trade flows of intermediate

goods have been concentrated within each region, representing 71% and 64% of imports to the respective region in 2008 (Figure 2).

Figure 2: Intra-regional and major inter-regional imports of intermediate goods (2008, in billions of US\$)



(source) reproduction of Figure 8, IDE-JETRO and WTO (2011, p.84)

Production fragmentation also led to substantial complexity of issues surrounding rules of origin and international trade statistics. The traditional measurement of trade statistics, which is based on the full commercial value to the last country of origin, fails to capture values added to the goods in each country. Therefore, the WTO launched the “*Made in World*” initiative to “*support the exchange of projects, experiences and practical approaches in measuring and analyzing trade in value added*”.⁴ Trade measured in value added shed a different light on international trade. For example, a study (IDE-JETRO and WTO, 2011) estimated that the trade deficit of the United States against China was reduced by 53% in 2005 and by 42% in 2008 if estimated in value added and adjusted for processing trade. It implies that value added in China is much less than the value of final goods exported from China (Figure 3).

⁴ Made in World initiative, available at : www.wto.org/english/res_e/statis_e/miwi_e/miwi_e.htm.

Figure 3: United States-China trade balance:
Traditional statistics versus value added (VA) terms (in billions of US\$)



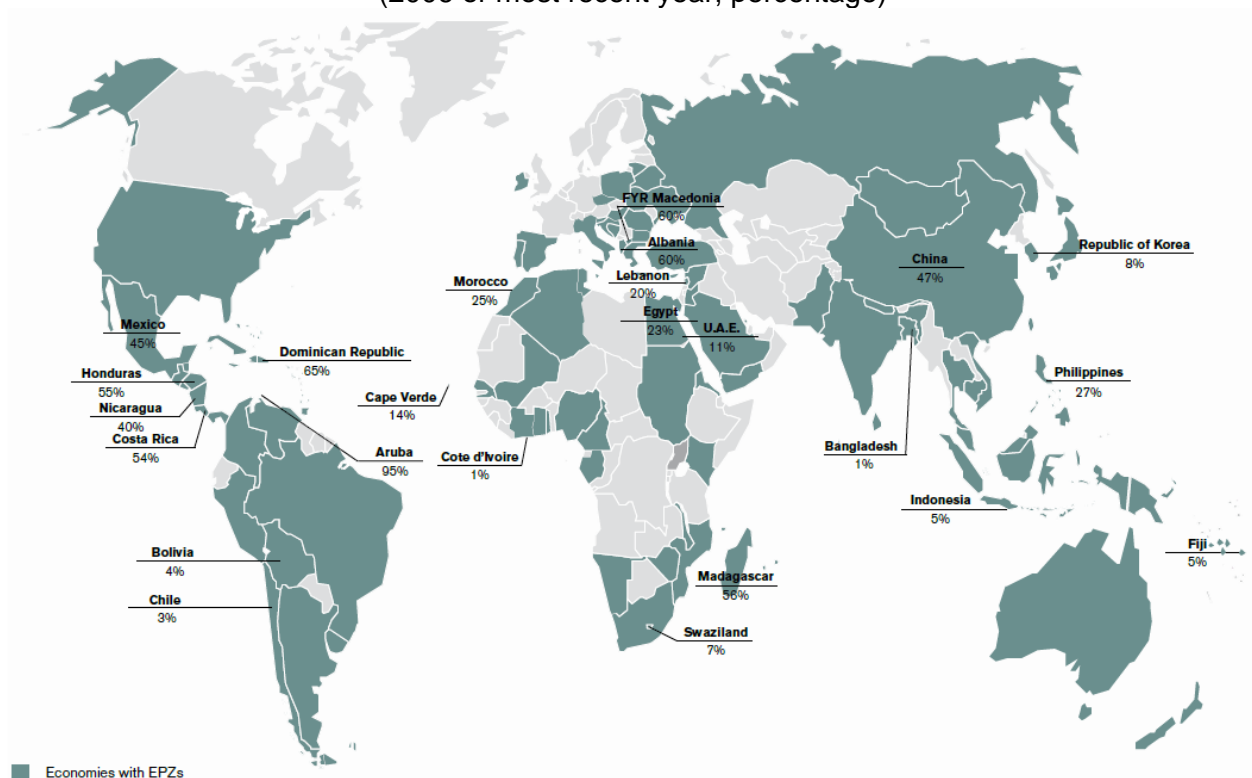
Note: China's processing trade data not available for 2000.
(source) reproduction of Figure 9, IDE-JETRO and WTO (2011, p.104)

Increasing goods flows of Economic Processing Zones (EPZs)

Export processing zones (EPZs) increasingly receive policy attention because they play an important role in the international supply chain. EPZs are considered as integral parts of foreign investment-led and export-led strategy. The International Labor Organization (ILO, 1998, p.3) defined EPZs as “*industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being exported again*”. It is variously referred to as Free Trade Zone, Free Economic Zone, Free Port, Industrial Free Zone, Technological Free Zone, Special Economic Zone, and Industrial Development Zone (IDE-JETRO and WTO, 2011).

In 2006, it was estimated that there were 3,500 EPZs in 130 countries, employing around 66 million people. It was also estimated that EPZs accounted for more than 20% of total exports from the developing economies (IDE-JETRO and WTO, 2011), although it varies country by country (Figure 4).

