

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”¹

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:
 - (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.

¹ UN Millennium Declaration.

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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