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Rules of Origin Facilitator: a new tool to help MSMEs benefit from tariff preferences

THERE ARE CURRENTLY over 400 free trade agreements and preferential trade arrangements in place worldwide, which establish lower rates of Customs duties for certain goods provided that specified origin criteria are met. However, many companies ignore the fact that they can claim tariff preferences, or, if they do know that such schemes exist, they do not understand how to verify that the goods they buy or sell are eligible for preferential treatment.

As a result, many potential beneficiaries pay the tariff that applies to goods originating in countries that are not part of the agreement, losing the comparative advantage vis-à-vis their competitors, with many exporters losing business opportunities too. Micro-, small- and medium-sized enterprises (MSMEs) are especially impacted. According to a survey on non-tariff measures undertaken by the International Trade Centre (ITC) in over 60 countries, rules of origin and related certification requirements are among the most frequently cited trade obstacles by this category of companies.

About the tool

To make it easy for traders to navigate the complex landscape of trade agreements, the ITC and the WCO have developed an online tool called the "Rules of Origin Facilitator" (findrulesoforigin.org), which acts as a gateway to such agreements. The tool enables users to determine whether a specific product is covered by a preferential scheme and find the rules of origin that must be complied with in relation to a particular scheme.

Besides product-specific rules of origin, the tool also highlights provisions on origin certification, cumulation, the audit trail, shipment and invoicing, in addition to indicating which documentation is required (for example, a certificate of origin), and where to find information on national authorities' websites.

It currently covers more than 70 trade agreements applied by 85 countries as well as the non-preferential regimes of the European Union, the United States and Switzerland. The ITC is continuously increasing the tool's coverage – the objective being that it will eventually encompass all existing trade agreements.

Using the tool

The tool's homepage shows a search engine. Users must select a country, or several countries, of export and a country of import, and then search using the Harmonized System (HS) Customs classification code of the product of interest. If the user does not know the HS code of the product he wishes to sell or buy, he can enter the product name (shoes, for example) and the tool will display several classification possibilities. A link to the "product nomenclatures" search engine maintained on the ITC's Market Access Map also shows on the homepage.

The result page shows all available trade agreements corresponding to the selected parameters. The tool allows filtering between agreements already in force and those that are still to be implemented. It also allows the filtering out of agreements where detailed rules of origin are not yet available (i.e. agreements already in force but not yet covered by the tool).

When a trade agreement or a preferential trade arrangement exists between selected countries, the tool shows basic information, such as the difference between the preferential and the most favoured nation (MFN) duty rates as well as other information, such as the date of entry into force of the scheme and the parties involved.

Users can access further details on the agreements covered by the tool, including the exact wording of the rules of origin, the cumulation provisions and possible shipment requirements as well as information related to the origin certificate, such as the details of the issuing authority and the validity period.

As several exporting countries can be selected, the tool allows requirements across agreements to be compared. Information icons also appear next to each category of provisions, providing users with a definition of the terms used as well as examples of how they can be applied.

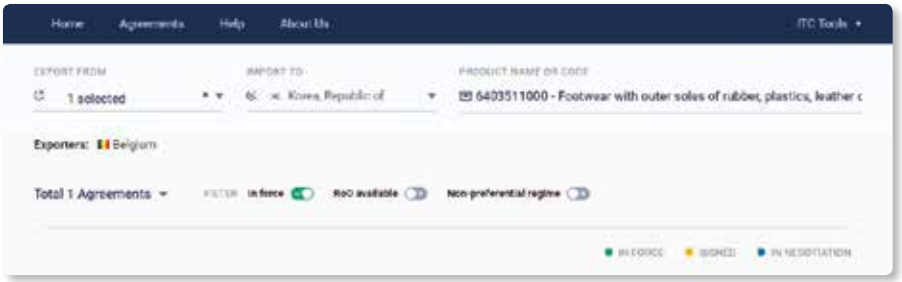
Multiple benefits

With this new tool, the WCO and the ITC hope to improve the transparency of trade rules and to facilitate the work of MSMEs. Ultimately, the tool is expected to contribute to a reduction in trade obstacles associated with rules of origin, and increasing utilization of preferences under trade agreements.

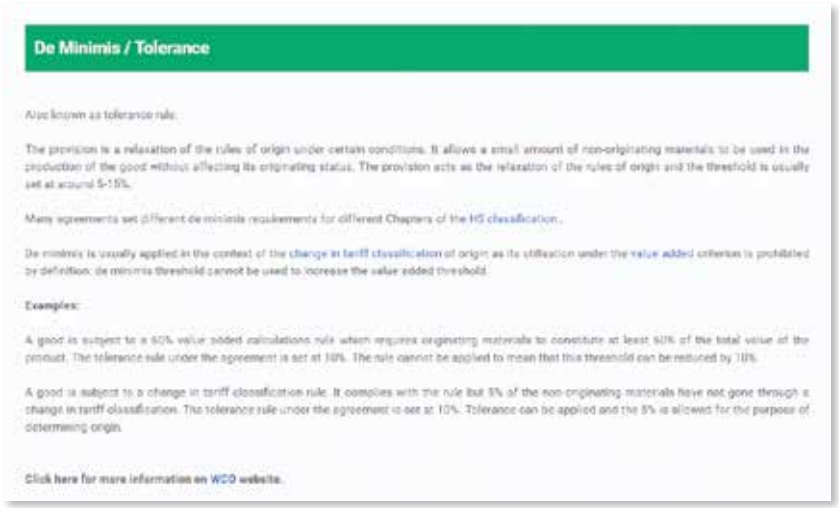
The tool is very easy to use. Try it and let us know what you think by using the tool's feedback function.