Figure 4: Economies with EPZs and shares of goods for processing in exports (2006 or most recent year, percentage)



(source) reproduction of Figure 2, IDE-JETRO and WTO (2011, p.22)

Increased intra-firm trade for intermediate and final goods

As the international supply chain develops, intra-firm trade has constituted a large share of world trade. Intra-firm trade is defined as cross-border flows of goods and service between parent companies and their affiliates or among these affiliates (OECD, 2002). However, it is difficult to assess its share and trend in world trade due to a lack of data in most countries. Nevertheless, the OECD (2011) made a broad estimation that intra-firm trade in goods accounted for one third of world merchandise trade. Statistics on intra-firm trade in goods may be collected through Customs authorities and based on business surveys. In the United States, for example, intra-firm trade accounted for 28.9% in its merchandise exports and 48.3% in its merchandise imports in 2010 (U.S. Department of Commerce, 2012). As a result, it represented 40.5% in terms of its total merchandise trade (i.e. exports and imports), and stayed at around 40% in 2002-2011.

The share of intra-firm trade in total trade showed a great variation across countries and industries. For instance, it is higher among OECD economies and lower between OECD and emerging economies (OECD, 2011). Intra-firm trade is driven by the activities of multi-national enterprises (MNEs). A number of MNEs use their affiliates to move raw materials and intermediate goods across borders along international production networks, as well as distribute final and consumer goods through wholesale trade affiliates in distribution networks.

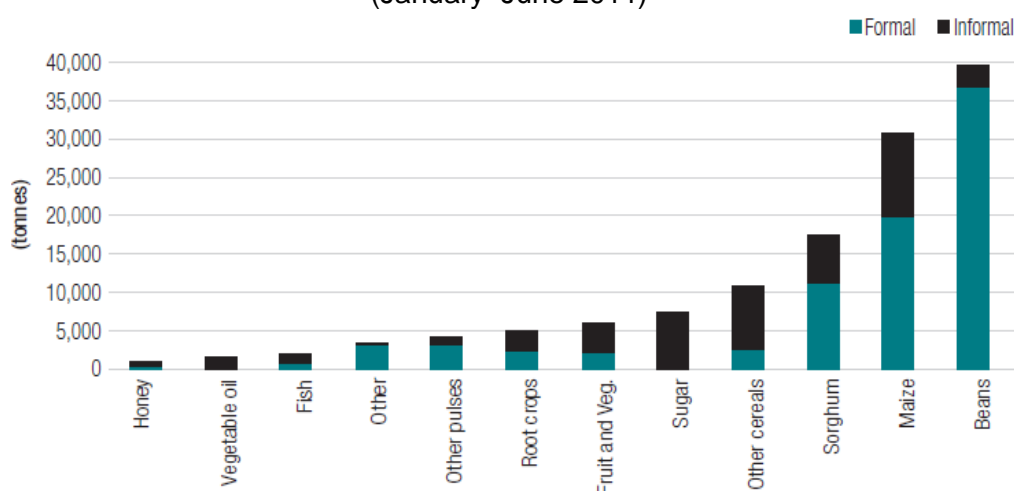
Increased policy attention to informal cross-border trade (ICBT)

The informal economy is substantial in developing countries. In Africa, for example, it was estimated to be equivalent to 43% of its GDP, and thus had a similar size of the formal sector (OECD, 2009). Policy attention to informal cross-border trade (ICBT) increased because it is considered that it constitutes a major portion of the informal economy. There is no single definition of ICBT. Nevertheless, it may be referred to “*trade transactions between residents and non-residents across the economic boundaries of two or more countries. These transactions are not recorded by Customs Authorities*” (Ugandan Bureau of Statistics and Bank of Uganda, 2011,

p.6), or “imports and exports of legitimately produced goods and services, which directly or indirectly escape the regulatory framework for taxation and other governmental procedures” (International Trade Centre, p.6).

Without reliable statistics, it is extremely difficult to estimate the magnitude of the ICBT. Nevertheless, anecdotal evidence in east Africa showed that the ICBT represented more than official trade statistics for certain food commodities such as fruits, vegetables, sugar and cereals (Figure 5).

Figure 5: Formal and Informal Trade by Food Commodity in East Africa (January–June 2011)



(source) reproduction of Figure 1.1, World Bank (2012, p.6)

2.4. Intensified policy attention to trade facilitation

As tariffs have significantly dropped through unilateral, bilateral, regional and multilateral initiatives, non-tariff barriers to trade are becoming more highlighted when facilitating international trade. Evidence has showed that 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). Trade facilitation has been repeatedly highlighted by a variety of high-level policy framework and other entities, including the G20 (2010, paras.44-45; 2011, para.18); the United Nations (2003, paras.32-37); the African Union (2012); the APEC (2011); the WTO; the World Economic Forum; and the World Bank.

Growing interest in Aid for Trade

The Aid for Trade (AfT) initiative mainly aims to achieve development goals through building trade capacity in the developing countries. The initiative has become more prominent on the policy-makers’ agenda. It was indicated that total donor commitment for Aid for Trade reached US\$45.3 billion in 2010, increased by 12% over the previous year (WTO, 2012c). The 2010 commitment is mainly consisted of economic infrastructure (59%), building productive capacity (37%), and trade policy (3%). The 2010 commitment to LDCs more than doubled to US\$ 13.7 billion over the 2002-2005 baseline, which accounted for around 30% of the total commitments.

