

SECTION 2 - IMPLEMENTATION OF WCO STANDARDS

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**THE GENERAL CONCEPTUAL APPROACH
IN DEVELOPMENT SYSTEM
OF RISK MANAGEMENT EURASEC' CUSTOMS**

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Abstract

The article considers the evolution of management approaches in the field of Customs. The stages of development of risk management system for Customs control in the international sphere have been systemized.

Keywords: risk management, functional, structural, organizational, process, system, subject-oriented and synergistic approaches, the current trends in improving Customs operations.

Introduction

The present stage of development of world economy is characterized by the process of integration and internalization of world economy, which leads to the creation of an integrated global system of regulation of foreign trade, for example, among the countries of the Eurasian Economic Community (further – EurAsEC), such as Russia, Kazakhstan and Belarus. The international economic relations have reached a new qualitative level including a trade liberalization, elimination of trade barriers, ensuring free movement of goods, the competition in the sphere of foreign investments. It is impossible to solve such an ambitious task without modernization of Customs services, creation of new methods and ways of Customs regulation matching to modern requirements.

Nowadays one of the key purposes of the World Customs Organization (further – WCO) is a creation of a system of simplification and facilitation of Customs clearance and decrease in Customs risks. The new system assumes a creation of frame standards of trade safety and facilitation and a uniform information platform. Also this system allows Customs administrations to work more effectively, organize expeditious control and monitoring, reduce time needed for

Customs clearance. As a result this system should provide transition of the world trade on more qualitative level.¹ The new system of risk management as a unique tool of integrated-complete Customs control allows foundation on the new principles of supply chain safety and will become a completely new approach to interaction between Customs and business based on the state-private partnership and trust. Development and deployment of the integrated system of risk management within the Customs union of the countries of EurAsEC is one of the actual directions of development of a common economic space.

The risk management in Customs passed through certain stages in its development under conditions when one or another object of control, methodological supply and system's technology dominated. In table 1.1 the authors present the general stages of development of risk management system in Customs.

Stage 1. Risk management in conditions of full and detailed control (1960-1980). Until the 80s of XX century the specific of Customs work consisted in "practical" monitoring and "detailed" control of all goods supplies. The dominant functional approach to risk management expressed itself in consistent implementation of obligatory multistage Customs control with participation of structural units of Customs administrations.

Table 1.1. Basic matrix of development of risk management system in Customs

¹ World Customs Organization 2005, *WCO High Level Strategic Group Framework Of Standards to Secure and Facilitate Global Trade*, Geneva

| The name of stage | Period (years) | Dominants of control object | Methodological supply | System's technology |
|--|----------------|---|---|-------------------------------------|
| <i>Stage 1. Risk management in condition of full and detailed control</i> | 1960-1990 | Goods | Functional approach | “person-person” |
| <i>Stage 2. Risk management in condition of functional – selective control</i> | 1991-2000 | Goods, vehicles | Functional and structural-organizational approach | “person-person”, “person-machine” |
| <i>Stage 3. Risk management in condition of process –selective control</i> | 2001-2010 | Goods, vehicles, international supply chain, subject of foreign economic activity | Process, systematical and functional approach | “person-machine”, “person-person” |
| <i>Stage 4. System of risk management in condition of integral- operative control and monitoring</i> | 2011-2020 | International supply chain, subject of foreign economic activity | Subject- oriented, synergetic, system, process approaches | “machine-machine”, “machine-person” |

Step-by-step foreign Customs services of developed countries realized complexity and insufficient efficiency of carefully made inspections of each consignment within rapidly growing world commodity turnover. According to data of the World Trade Organization, in 1980 the world import accounted for 2 075 billion \$USA, in 1990 – 3 550 billion \$USA, in 2000 – 6 724 billion \$USA, in 2010 – 15 464 billion \$USA, in 2011 – 18 438 billion \$USA. From the contents of table 1.2 we can see that for each ten years volumes of trade within regions increased considerably.

Table 1.2. Dynamic of worldwide volumes of imported goods in 1970-2010 years within regions, mln \$USA

² United Nations, European economic commission, The Committee of national transport, *The international convention on coordination of monitoring procedure' conditions of freights on borders*, Geneva, October 21, 1982

| Region | 1970 | 1980 | 1990 | 2000 | 2010 |
|---------------------------|--------|---------|---------|---------|---------|
| Africa | 14700 | 97500 | 99600 | 129700 | 468200 |
| Asia | 46500 | 351600 | 761500 | 1678700 | 4860800 |
| Europe | 173330 | 1012490 | 1750925 | 2774855 | 5871350 |
| Middle East | 7800 | 101600 | 101300 | 167400 | 580700 |
| North America | 59300 | 342025 | 684460 | 1684340 | 2683075 |
| South and Central America | 16000 | 101300 | 85900 | 207400 | 584600 |

Source: the statistical dates of World Trade Organization, <http://stat.wto.org/StatisticalProgram/>

Nonflexible, cumbersome Customs procedures had a strong negative impact on the competitiveness of businesses. For the first time Customs authorities have become responsible not only for implementation of trade regulation, but they have been regarded as assurers of the competitiveness of businesses. An extraordinary increase of the international streams of goods, services and capital has resulted in the reforms and modernizations of the principles and rules of Customs clearance and control.