More information
http://findrulesoforigin.org

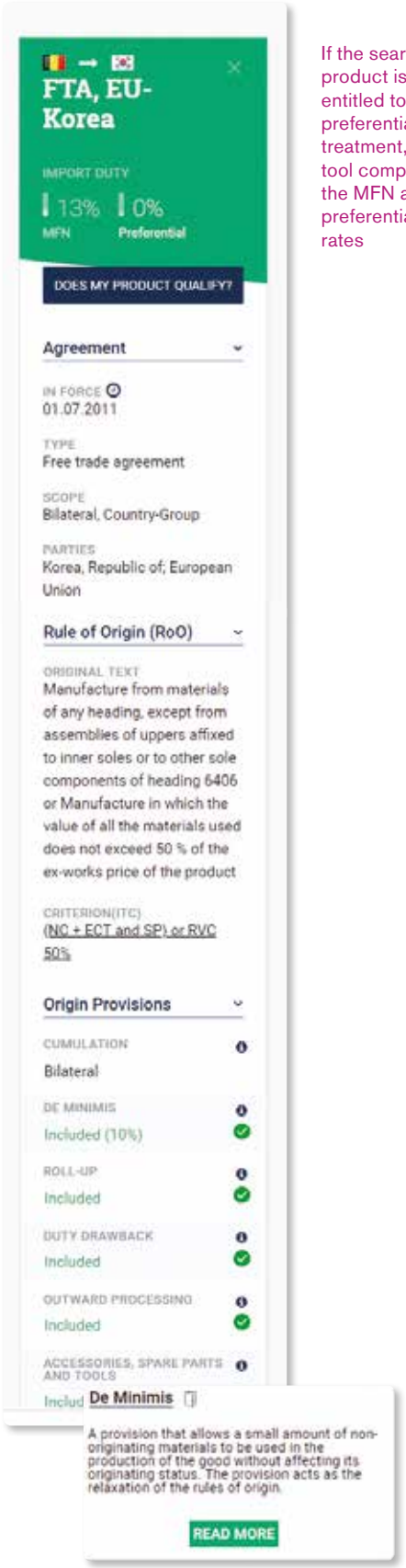
On the home page, a user selects the export country, destination market and HS product code or the product name



Filter buttons allow users to fine-tune results

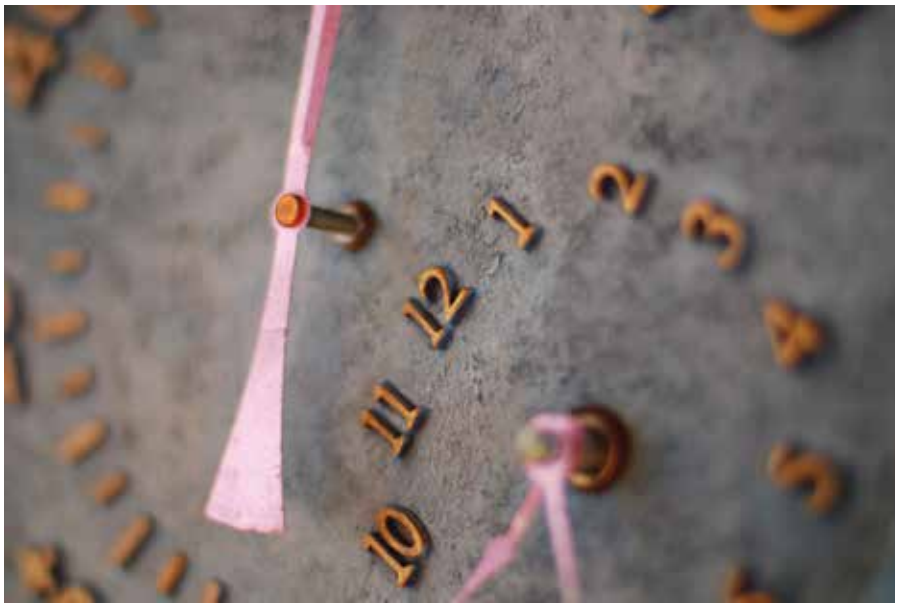


The tool contains a glossary, in case users are not familiar with origin related terms



If the searched product is entitled to preferential treatment, the tool compares the MFN and preferential duty rates

New version of the TRS Guide



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THE WCO HAS released a new edition of the "Guide to Measure the Time Required for the Release of Goods," known as the Time Release Study (TRS) Guide. An update of the TRS software and its User Manual will follow in the coming months.