The AfT is expected to continue growing despite financial challenges in many donor economies (WTO, 2011d). Trade facilitation is one of the key areas in the initiative, and Customs plays an important role when promoting trade facilitation. A number of trade facilitation programmes aiming at better border management and regulatory reforms have been executed, and are expected to be initiated in the coming years. Customs modernization is an important component of these programmes (World Bank 2011).

Technical assistance and capacity building (TA&CB) for the future WTO Agreement on Trade Facilitation Agreement

The future WTO Agreement on Trade Facilitation presumes technical assistance and capacity building (TA&CB) activities for developing WTO Members that lack the capacity to implement the Agreement (WTO, 2012d). In order to implement the Agreement, considerable needs of TA&CB will be requested from the developing countries. As the draft texts of the Agreement under negotiation are mostly compatible with the existing WCO instruments and tools including RKC, Customs inevitably constitute an important component the future TA&CB activities.

2.5. Emerging and evolving risks in 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. The Customs' role and responsibilities have broadened to encompass the execution of controls and other activities that serve a wider set of Government objectives. This section describes emerging and evolving risks in five key Customs enforcement areas, amongst others, namely: revenue; drugs enforcement; security; health, safety and intellectual property rights (IPRs); and environment, although they are interlinked.

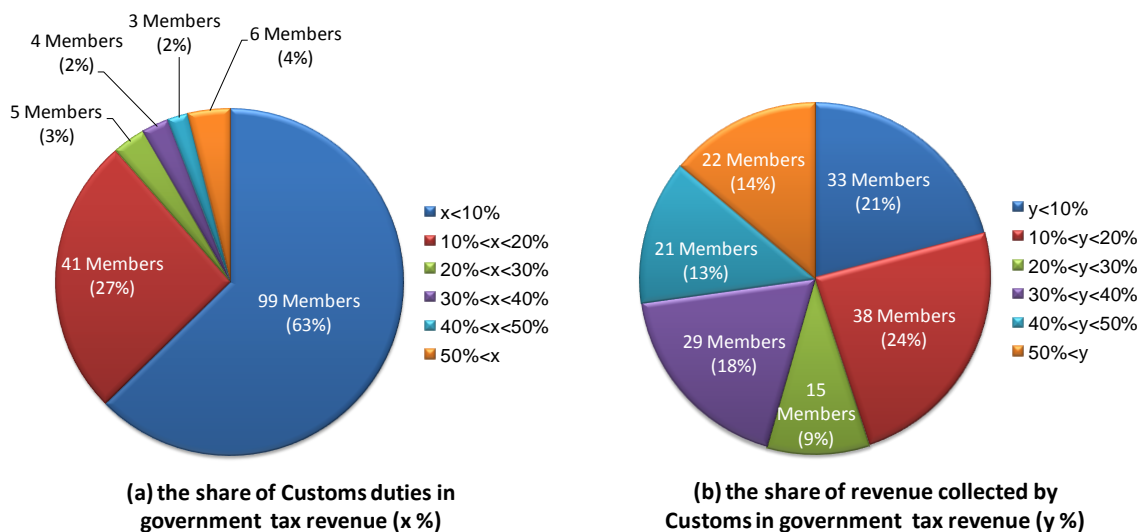
Revenue

Customs duties remain a significant source of government tax revenue in many countries, although its share declined as its tariff rates dropped through multilateral, regional, bilateral and unilateral initiatives. Thus, revenue loss caused by such behaviors as under-invoicing; smuggling; origin fraud; misclassification; transfer pricing; and informal trade, amongst others, significantly undermines national economic development and competitiveness.

The WCO (2012) collected the information on Customs' contribution to government tax revenue in 153 countries in 2011 or the most recent years available. It was found that Customs duties alone provided more than 10% of government tax revenue in 38% of the countries concerned (Figure 6a). 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,⁵ it was estimated that Customs collected more than 10% in terms of government tax revenue in at least 78% of the countries concerned, more than 20% in at least 53% of the countries concerned, and even more than 50% in at least 14% of the countries concerned (Figure 6b).

⁵ Customs duties is regarded as revenue collected by Customs if the latter is not available.

Figure 6: Customs contribution to government tax revenue
(Number and share of Members)



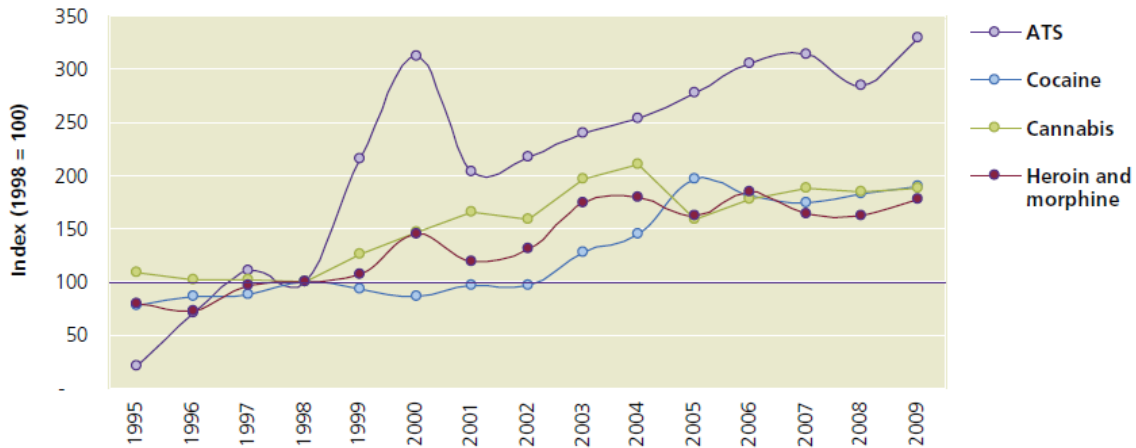
(note) Both Figure 6(a) and 6(b) are based on the figures of 153 Members.
(source) WCO Secretariat, based on the information in the WCO (2012)