Despite the dominance of the technology of “person-person” system, gradually Customs administrations began to be associated as a system of interconnected elements. The resolving of tasks connected with raising the interaction efficiency was accompanied by the development and introduction in the early seventies the first specialized automated systems of processing freights, as future technological “person-machine” system.

For the first time the necessity of freights’ clearance facilitation was legally enshrined in the International Convention on the harmonization of frontier controls of goods (1982), which objective was "simplifying formalities and reducing the number and duration of border controls to facilitate and improve the international movement of goods."²

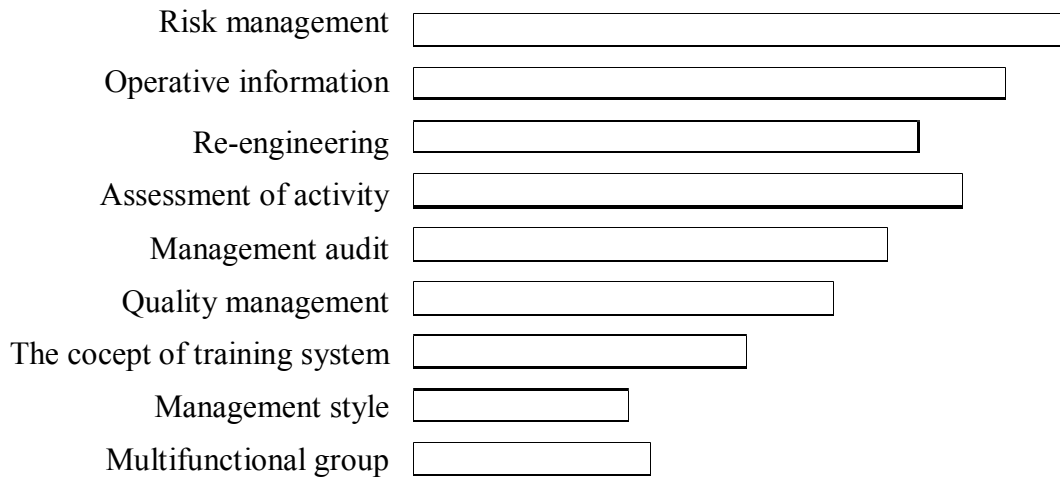
In the early eighties of XX century databases containing information, which began to be actively used, started to form and constantly update. Under these circumstances all the attention when selecting an object of Customs control was paid exclusively to *goods*. Initially preliminary information about operations of the entities engaged in foreign economic activities had no fundamental significance.

Stage 2. Risk management in conditions of functional–selective control (1991-2000). In that period the methodology of risk management was based on functional and structural-organizational approaches. There was a development of national methods of random inspections on the basis of selective inspections or the determination of percentage of examinations providing acceptable capacity. Within this approach the contents of risk management was defined.

The structural-organizational approach became evident in the process of aggregation of Customs control concerning the object of control – a vehicle. For example, during that period in Russia there occurred the organizational units of Customs authorities attached in their activity to

³ Asian Development Bank 2002, *Model of Customs data of World Customs Organization: impact on an initiative of data exchange of the Regional program on simplification of trade and customs cooperation*

the specific means of transport – sea Customs units (sea and river transport), automobile check points (auto transport), Customs units controlling air transport, Customs units controlling power



transportation (pipeline transport and lines of power transfers), etc.

The variety of decisions during Customs clearance and control has caused the appearance of the concept of multichannel system of making decision which has been functioning since 1997. During the 90s foreign Customs administrations gradually tended to introduce certain fragments of risk management in their methods of implementation of this process. For example, by the means of development of high-tech Customs procedures of "risk assessment" in the field of control over passenger flows a joint project of Customs administrations concerning a common electronic communication structure based on UN/ EDIFACT-standard (electronic data exchange between Customs, trade and transport) has been developing since 1996, which allows each of these administrations to have parallel information on imports and exports operations between themselves. During that period a system of agreements between Customs administrations based on information technology was evolving. The uniform electronic data format entailed standardization of the data contents, and hence favorable for participants of the foreign trade activity simplification of requirements to them. As a result, during 1991-2000 the Customs Data Model of the World Customs Organization was created.³

The Customs administration's principles of operation on the basis of risk management established by the end of the 90s in a crystallized form were enshrined in the Revised Kyoto Convention of 1999. The priority purpose was determined as a satisfaction of demands of both participants of international trade and Customs administrations for simplification and harmonization of Customs rules. Since that period the uniform system of management technologies on the basis of Customs risk management has gradually begun to develop (fig. 1).