The WCO Time Release Study is an internationally accepted strategic tool to measure the actual time taken for the release and/or clearance of goods – from the time of arrival until the physical release of cargo – as well as the effectiveness and efficiency of border procedures relating to imports, exports and transit movements of goods. It helps in identifying associated bottlenecks objectively, and in addressing them in an efficient and effective manner.

Article 7.6.1 of the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA) stipulates that "Members are encouraged to measure and publish their average release time of goods periodically and in a consistent manner, using tools such as, inter alia, the Time Release Study of the World Customs Organization."

Moreover, the TRS Guide is considered by the WCO, its development partners and the donor community to be a useful instrument when undertaking a comprehensive assessment of trade facilitation needs and priorities, as well as the periodic monitoring and measuring of the outcomes of the implementation of specific measures and associated policies and programmes.

The WCO Secretariat and Customs administrations worked in close consultation with other international organizations involved in cross-border policies in updating the latest edition of the TRS Guide, based on new and emerging strategic and business needs.

In Version 3 of the Guide, the WCO strongly advocates that Customs administrations conduct a TRS in a periodic manner, in close collaboration with other relevant government agencies and private sector stakeholders, with Customs being the lead agency in the planning, design, analysis, and further implementation of the TRS cycle.

Version 3, for the first time, provides detailed information on the use of a TRS in the implementation, monitoring and evaluation of the TFA provisions. It highlights the different key approaches to conducting a TRS and introduces a "simplified TRS," which focuses only on that part of the clearance process that directly relates to Customs, as well as other more complex forms of a TRS such as consecutive or simultaneous TRS's at identified border points, involving other relevant government agencies and stakeholders.

While the three phases of the TRS are maintained, namely (I) preparation of a study, (II) collection and recording of data and (III) analysis of data and the conclusion, Version 3 of the TRS Guide adds an additional phase, phase IV, which covers monitoring and evaluation. Phase IV lays the groundwork for countries to conclude and evaluate one TRS cycle before preparing to move to the next.

Additionally, the new TRS Guide introduces the concept of physical release, which is defined as the step in the clearance process when the goods are physically placed at the disposal of the importer or exporter or his/her legal representative for home consumption or export, or for any other Customs procedure. In the case of export or international transit, this is the stage when the goods are considered to have left the Customs territory.

Furthermore, this new version of the Guide provides detailed information on the use of modern technologies in the collection, collation and analysis of data in order to improve the TRS process (e.g., electronic processing systems, the Single Window, smartphones, RFID seals and GPS-enabled track and trace). The idea here is to leverage the growing use of information and communication technologies (ICT) by Customs, other government agencies and private sector stakeholders.

The new version also includes guidance on business process planning and proposes a method for conducting a joint TRS in a bilateral or multilateral context, as well as practical guidance on carrying out a TRS for performance measurement along specific regional trade corridors.

Finally, the Guide provides key principles and processes for conducting a TRS in the context of international transit, especially its use in specific trade corridors in respect of the movement/transit of consignments, as well as on the carrying out of a joint TRS at common border points involving neighbouring countries.

Thanks to inputs and suggestions provided by Members and stakeholders of the WCO, all processes and methods are supplemented by updated information on WCO Members' experiences and best practices, practical perspectives, lessons learned and innovative solutions employed in carrying out a TRS.

More information
facilitation@wcoomd.org

Historical background

The development of the TRS dates back to the early 1990s where Japan and the United States agreed on a methodology and jointly conducted a study. The first TRS was conducted in February 1991 in the wake of the discussions under the framework of the Japan-US Structural Impediment Initiative (SII), with a view to examining the existence of, and degree of bottlenecks against the smooth flow of goods in trade, and to stimulating efforts to improve the efficiency and effectiveness of border procedures*. The SII came about as a result of a large trade imbalance between the two countries in favour of Japan, which, despite many efforts, the United States and Japan had been unable to reduce.

Based on these countries' experiences, in 1994, the WCO developed a Handbook on TRS, focusing on Customs processes only, with the aim of providing a standardized method. The focus and methodology of the TRS were reviewed in 2001, leading to the development of the "Guide to Measure the Time Required for the Release of Goods." In 2005, a TRS software was jointly developed by the WCO and the World Bank. The software enables questionnaires to be created and then distributed to all survey participants and, once the responses have been collected and the data inputted, the automatic calculation of the average time, standard deviation and largest deviation in any pre-designed patterns for each step in the process of releasing goods.

*https://www.carecprogram.org/uploads/Day2-JPN-Customs-TRS-Experience.pdf

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Support for humanitarian aid: WCO successfully concludes the innovative C-RED project

BACK IN 2016, thanks to financial support provided by the Netherlands, the WCO launched a capacity building project entitled "Customs for Relief against Epidemic Diseases" (C-RED) aimed at providing support to six Customs administrations in West African countries affected by the Ebola virus disease (EVD) epidemic.