Drug enforcement

The increase in illicit drug trafficking is of concern in the international community. It also poses a serious threat to the public health and safety as well as undermines economic development and international stability. There are many international instruments to fight illicit drug trafficking. Amongst others, the UN Conventions regarding the control of drugs provide the global legal framework, supported 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 May 2011, the Political Declaration of the Ministers responsible for the fight against illicit drug trafficking under the G8 framework affirmed their commitment to curbing the illicit drugs trafficking such as the transatlantic trafficking of cocaine (G8, 2011).

As a long term trend, the UNODC report (2011) indicated that seizures of main drug categories have increased during the last decade. From 1998 to 2009, seizures nearly doubled for cocaine, heroin, morphine, and cannabis, and more than tripled for Amphetamine-type stimulant (ATS) (Figure 7). Trafficking flows vary according to the drug type. For instance, it is likely that international trafficking of cannabis herb is relatively small comparing to its consumption in the production countries, and considerable amounts of cocaine and heroin are trafficked across borders and regions on the other hand. Most Amphetamine-type stimulants (ATS) appear manufactured in the country or region of its consumption, while their precursor chemicals are trafficked internationally.

Figure 7: Trends in seizures of main drug categories (index: 1998 = 100)



(Source) reproduction of Fig.5, UNODC (2011, p.22)

Security

The issue of security of global trade and international supply chain has attracted considerable attention in the international community in light of increasing threats of international terrorism after the 9/11 attacks in 2001. Amongst others, an attempt to use air cargo as a delivery mechanism for explosive devices in 2010 renewed the concerted efforts of the international community, including the WCO, IATA, and ICAO, to secure the international supply chain.

While making continuous and concerted efforts to prevent terrorists or organized criminal groups from making use of international cargo to carry weapons of mass effect (WME)⁶, the international community has also focused on illicit cross-border movements of goods for producing the WME, and resilience of the supply chain or trade recovery when terrorist attacks, natural disasters, or other incidents take place. The increase of these incidents negatively impacts trade and requires the accelerated importation of humanitarian goods.

The United States has recently concluded a number of joint statements on global supply chain security with its trading partners including the EU, Japan, New Zealand, and Singapore.⁷ The respective statement reaffirmed shared commitment to enhance the security and resilience of the supply chain by preventing the unlawful transport of dangerous and illicit material and protecting critical elements of the supply chain system from attacks and disruptions while facilitating and expediting the flow of legitimate international trade through a multilayered risk-based approach to security.

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. For example, 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, taking a note that several countries has passed export control laws to regulate nuclear transfers.

⁶ Weapons of Mass Effect (WME) include nuclear, chemical, biological, and radiological weapons, as well as high quantities of explosives.

⁷ See a series of press release of DHS, available at: www.dhs.gov.

It is widely recognized that a certain type of counterfeit and pirated goods undermines the health and safety of citizens. Counterfeits in medicines, tobacco, and batteries are some of the examples. The WCO report (2011d) confirmed upward trends of seizure cases in particular for goods transported by express cargoes and postal items. This trend was confirmed by national seizure reports of several countries, including the EU (European Commission, 2011), Japan (Japan Customs, 2012), and the United States (U.S. CBP and U.S. ICE, 2012). There is another trend that a number of RTAs and plurilateral agreements provide border measures on the goods infringing IPRs beyond the WTO TRIPS Agreement. For example, the Anti-Counterfeiting Trade Agreement (ACTA), which was signed in 2011, requires its Members to adopt or maintain procedures with respect to exported goods, amongst others.⁸

Environment

The effective control of cross-border movement of environmentally-sensitive goods is a key component of environmental protection and natural resources conservation worldwide (WCO, 2009). Many of the goods are controlled under multilateral environmental agreements, including: the Convention on Trade in Endangered Species of Wild Fauna and Flora; 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.

Moreover, a number of efforts to combat environmental crimes are underway. For example, the EU has concluded Voluntary Partnership Agreements with four timber-producing and exporting countries as of May 2012 in order to control cross-border movement of illegal logged timber, and is in negotiations with several others.⁹ Once they enter into force, licences, which are issued by the authority in exporting members to prove that the timber is legally logged and exported, are needed for importation in the EU.