Special documents such as a Guide to risk analysis and customs controls of the European Union, Standardized Framework for risk management in the Customs administrations of the European Union, Risk Management Compendium of the World Customs Organization etc. were created. The technology of "person-machine" system, i.e. automated information systems of

⁴ World Customs Organization 2005, *WCO High Level Strategic Group Framework Of Standards to Secure and Facilitate Global Trade*, Geneva

Customs activity occurred as a result.

Figure 1: Priority tendencies of improvement of Customs activity of the World Customs Organization (2000)

The following positive results of risk management's application were specified by the World Customs Organization: the better usage of resources or potentials under the conditions of their limited number; the aiming of resources at high risk areas; strengthening of facilitation of trade, flows of goods and investments into the country.

Stage 3. Risk management in conditions of process-selective control (2001-2010). The refusal from complete (careful) control and transition to the principle of a selective Customs control could inevitably give rise to Customs offences. Therefore the new methodology is designed on the basis of process control with regard to risk management system: preliminary control (preliminary informing, preliminary decisions); main Customs control; control after the release of goods (Customs post-audit). Though the functional approach remains useful in risk management system, but gradually concedes to process approach to Customs control on the basis of the new information and technological systems (AIST-RT-21, AIST-M, KASTO-AIST, etc.), i.e. "person machine" systems.

In 2005 the World Customs Organization (further – WCO) adopted its major document, a kind of "a set of Customs conventions", titled "the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade" (further – "WCO Framework of Standards"). These standards allow to increase safety of the international supply chains and to render assistance to trade.⁴ There can be seen a new dominance in determining the object of Customs control – *an international supply chain* as well as subjects of the international supply chain. It became clear that without emergence of new technological "machine-machine" system to cope with multiparameter data of the international supply chain management in Customs even through the usage of a risk management system is impossible.

During that period Customs administrations established and supported the official relations

of consulting character with participants of foreign trade with the purpose of the development of cooperation and assistance to their participation in introduction of the most effective methods of work compliant with the national legislation and international agreements. On the other hand, occurrence of such an approach was caused directly by the principles of risk management in dealing with the international trade.

The application of the criteria based on past experience, case studies and statistical results of inspections no longer seemed a sufficiently effective approach. Instead of usual exchange of information about committed violations, the new philosophy of management revealed necessity of development of a Customs-business cooperation. The western experts in the sphere of Customs management came to a conclusion that the approach based on state-business partnership, including on the voluntary admission of Customs administrations to the commercial information of trade enterprises, as well as the emergence of the new status of participants of foreign trade activities such as "Authorized Economic Operator", to whom the part of functions of Customs authorities is transferred, is actually necessary. It will lead to fast and absolutely "transparent" Customs clearance of goods through application of the simplified procedures. Therefore, the companies that show a genuine willingness to improve the security of the supply chain have some advantages. As a result minimization of risks allows Customs administrations to effectively carry out the function of ensuring safety and simplification of legal trade.

Stage 4. Risk management system in conditions of integral-operative control and monitoring (2011-2020). Nowadays in the center of governments' attention of the majority of the countries of the world there are questions of increase of competitiveness of foreign trade (which includes such components as expenses, the speed of transactions and quality of import/export, safety of the supply chain as well as investments and efficiency of deliveries of foreign resources for the Russian companies or joint ventures). As a consequence, there is a need for a strategic streamlining of the process of improvement of the Customs surveillance on the basis of modernization of Customs procedures and Customs control following the new methodology of the risk management system where the subject- focused, synergetic, system-process approaches dominate.

During this period the *simplification* as a process of elimination of all excessive and duplicating elements in all the formalities and procedures will include the following instruments: reduction of a number of necessary documents; joint processing on the basis of the principles of integrative-operative control, "single window" and "one-stop-shop".

The principle of "single window" is connected with clearance of all documentation of foreign trade transactions and enables international (cross-border) traders to lodge standardized information and documents in electronic or paper form with a single entry point to fulfill all import, export, and transit-related regulatory requirements. The methodology of the World Trade Organization offers the following variants of "single window":

- a) a *uniform body*, a number of powers of other state departments exercising control over import/export are delegated to Customs authorities (for example, in Holland and Sweden);
- b) a *uniform system* integrating collection, processing and self-distribution of electronic information among the interested state departments (for example, in the USA);
- c) an *automated system*, within which foreign trade entities submit the electronic trade

⁵ World Customs Organization 2003, *WCO Risk Management Guide*, Geneva

declaration issued in one document for obtaining permission to make a transaction from various regulatory authorities. The entries approved by the government departments are sent to the electronic address of the sender of the declaration (for example, in Singapore).