One of the main achievements of the C-RED project was that it allowed various stakeholders – including Customs services, other agencies involved in border management and humanitarian players – to sit down together at the same table and work on draft procedures, which factored in the rules followed by the various governmental departments and the constraints to which they were subject (*see the June 2018 edition of the magazine for a comprehensive overview of the project*).

The project ran for two and a half years and came to a close in early October, after a third and final sub-regional workshop attended by representatives of the beneficiary countries (Customs administrations, Ministries of Health, and national disaster response and coordination agencies).

All those present welcomed the work undertaken by the WCO in cooperation with the project's institutional partners, which included the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) and the Commission of the Economic Community of West African States (ECOWAS).

Although responsibility for the measures launched under the project has been handed over to the beneficiary countries and the ECOWAS Commission, the latter has called for continued support from the WCO.

The WCO would, therefore, welcome further partnership for a C-RED+ project, which would allow the implementation of broader-scale measures in three of the C-RED countries, as well as the inclusion of new countries at high risk of natural disasters or epidemics.

More information
capacity.building@wcoomd.org

Latest accessions to WCO instruments

Revised Kyoto Convention

Kiribati
Date of accession: 11 June 2018
114th Contracting Party

Vanuatu
Date of accession: 30 June 2018
115th Contracting Party

Istanbul Convention

Armenia
Date of accession: 3 July 2018
70th Contracting Party

Harmonized System Convention

Vanuatu
Date of accession: 28 March 2018
157th Contracting Party

More information
communication@wcoomd.org

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Council 2018

DIRECTORS GENERAL OF Customs gathered at WCO Headquarters from 28 to 30 June 2018 to endorse the work done by the Organization covering the period July 2017 to June 2018, and to chart the way forward in the months ahead.

This dossier touches on the WCO's main areas of work – compliance, facilitation, tariff and trade affairs, and capacity building – and presents the progress made and initiatives taken in each of these areas over the 12 month period. It also reports interesting events that occurred during the Council.

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Reflections on the areas of work identified by WCO Members as a priority

By Kunio Mikuriya,
SECRETARY GENERAL, WORLD CUSTOMS ORGANIZATION

AT THE 2017 Council Sessions, Members endorsed six priorities that the WCO Secretariat would focus on: trade facilitation, e-commerce, security, Customs-tax cooperation, illicit financial flows, and performance measurement. At the June 2018 session, they reviewed the progress related to this work programme and charted the way forward. While doing so, they also discussed possible new areas of work and established a new priority: the revision of the WCO's revised Kyoto Convention. In this article, I take up each of these topics in turn.

Trade facilitation

Following the entry into force of the World Trade Organization's (WTO's) Trade Facilitation Agreement (TFA), the WCO is providing tailor-made technical assistance under its Mercator Programme to assist countries in implementing the provisions of the Agreement and related WCO standards and tools. During the 2017/2018 period, 150 TFA-related missions had taken place.

There are two "relationship models" with beneficiary Members under the Mercator Programme. The first model is the "My Mercator Programme," where a dedicated Mercator Programme Advisor is assigned to work with the Secretariat in developing a multi-year plan that addresses not only the technical aspects and requirements, but also the enabling conditions for implementation and moving forward with a reform agenda. The second model focuses on the delivery of specific and targeted demands by Members, normally as a training initiative or a workshop, the greater majority of which are related to a technical agenda, such as a Time Release Study or risk management.

To monitor progress, a "maturity model" assessment tool related to the TFA has been developed, and all Mercator Programme recipients have been asked to conclude a first assessment round to enable the Secretariat to issue a report by the end of 2018 on the progress of the Mercator Programme to date.

In terms of engagement with the WTO, the WCO Secretariat continues to work closely with the WTO Secretariat by, for example, discussing and reporting on support delivery to ensure coordination with other international organizations. Since May 2018, the WCO is also invited to attend the WTO Trade Facilitation Committee (TFC) meetings, contributing to the discussions on implementation of the TFA alongside the other "Annex D" organizations,

namely the IMF, OECD, UNCTAD and the World Bank Group.

The WCO also continues to develop tools supporting TFA implementation, the latest one being the Guidelines on Customs Brokers and the FAQ document on the linkages between authorized economic operators (AEOs) as defined in the WCO SAFE Framework of Standards and Article 7.7 of the TFA. Of critical importance also is the Time Release Study Guide, which has been updated, notably to make it more responsive to TFA requirements.

RKC review

Besides activities conducted under the Mercator Programme, another major effort in the coming months, and years, will be the review of the revised International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention or RKC). The RKC, which was adopted in 1999 and entered into force in 2006, currently has 115 Contracting Parties. Although this number is significant, acceptance of the RKC's Specific Annexes remains low.