3. Potential impact on the Customs community

World merchandise trade generally recovered following the global financial crisis, although it grew slower than the long-term average. Nevertheless, it expanded more rapidly than world production and recorded the highest level in value term. It is also expected to grow in the future. This infers that ***Customs is required to process more transactions with the same or less resources especially in times of fiscal austerity.***

World merchandise trade has changed its patterns in recent decades. The share of developing countries in world merchandise trade has increased. At the same time, global production specialization has advanced particularly in manufactured goods. The share of intermediate goods as a percentage of total global merchandise exports has greatly increased. ***The shift in trade patterns impacts the types of transactions processed by Customs.***

The international supply chain requires goods to cross borders promptly and predictably. Unnecessary delays at borders increase trade costs, erode the competitiveness of traders, and damage the international supply chain. In addition, the rise in the express cargo industry requires swift release of time-sensitive goods at borders. The needs of modern international business models exert pressure on ***Customs to process goods effectively and efficiently and to minimize delays at borders.***

⁸ See the text of ACTA at www.mofa.go.jp/policy/economy/i_property/pdfs/acta1105_en.pdf.

⁹ See more details at <http://ec.europa.eu/environment/forests/flegt.htm>.

The international community has increasingly focused on the resilience of the supply chain after terrorist attacks, natural disasters, or other incidents. **Customs needs to prepare in such cases in order to better facilitate the movement of humanitarian goods by all transport modes and through better coordinated management with other government agencies.**

With new border rules and measures, world merchandise trade is more complicated than in the past. A number of trade measures were recently introduced under the WTO/GATT rules. New RTAs and EPZs add further complexity to goods in terms of the geographic characteristics of international trade. Growing concerns regarding key Customs enforcement areas, such as drug enforcement; security; health, safety and IPRs; and the environment also resulted in new border rules and measures not only at importing countries but also at exporting countries. Once the WTO DDA negotiations are concluded, there are a number of areas that may impact Customs, including trade facilitation. Thus, **Customs in importing and exporting countries increase their workload in order to implement new rules and measures at borders.**

Trade facilitation has been repeatedly highlighted by a variety of high-level policy entities. A number of trade facilitation programmes are operating, or are expected to be initiated in the coming years, and Customs modernization is an important component of these programmes. Capacity building activities for Customs modernization are expected to increase within the framework of the Aid for Trade initiative and the future WTO Agreement on Trade Facilitation, amongst others. **Customs is required to be involved in more technical assistance and capacity building on trade facilitation.**

Domestic resource mobilization is a significant priority in many developing countries, and thus there is new pressure on states to ensure revenues are collected in a fair and effective manner. Revenue loss significantly undermines national economic development and competitiveness. A comprehensive and innovative approach is necessary when trying to formalize the ICBT by raising compliance with border requirements. Transfer pricing is another issue for fair and effective revenue collection. As being a major contributor to government tax revenue in many countries, **Customs is required to collect revenue in a fair and effective manner.**

Last but not least, detailed and comprehensive trade data is needed when analyzing global and regional trends and patterns of illicit trade, including dangerous goods and goods related to environmental crimes. In addition, current trade statistics collected by Customs at borders fail to meet the demand when measuring values added to the goods, and capturing figures related to ICBT and intra-firm trade in most countries. **Customs needs to revisit how best to capture trade data to meet demands in the international community.**

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CUSTOMS IN THE 21ST CENTURY

*Enhancing Growth and Development
through Trade Facilitation and Border Security*

June 2008

INTRODUCTION

1. During the 50th Anniversary of the World Customs Organization, in 2002, the leaders of national Customs administrations reflected on the main issues impacting on the effective and efficient functioning of Customs in the future. In the first 8 years of the 21st Century, Customs has been faced with considerable and at times contradictory demands arising from the globalization of trade. On the one hand, there is a need for effective security and control of international supply chains while on the other hand, there are increasing demands for greater facilitation of legitimate trade.
2. The leaders of the world's Customs administrations recognize their responsibilities to develop a new strategic perspective and policies that will shape the role of Customs in the 21st Century. A blueprint for the management of trade and borders and the role of Customs should embody ambitious aspirations and yet be balanced by pragmatism. The challenges are many: the globalization of business and trade; development and poverty reduction; complex new governance rules; international terrorism; environmental protection; and the increase in trans-national threats. Equally, the opportunities for bold, proactive and innovative responses are just as numerous: a global Customs network; better management of borders; a strategic framework with globally beneficial objectives; a deepening Customs understanding of supply chains and their management; leveraging new technology; and the strengthening of Customs partnerships not only with trade but also with other border, law enforcement and other relevant government agencies.
3. Taking advantage of these opportunities will enable Customs to protect the fiscal and financial interests of the state, to protect national economies from illicit movement of goods, to support the international trading system by creating level playing fields for business, to enhance national competitiveness, to facilitate legitimate trade, and to protect society.
4. The benefits of an adaptable, strategically focused Customs administration are immense and include reduced compliance costs for legitimate traders, more effective and efficient targeting of high-risk movements, and greater confidence and mutual recognition among Customs administrations of each other's programmes and controls.