The principle of "one-stop-shop" is connected with physical movement of vehicles in a border area and involves elimination of duplication of actions, i.e. decrease in number of stops when crossing borders by means of the combined actions of border authorities of two countries on one general point or one point on each of the directions (the combined means of service).

The World Trade Organization defines the following indicators of results of simplification of trade procedures:

1) *in the private sector*: reduction of expenses for processing of trade and Customs documentation; reduction of time for the validation of trade documents; reduction of number of the personnel necessary for processing the documents and fulfillment of Customs formalities; acceleration of Customs clearance; reduction of necessary resources of enterprises;

2) *in the public sector*: reduction of the staff of the departments involved in the processing of documents; rational placement of resources; preservation of former number of the employees who are engaged in regulation functions, even while increase in volumes of trade and goods flows; strict compliance with trade standards.

The key purpose of the world Customs system in the near-term perspective is an efficient *facilitation* of international trade involving, first of all, speeding Customs procedures along with ensuring effective realization of law-enforcement tasks. Therefore at first sight a paradoxical phrase "trade facilitation and control shouldn't oppose each other"⁵ is regarded as to be the only right and suitable for development and protection of economic welfare.

The key component here is an "*integrated-complex supply chain management*" category implying the following elements:

- obtaining preliminary information before the actual arrival of freight (from foreign trade entities);
- development of the system of information exchange between Customs administrations of different countries on the basis of the uniform standards of electronic document flow;
- cooperation with competent authorities;
- improvement of the computerized systems of electronic information processing; paperless Customs clearance;
- reduction of bureaucratic formalities ("single window" concept);
- definition of the strategy of control actions;
- target choice of control objects on the basis of application of a risk management system related to processing of all available freight information;
- using of modern control technologies (not intrusive examination, examination while shipping at the request of the importing country);
- shift of control from goods to foreign trade entities, introduction of post Customs clearance (Customs audit);
- introduction of simplified and accelerated procedures for authorized economic operators

⁶ The Customs code of the Customs union: the annex to the Contract on the Customs code of the Customs union (it is accepted by the Decision of Interstate Council of EurAsEC at the level of head states of November 27, 2009 No. 17) (an edition of 16.04.2010), *the Russian Federation Code 2010*, No. 50, Art. 6615

⁷ Strategy of development of Customs Service of Russia till 2020: It is approved as the order of the Government of the Russian Federation of December 28, 2012. № 2575-п

(having the status of the partner in safety maintenance).

One of the important innovations of the Customs administration of Russia during the forthcoming period is practical application of the Customs Data Model, which is a set of carefully combined data requirements necessary for the cross-border release and clearance at the border that allows information exchange between the automated systems of Customs administrations, participants of foreign trade activities and cross-border regulatory agencies of the members of the Customs union.⁶

Summary and concluding remarks

Thus, the wide usage of the "machine-machine" technological system involves full automation of processes of Customs control connected with decision-making on release of goods in an automatic mode without participation of any officials of Customs authorities. This tendency has to be accompanied by the application of such risk management software means as the analysis of information enabling an assessment and forecasting of risks of non-compliance with the Customs legislation; risk identification and assessment by the means of risk management tools; application of software tools for collection of information, identification of risks, introduction of a risk profiles database etc.

In the period up to 2020 it should be the further development of the risk management system in the light of the need to create a legal, methodological and information technology foundation of the unified risk management system of the Customs Union.⁷ The development of the dominant subject-oriented approach within a risk management system by categorizing the participants of foreign trade activities in order to implement the principle of selectivity during the Customs control will enhance the effectiveness of the risk management system as a whole.

Endnotes

1. World Customs Organization 2005, *WCO High Level Strategic Group Framework Of Standards to Secure and Facilitate Global Trade*, Geneva

2. United Nations, European economic commission, The Committee of national transport, *The international convention on coordination of monitoring procedure' conditions of freights on borders*, Geneva, October 21, 1982

3. Asian Development Bank 2002, *Model of Customs data of World Customs Organization: impact on an initiative of data exchange of the Regional program on simplification of trade and customs cooperation*

4. World Customs Organization 2005, *WCO High Level Strategic Group Framework Of Standards to Secure and Facilitate Global Trade*, Geneva

5. World Customs Organization 2003, *WCO Risk Management Guide*, Geneva

6. The Customs code of the Customs union: the annex to the Contract on the Customs code of the Customs union (it is accepted by the Decision of Interstate Council of EurAsEC at the level of head states of November 27, 2009 No. 17) (an edition of 16.04.2010), *the Russian Federation Code 2010*, No. 50, Art. 6615

7. Strategy of development of Customs Service of Russia till 2020: It is approved as the order of the Government of the Russian Federation of December 28, 2012. № 2575-p