While recognizing that the RKC Guidelines have been updated on a continual basis and that several new WCO tools and initiatives have been developed to complement the revised Convention, WCO Members have decided that there is a need to update the instrument, nearly 20 years after its adoption. In this regard, the WCO Council has just approved the creation of a working group to undertake the review, and its work will start in the autumn of 2018.

E-commerce

Among the important tools adopted by the WCO Council in June 2018 is the Framework of Standards on Cross-Border E-Commerce, which will assist WCO Members in developing strategic and operational frameworks for e-commerce. The Framework will be equally useful for Members seeking to enhance existing frameworks, in order to effectively meet the requirements of new and evolving business models.

Among the important tools adopted by the WCO Council in June 2018 is the Framework of Standards on Cross-Border E-Commerce, which will assist WCO Members in developing strategic and operational frameworks for e-commerce. In order to ensure the expeditious and harmonized implementation of the Standards, cohesive capacity building support will be provided.

The Framework places emphasis on advance electronic data for pre-arrival risk assessment. For the past 20 years, the WCO has been advocating for a move towards a paperless environment for traditional trade. The same should apply to e-commerce. Express carriers are largely providing advance electronic data as recommended in the Framework of Standards, enabling Customs to conduct risk assessments in advance. However, postal operators are lagging behind, although progress has been made in some countries with leading support being provided by the WCO and the Universal Postal Union (UPU).

The WCO and the UPU have already developed the relevant harmonized international standards, and have been encouraging the implementation of electronic systems at the national level. The data elements that may be further required to address the challenges and risks associated with cross-border e-commerce are being developed. Both Organizations are further engaged with the development of additional guidance on the exchange of advance electronic data, including data capture and data quality, as well as the associated legal and operational frameworks. The two Organizations are also contemplating the organization of a joint high-level conference to mobilize all actors around the issue and to get a strong commitment for change from decision makers.

Although the core Framework of Standards has been developed, quite a lot of work still needs to be done. This led to the WCO Council agreeing to extend the mandate of the Working Group on E-commerce (WGEC), in order to further enrich the Framework, primarily through the completion of technical specifications, addressing issues such as identity management for example, and other items such as definitions, data elements, revenue collection models, and case studies.

The WCO Secretariat is developing a global implementation strategy and a capacity building mechanism to further help its Members with the implementation of the Framework of Standards in close cooperation with other relevant government agencies and e-commerce stakeholders. In order to ensure the expeditious and harmonized implementation of the Standards in a phased manner based on national priorities, specificities and resource availability, cohesive capacity building support will be provided.

The WCO's work and the Framework are focused on cross-border e-commerce and physical goods. They complement and support the WTO's Work Programme on E-Commerce, moving forward. Additionally, the WCO is actively collaborating with other international organizations to support their respective work in the area of e-commerce from a wider facilitation and compliance perspective. These organizations include the Organisation for Economic Co-operation and Development (OECD), the International Civil Aviation Organization (ICAO) and the UPU, as well as the Secretariats of the Convention on Biological Diversity (CBD), the International Plant Protection Convention (IPPC) and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

Security

As a result of the December 2015 Punta Cana Resolution, which highlights the global Customs community's position in relation to fighting terrorism, the WCO launched a Security Programme that focuses on five streams of work: passenger controls; the fight against chemicals and components that could be used in the manufacture of improvised explosive devices (IEDs); strategic trade Controls; the fight against trafficking in small arms and light weapons (SALW); and terrorist financing.

Some of these work areas are quite advanced, such as Programme Global Shield (PGS) that focuses on IEDs and which is referred to in several United Nations (UN) resolutions, encouraging States to support PGS, or the Strategic Trade Control Enforcement (STCE) Programme that focuses on preventing the illicit trafficking of strategic commodities (e.g., weapons of mass destruction, conventional weapons, and related items).

The WCO now has two regional projects, which aim to build the capacities of Customs administrations to counter terrorist-related travel and trafficking through better control of the movement of goods and people, both projects financially supported by the Government of Japan: the Asia/Pacific Security Project (APSP), which commenced in March 2017 with activities currently at full speed; and the West and Central Africa Security Project (WCA-SP), which began in April 2018.

During the recent session of the WCO Council and at other forums, some countries highlighted the need to further address the security topic, in particular the potential implications for Customs and other border agencies of the growing cruise ship industry. In response, the WCO agreed to convene a group of Brussels-based Attachés to look into issues around the format and transmission of advance data (e.g. passenger name records or PNR data), notably to explore the possible standardization of PNR data for maritime passengers and to involve relevant stakeholders, such as the International Maritime Organization (IMO), in their deliberations.

Furthermore, the WCO Council adopted the 2018 edition of the SAFE Framework of Standards to Secure and Facilitate Global Trade. Following a three-year review cycle, this year's Framework offers new opportunities for Customs, relevant government agencies and economic operators to work towards a common goal: enhancing supply chain security and efficiency, based on mutual trust and transparency. The 2018 version augments the objectives of the SAFE Framework with respect to strengthening cooperation between and among Customs administrations, for example through the exchange of information, mutual recognition of controls, mutual recognition of authorized economic operators (AEOs), and mutual administrative assistance.