FAST-CHANGING LANDSCAPE

5. International trade is a key driver for economic growth and development. It raises living standards in both developed and developing countries, contributes to the reduction of poverty as well as creates a more stable, secure and peaceful world. International trade is governed by the rules of the regional and multilateral trading systems, preferential trade arrangements and national governments. New developments are driven by a combination of factors including fast-evolving information and communications technology (ICT), advances in transportation methods and trade liberalization.
6. The global trade landscape is complex, fluid and highly sensitive to external drivers. These include:
 - (a) ***Increased volumes and complexities of international trade:*** International trade has increased annually by 8 % from 2002 to 2006. At the same time, there has been a proliferation of regional trade agreements and accompanying complex preferential rules of origin;

- (b) ***New business models and requirements:*** Just-in-time distribution, low inventory retention and multi-modal transport are resulting in innovative methods of moving goods across borders and increase pressures on supply chains. Business also demands protection from unfair international trading practices such as the smuggling of goods, under-invoicing, origin fraud, tariff misclassification and IPR infringements;
- (c) ***Increased security threats and organized crime:*** International trade supply chains are vulnerable to exploitation by terrorist groups. A disruption of supply chains by terrorists could bring international trade to a standstill. Organized crime syndicates operate through fluid networks and engage in illegal activities such as the evasion and avoidance of duties and taxes; cross-border fiscal fraud; the smuggling of drugs, dangerous, harmful and prohibited goods; money laundering; and trade in counterfeit goods;
- (d) ***A new approach to the "border":*** New measures are emerging for the end-to-end management of the movement of goods across borders such as the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade and other initiatives;
- (e) ***Demands from society:*** Society regards the smuggling of goods, especially that of prohibited and dangerous goods, such as weapons and narcotics, across borders as a serious threat. Society expects Customs to ensure that goods meet certain quality and safety standards. Society is also concerned with threats to public health, its fauna and flora, as well as the environment;
- (f) ***New trading patterns:*** Approximately 50 % of world trade takes place between connected parties; and
- (g) ***Increase in revenue fraud:*** There is an increase in threats related to duty and tax evasion and avoidance.

CHALLENGES FOR GOVERNMENTS

"The central challenge that states face is to ensure that globalization becomes a positive force for all the world's people"¹⁰

7. Recent developments have created new demands and perspectives on the role of the modern state. They have also resulted in a recognition of the collective responsibility of states to build a more peaceful, prosperous and just world, as nations and societies become increasingly interconnected and interdependent. Global challenges transcend borders and demand global responses. In addition to cooperation at a global level, states are also increasing cooperation at regional level by establishing and developing Customs unions, free trade areas (FTAs) and economic partnership agreements (EPAs).
8. The strategic drivers and new trans-national and national challenges have increased the demands on, and the responsibilities of, states in the 21st Century. According to the UN, globalization does not reduce but rather redefines the role of the state and the necessary state responses at the national, regional and international levels. Some of the key responsibilities of states include:

¹⁰ UN Millennium Declaration.

- (a) **Promoting socio-economic development:** Ensuring the proper management of social and economic development by developing and implementing appropriate socio-economic policies;
 - (b) **Creating the conditions for economic growth:** Ensuring a level playing field and nurturing an efficient international trading system, which is critical to economic growth and the collection of state revenues;
 - (c) **Controlling borders:** Ensuring secure borders is one of the oldest functions of the state. Carrying out this responsibility in a very open world is more important and challenging than ever. States are recognizing that international trade and economic integration raise new global security challenges that have to be addressed internationally so that common solutions can be developed;
 - (d) **Providing security:** The concept of providing security, also one of the core functions of the state, has expanded from the traditional notion of military and political national security to also include national economic security; and
 - (e) **Protecting citizens:** Protecting citizens against threats such as contaminated food, unsafe toys and consumer products, fake medicines and other counterfeit products also provide new imperatives for Customs.
9. Governments require agencies of the state, including Customs, to be service-oriented and meet the expectations of societies and businesses. In other words, Customs administrations need to ensure the performance of their tasks, while listening to the expectations of their stakeholders.

21ST CENTURY CUSTOMS: A NEW DYNAMIC ROLE

10. The role of Customs is to control the movement of goods and thereby secure the state's interests and safeguard revenue collection. The key aims have been to ensure compliance with state policies and laws applicable to the cross-border movement of goods, to combat smuggling, and to secure borders, whilst ensuring the facilitation of legitimate trade.
11. Although much of this role will remain the same, the responsibilities in relation to the international movement of goods have broadened, and will continue to broaden, from the traditional role of collecting duties and taxes on international trade in support of the fiscus, to include executing controls and other activities that serve a wider set of government objectives. The rationale for Customs performing an extended role derives from the following: the fact that goods crossing the border are subject to Customs supervision; the in-depth specialist skills that Customs have that are required to perform these roles; and from the general understanding and know-how of Customs with respect to international trade, supply chains and traders. Furthermore, Customs administrations not only administer trade but also possess the unique know-how and positioning to manage crises associated with the cross-border movement of goods.
12. The common globally accepted mission of Customs is to develop and implement an integrated set of policies and procedures that ensure increased safety and security, as well as effective trade facilitation and revenue collection. This is achieved through efficient and effective use of tools and information in dealing with the international movement of goods, conveyances and people connected with the goods.
13. The objectives that underpin the mission are:

- (a) Promoting certainty, predictability and security of the international movement of goods and people accompanying goods by establishing clear and precise standards;
- (b) Eliminating duplication and delays in international supply chains such as multiple reporting requirements and inspections;
- (c) Supporting the international trading system by creating level playing fields for business at global, regional and national levels;
- (d) Strengthening cooperation between Customs administrations as well as between Customs and business and Customs and other government agencies by creating meaningful and beneficial partnerships; and
- (e) Providing Customs administrations with the capacity to promote regulatory compliance in a manner that facilitates legitimate trade.

14. Globalization and the other strategic drivers necessitate a new approach to managing the movement of goods through international trade supply chains and across borders. This requires the development of a New Strategic Direction for Customs. The building blocks for the New Strategic Direction are:

- (a) **Globally networked Customs:** The new challenges of the 21st Century demand a new concept of Customs-to-Customs cooperation. There is a need for closer real-time collaboration between Customs administrations and between Customs and business in facilitating legitimate trade and undertaking Customs controls. The new requirement is to create, in partnership between the various stakeholders of the public and the private sectors, a global Customs network in support of the international trading system. The vision of this network implies the creation of an international “e-Customs” network that will ensure seamless, real-time and paperless flows of information and connectivity.

Mutual recognition is an important enabler. This includes mutual recognition of Customs controls and Authorized Economic Operator (AEO) programmes. The concept of networked Customs is critical for the 21st Century model of managing seamless end-to-end international supply chains. End-to-end supply chain management enables risks to be assessed in more depth and managed earlier where necessary, it reduces the need to intervene with goods in the choke point of the port of arrival, and it allows for the tracking and tracing of goods throughout supply chains. The basic operation relies on secure, real-time exchange of information between business and Customs and between the Customs administrations in a supply chain starting with the export administration. This will require:

- (i) Internationally standardized data requirements for export, transit and import and the implementation of the WCO Unique Consignment Reference number as part of a Cross-Border Data Reference Model;
- (ii) Interconnected systems and aligned Customs databases to enable the electronic exchange of data between Customs administrations as early as possible in the international movement of goods;
- (iii) Mutual recognition and coordination protocols between exporting, transit and importing administrations to eliminate unnecessary duplication of controls in international supply chains;

- (iv) Standards to enable the development of a system of mutual recognition for AEOs; and
 - (v) A set of rules governing the exchange of information between Customs administrations, including rules on data protection.
- (b) **Better coordinated border management:** This entails coordination and cooperation among all the relevant authorities and agencies involved in border security and regulatory requirements that apply to passengers, goods and conveyances that are moved across borders. Governments also need to explore more effective solutions to border management. The establishment of better coordinated border management for the cross-border movement of goods requires:
- (i) The recognition of Customs or the agency responsible for the Customs function as the lead front-line administration at national borders for controlling the movement of goods. According to the UN Trade Facilitation Network, Customs administrations are usually best suited to develop integrated procedures for processing goods at points of entry; and
 - (ii) The introduction of the electronic Single Window concept that allows a trader to provide all necessary information and documentation once to the designated agency that, in turn, distributes the information to all relevant agencies.
- (c) **Intelligence-driven risk management:** The expanding responsibilities and opportunities facing Customs administrations require a more sophisticated understanding of the risk continuum. It is well understood that scarce resources need to be targeted to the higher end of the risk continuum. The challenges facing Customs administrations are two-fold: how best to apply the rapidly expanding body of knowledge of risk management to identify and mitigate risk at the operational level, and how to apply this knowledge of risk management beyond the operational level and in the management of Customs administrations. The key to this will be the building of feedback learning loops that will allow Customs administrations to integrate risk-related activities and to learn from past decisions to enable them to build an organization that is forward-looking, with more sophisticated predictive capacity, rather than being merely responsive.
- (d) **Customs-Trade partnership:** Customs in the 21st Century should enter into strategic pacts with trusted economic operators. Customs needs to understand the concerns of business, while business needs to know the requirements of Customs. Most importantly, there is a need to translate this relationship into a partnership that results in mutually beneficial outcomes.
- (e) **Implementation of modern working methods, procedures and techniques:** Demands regarding the rapid movement of goods, combined with complex regulatory requirements, require modern innovative approaches. These include audit-based controls undertaken away from the border, moving from transaction-based controls alone to using systems-based controls where the level of risk allows, as well as moving away from paper-based systems. There is also a need to review existing procedures on the basis of international conventions (including the WCO Revised Kyoto Convention) and international best practice.

- (f) **Enabling technology and tools:** Customs must take advantage of new and emerging technologies to enhance, amongst others, processing, risk management, intelligence and non-intrusive detection.
- (g) **Enabling powers:** In order to address these challenges, Customs administrations require appropriate legislative provisions that strengthen enforcement powers, the provision of advance information and the sharing of information domestically and internationally. These powers are necessary, in particular, in order to combat organized crime more effectively. More needs to be done to increase the safety of Customs officers.
- (h) **A professional, knowledge-based service culture:** The future orientation of Customs requires moving towards a knowledge-based and customer-orientated model. Staff competencies need to support timely customer-focused processes and services that minimize the administrative burden on legitimate trade. Training and organizational culture should support high levels of integrity, demonstrating consistency, transparency, honesty and fairness. Effective change management and leadership skills also need to be developed.
- (i) **Capacity building:** Customs administrations need to ensure that they have the capacity and skills across all dimensions of the operating model to perform all Customs functions most efficiently and effectively. It also goes without saying that the concept of “Networked Customs” relies on professional and competent Customs administrations, and that intensified and focused capacity building efforts are required to achieve this objective. The Columbus Programme of the WCO is an ambitious international effort to build Customs capacity. Some of the challenges that need to be addressed include how to manage scarce resources to deliver sustainable capacity building, how to promote effective performance criteria, monitoring and follow-up, how to avoid duplication of efforts and how to manage impediments in the recipient country. Leadership from both developed and developing-country Customs administrations as well as a true partnership are critical to ensure sustainable capacity building.
- (j) **Integrity:** The fight against corruption remains an important task that should be undertaken over the years to come. The WCO Arusha Declaration will remain the reference document for all Customs administrations. All the efforts of the Columbus Programme could be undermined and even eliminated without integrity.