In addition, the SAFE Framework calls for enhanced Customs cooperation with government agencies entrusted with regulatory authority over certain goods (e.g., weapons and hazardous materials) and passengers, as well as with entities responsible for postal issues. More notably, it now includes a comprehensive list of AEO benefits with certain minimum assured benefits.

Customs-tax cooperation

The WCO Council and Policy Commission have discussed the concept of cooperation between the International Monetary Fund (IMF) and the WCO for a while now. As the IMF is often asked by Ministries of Finance to provide advice on Customs policy, the WCO has engaged with the Fund to expand its perspective beyond the fiscal functions of Customs, in order to achieve further recognition of Customs' non-fiscal role.

In order to review its revenue-focused position, the IMF needed access to specific datasets, hence the idea to develop a specific survey tool for the collection of data called the International Survey on Customs Administrations (ISOCA). Participation in the survey will be voluntary, and no external measurement, ranking or scoring system is envisaged. Benefits that the survey will provide to WCO Members include the following:

- reducing Members' administrative burden by avoiding duplication of questionnaires from the WCO and the IMF;
- providing a single, unified survey on an annual basis, using common questions, terminology and definitions, fully based on WCO standards, tools and instruments;
- establishing a baseline for better planning and tailor-made technical assistance and capacity building;
- building support, and ensuring complementarity of expertise and synergy on any assistance provided;
- enabling progress to be assessed, while serving as a useful tool to obtain Ministerial support for Customs reform and the allocation of resources;
- acting as a means to explore the capacities of both institutions.

To establish a framework for the instrument, a Memorandum of Understanding (MOU) with the IMF has been drafted. At the request of some WCO Members, more time has been allotted to enable them to contribute to the text of the MOU, which is expected to be signed in December 2018.

During the recent session of the WCO Council and at other forums, some countries highlighted the need to further address the security topic, in particular the potential implications for Customs and other border agencies of the growing cruise ship industry. In response, the WCO agreed to convene a group of Brussels-based Attachés to look into issues around the format and transmission of advance data.

The WCO also continues to develop tools and to share best practices with respect to enhancing Customs-tax cooperation at the national level. Based on a concept paper on Customs' role in the collection of indirect taxes on imported goods, in July 2017 the WCO Policy Commission tasked the Organization's Permanent Technical Committee to develop guidance. The development of this guidance is currently underway and the Secretariat continues to collect Members' practices, as well as engage relevant international organizations, such as the OECD, in this regard. In addition, research is being conducted to examine various working models and associated processes and requirements. The draft guidance is expected to be finalized by December 2018.

Moreover, a few new areas are being explored for future work that include cooperation opportunities in the areas of tax and transparency (including the exchange of information), e-commerce, and special Customs zones, as well as the use of blockchain technology in improving business processes, revenue collection, and tackling fraud and crime.

Illicit financial flows

The Study Report on Illicit Financial Flows (IFFs), which the WCO was requested to produce by the G20 leaders, has been adopted by the WCO Council. The fruit of a long collaboration between the WCO Secretariat, Members of the WCO, academia and other international organizations, the Report focuses on concrete actions to combat IFFs.

It lists a number of recommendations inviting countries, in particular, to ensure that Customs has a sufficient mandate and the necessary resources to tackle trade mis-invoicing, has access to the right information and technology, and cooperates with Tax Authorities, Financial Intelligence Units and other relevant agencies. Following its adoption, the WCO Secretariat has engaged with the current Presidency of the G20 – Argentina – and with other G20 Members to garner support for the Study Report and ensure that it is conveyed to the appropriate G20 working bodies.

Based on the WCO Action Plan on Customs and the Fight against IFFs, the Secretariat has continued to provide technical assistance to Customs administrations, encouraging them at the same time to secure a mandate to investigate IFFs and/or seek a formal cooperation framework with the relevant authorities. In addition, regional workshops on IFFs, focusing on bulk cash flows and trade-based money laundering, were organized for countries in East and Southern Africa and South East Asia. Enforcement operations targeting bulk cash smuggling will also take place in late 2018.

Performance measurement

Many WCO Members have expressed concerns about the performance measurement initiatives of other institutions, such as the World Bank Group (WBG) with its "Doing Business" report. Following discussions at the December 2016 Policy Commission session, the Secretariat initiated a dialogue on the subject with the WBG.

The WBG team in charge of preparing the report agreed to seek input from Customs by sending its survey to all administrations in addition to trade service providers, thus giving Customs the opportunity to engage in the process. Ninety-six countries completed surveys and the Bank plans to publish this year's survey, including Customs' inputs, in October 2018. A representative from the Bank will also explain its work in relation to the "Doing Business" survey at the Policy Commission session in December 2018.