FUTURE ROLE OF THE WCO

15. The WCO is an inter-governmental organization representing its Members at global level. In order to address the challenges facing Customs, the WCO needs a new supportive strategy that includes:
 - (a) Strengthening the value proposition offered by Customs to support the international trading system, facilitate international trade and enhance safety and security at the border by:
 - (i) Developing an improved understanding of the challenges confronting Customs and formulating options to address these challenges;
 - (ii) Creating awareness amongst stakeholders of the new role and responsibilities of Customs; and

- (iii) Developing and maintaining standards and instruments that are responsive to the needs of WCO Members;
- (b) Representing the Customs community's point of view at global level and strengthening relationships with other international organizations by establishing and maintaining high-level and technical relationships with relevant international organizations (e.g. the WTO, UN and specialized agencies, IMO, the World Bank and the IMF) to promote Customs and the role of the WCO;
- (c) Providing sustainable Customs capabilities through capacity building:
 - (i) Developing a clear line of sight between the global Customs mission and implementation at national level; and
 - (ii) Developing efficient, effective and responsive Customs administrations that can execute a wide variety of border and supply chain controls; and
- (d) Repositioning the WCO Secretariat to support its Members by:
 - (i) Building a policy, research and strategy capacity that identifies and disseminates high quality analysis of global trends and developments;
 - (ii) Supporting existing and introducing new mechanisms for good governance and accountability, including governance in relation to regional structures;
 - (iii) Promoting implementation of WCO instruments by monitoring implementation and compliance by Members and developing a better understanding of implementation challenges; and
 - (iv) Reviewing revenue options to sustain WCO operations.

CONCLUSION

16. The fast-changing global environment demands that governments and Customs leaders respond to these changes. The challenges are formidable and it is imperative for the international trading system that they are addressed.
17. This visionary statement by global Customs leaders is aimed at meeting the requirements of governments, citizens and other stakeholders. The New Strategic Direction for Customs in the 21st Century foresees Customs administrations playing a new and dynamic role in providing their governments with a unique set of capabilities to achieve their respective programmes. For decades to come, Customs will remain a vital force for security and the enhancement of the economic well-being of nations. The WCO has already created an important platform through the adoption of the SAFE Framework of Standards and a range of international instruments for sharing information, increasing standardization of the regulatory requirements of managing international trade, strengthening risk management and detecting fraud and other threats. There is a need to build on this by developing further standards for combating counterfeiting and other forms of illicit activity.

18. An indispensable pillar of any global ambition will always be the development of the capacity of developing states and societies. The WCO has developed the most comprehensive programme to date for sustainable capacity building of Customs administrations world-wide. It epitomizes sincere partnership and must reflect the inextricable link between developed and developing countries and their economies. This partnership is based on a new understanding of global interdependence and must foster a spirit of solidarity, mutual help and respect and active cooperation.

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LIST OF MAJOR WCO INSTRUMENTS

The following four major instruments set the principles for modern Customs. The implementation of the principles in these four instruments is assisted by numerous supporting tools, including other conventions, strategies, guidelines, best practices, communication tools and capacity building programmes. These major instruments - together with the supporting tools - help Customs improve its revenue collection, economic competitiveness, enforcement capabilities and organizational development :

1. Revised Kyoto Convention (International Convention on Harmonization and Simplification of Customs Procedures), entered into force in 2006

Content : This Convention incorporates the principles of modern Customs procedures, based on risk management and the use of technology.

Value Added : Improvement of economic competitiveness and promotion of trade and investment.

Requirement for Members : Ratification of Convention and accession; review of Customs legislation and implementation.

2. SAFE Framework of Standards to Secure and Facilitate Global Trade, adopted in 2005

Content : This set of standards enhances security and facilitation of the global supply chain, based on Customs-to-Customs network arrangements and Customs-Business partnership.

Value Added : Better border management to combat risks of terrorism and organized crime.

Requirement for Members : Declaration of intention to implement, followed by gradual implementation.

3. HS Convention (International Convention on the Harmonized Commodity Description and Coding System), entered into force in 1988 with the latest 2012 amended version now in force

Content : This Convention harmonizes the description of commodities with a coding system for tariff classification.

Value Added : Integration of national economies into the global trading system with collection of tariffs, implementation of border measures and provision of trade statistics.

Requirement for Members : Ratification of Convention and accession; implementation of the most up-to-date version arising out of the latest five-year Review cycle.

4. Revised Arusha Declaration (Declaration concerning good governance and integrity in Customs), adopted in 2003

Content : This Declaration contains principles for improving integrity and combating corruption in the Customs context; recommending moderate regulation to avoid creating incentives for fraud; simplification of procedures to eliminate any unnecessary interface between Customs and trade; and development of human resources in Customs.

Value Added : Good governance.

Requirement for Members : Political will to implement the recommendations contained in the Arusha Declaration.

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This list will be supplemented by the addition of the following instruments once fully developed and endorsed by the Council :

- Revenue Package
- Economic Competitiveness Package
- Enforcement Package
- Organizational Development Package