Moreover, a new WCO Working Group on Performance Measurement has been established to examine the possible development of a comprehensive WCO performance measurement tool, which would cover all Customs work areas. The Working Group has also been tasked with analysing the outcomes of the WBG survey and possible means of improving it. The WCO Private Sector Consultative Group has been invited to join the Working Group.

Going forward

Let me remind you that the list of priority areas will be adjusted in the coming months with discussions on the WCO Strategic Plan for the 2019-2022 period starting at the Policy Commission session in December 2018. The Plan will then be presented for endorsement at next year's Council Sessions.

Focusing on the current priority areas, I have highlighted only a few of the activities carried out and results achieved over the last months. Additional WCO activities are summarized in the articles which follow, under the name of each specific WCO Directorate.

I trust that you will enjoy reading about what the WCO has done and what it will be doing in the months ahead, and that you will equally appreciate the other articles that were selected for this edition of the magazine.

Tariff and Trade Affairs

Cross-cutting activities

WCO Revenue Package and advance rulings

The WCO continued to assist its Members in the implementation of the Revenue Package, which provides guidance and best practices for improving the efficiency and effectiveness of revenue collection, as well as in the implementation of an advance ruling system for classification and origin, as required under the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO).

Bhutan, Costa Rica, Cuba, Lao People's Democratic Republic, Malawi, Nepal, Palestine and Papua New Guinea received technical assistance on these topics during national seminars. Diagnostic missions in Côte d'Ivoire and Guinea were conducted to assess their tariff classification and Customs valuation control systems as they are planning to bring Customs functions that had been outsourced to a private sector inspection company back in-house.

Workshops on the development of advance ruling systems for classification were held in the Bahamas, within the framework of the agreement between the WCO and the Bahamas Customs and Excise Department, funded by the Inter-American Development Bank (IADB), and in Burkina Faso, funded by the Swedish International Development Cooperation Agency (SIDA).

Nomenclature and classification

The WCO continued to carry out its work on the uniform application of the Harmonized System (HS), with the adoption of numerous classification decisions and intensified capacity building efforts devoted to the implementation of HS 2017, including the harmonization and enhancement of the analytical methods used by Customs laboratories as well as the work on the implementation of advance ruling systems mentioned earlier.

HS Contracting Parties and status of the implementation of HS 2017

The number of Contracting Parties to the HS Convention has reached 157, with the accession of Vanuatu (March 2018). The sixth edition of the HS, HS 2017, entered into force on 1 January 2017. At present, 118 Contracting Parties have notified the WCO that they had implemented HS 2017, and nine Contracting Parties have advised that they would be implementing it in the course of 2018.

Speeding up the HS decision-making process

An objection was received to the Council Recommendation of 6 July 2017 regarding the Amendment to Article 8 of the HS Convention to limit the number of reservations in respect of HS decisions to two. However, at the June 2018 WCO Council Sessions, the concerns were resolved and the Recommendation was re-adopted, subject to clear affirmation of certain parameters.

Classification decisions and amendments to HS publications

At its 60th and 61st Sessions, the WCO HS Committee took 343 classification decisions, including 251 classifications of international nonproprietary name (INN) pharmaceutical products linked to the WTO Agreement on Trade in Pharmaceutical Products. The HS Committee also adopted 12 amendments to the HS Nomenclature, 25 amendments to the HS Explanatory Notes, 48 new Classification Opinions and deleted 1 existing Classification Opinion. With the exception of those for which reservations have been entered, the decisions and amendments are available on the WCO website and via the WCO bookstore.

Customs Laboratories Guide

The Guide has been updated as part of the outcomes of the Revenue Package Phase III Action Plan. To enhance its value as a practical handbook for the establishment and improvement of Customs laboratories, best practices in relation to sampling and testing procedures were collected from the Customs laboratories of 22 WCO Members and then distilled into a new Appendix IV to the Guide. The Guide was also updated to include more information on the regional Customs laboratories as well as contact information, links to relevant information, and the "Procedures and Requirements for Establishing a Regional Customs Laboratory."

Technical assistance

HS-related capacity building assistance to WCO Members is delivered in the form of national and regional seminars and workshops on the implementation and uniform application of the HS, on the modernization of Customs laboratories and their analysis methodology, and on the implementation of advance ruling systems for classification. The WCO Secretariat also provides, on request from Members, advice on the classification of commodities.

Technical assistance focusing on the HS and related matters, including Customs laboratory infrastructure and analysis methodology, was provided to officials from Armenia, Azerbaijan, Belarus, Cambodia, Chile, Georgia, Moldova, and Ukraine.

Assistance was also provided to Albania on the modernization of its Customs Laboratory, with a particular focus on the classification of products from Chapter 27, including waste mineral oils and practical case studies on mineral oils, and to Mongolia, with a particular focus on textiles, pharmaceutical products and vitamins.

A Regional Workshop on Capacity Building of Customs Laboratories that was funded by the Korea Customs Service was held for countries of the WCO Asia/Pacific region to share expertise and good practices on chemical analysis and enhance regional cooperation among laboratories.

Experienced Customs chemists and classification officers from Bosnia and Herzegovina, Indonesia, Malaysia, Peru, Philippines and Tanzania participated in the Customs Laboratory Programme, which was funded by Japan Customs. Participants spent one week studying WCO HS tools at the WCO Secretariat before going to Japan for six weeks' practical training on chemical analysis methods.

WCO experts also attended two events aimed at exchanging experiences and challenges around chemical analytical methods used by Customs Laboratories: a Workshop on Customs Detection Technologies organized in Estonia under the European Union (EU) "Customs 2020" programme, and the VII International Scientific and Practical Conference on the Problems of Expert Activities held in Russia.

A Regional Accreditation Workshop for expert trainers on the HS in the Asia/Pacific region was conducted in Kashiwa, Japan. It was hosted by the WCO Regional Training Centre (RTC). Representatives from Australia, Bangladesh, Cambodia, China, Japan, Lao People's Democratic Republic, Mongolia, Myanmar, Sri Lanka and Thailand took part in the Workshop.

During the 2017/2018 financial year, 122 classification advice responses were provided to Members by the WCO Secretariat.

Valuation

The WCO continued its efforts in assisting its Members with the uniform application of the WTO Agreement on Customs Valuation (the Agreement), in particular, by providing guidance on the management of Customs valuation.

Examination of Customs valuation questions

The examination of a question on "related party transactions as they pertain to the Agreement and transfer pricing" led to the adoption of Case Study 14.2, which illustrates a specific scenario, where Customs took into account transfer pricing information in the course of verifying the Customs value.

As the WCO Technical Committee on Customs Valuation (TCCV) could not reach consensus, one question was placed in Part III of the Conspectus of Technical Valuation Questions, i.e. questions raised, but not being considered by the TCCV at present. The question relates to the circumstances surrounding a sale under the provisions of Article 1.2 (a) – goods produced in different countries.

Regarding the above-mentioned question, the issue to be examined deals with whether, when examining the circumstances surrounding the sale to determine if the relationship has influenced the price, the examination of the transfer pricing report should be carried out based on a single sale transaction conducted between unrelated parties in countries other than those being examined or by looking at the particular situation in the global market.

The TCCV continued and will continue examining questions concerning:

- the valuation of imported goods purchased in "flash sales";
- the use of transfer pricing documentation to examine related party transactions, according to Article 1.2 (a) of the Agreement;
- the sale for export to the country of importation under Article 1.

New publications
Under the Revenue Package Phase III, a new publication entitled "Practical Implementation of the WTO Valuation Agreement: A Brief Guide for Least Developed Countries (LDCs)" provides advice to LDCs, which typically face particular challenges in implementing the WTO Valuation Agreement. Examples are also provided on the control programmes of national administrations, including those which utilize a valuation database, such as the system developed by the United Nations Conference on Trade and Development (UNCTAD) to be used in conjunction with ASYCUDAWorld.

Also under the Revenue Package Phase III, updated versions of the WCO Guide to Customs Valuation and Transfer Pricing and Practical Guidelines for Valuation Control have been produced.

Technical assistance
National workshops on valuation issues took place in Indonesia, Mongolia and Rwanda. Regional workshops were organized for the Members of the Asia/Pacific and the North of Africa, Near and Middle East (MENA) regions, while sub-regional workshops were held for officials from countries of the East African Community and the Southern African Customs Union. In addition, diagnostic missions on the valuation control system and assessment of related expertise were carried out in Cambodia, Haiti, and Mongolia.

As part of a series of joint regional workshops conducted by the WCO and the Organisation for Economic Co-operation and Development (OECD) on Customs valuation and transfer pricing, a workshop was organized for countries from the Americas and Caribbean region. Additionally, a joint WTO-WCO Workshop on Customs Valuation was organized in Guatemala for participants from the public and private sectors.

For the 2017/2018 financial year, the WCO Secretariat responded to nine requests for advice received from WCO Members in relation to Customs valuation.

Expert accreditation
To further develop the technical pool of expert trainers on Customs valuation with a view to increasing the capacity of the WCO to deliver technical assistance programmes, the WCO organized accreditation workshops for valuation specialists from the Customs administrations of the East African Community (selected experts from the JICA Master Trainers Programme) and the WCO Europe region.

Rules of origin

The WCO continued to support its Members with their understanding, management and implementation of rules of origin amid the ongoing proliferation of regional trade agreements.

Technical assistance
Capacity building activities included the organization of workshops in Albania, the Bahamas and Zambia on rules of origin, and in Ethiopia on the development of an advance rulings unit. Moreover, a diagnostic mission on origin and valuation infrastructure was delivered in Cambodia. WCO experts also participated in a session of the Committee on Trade, Customs and Immigration of the Pan-African Parliament that was held in Johannesburg, South Africa.

Expert accreditation

In response to the growing demand for technical assistance linked to the building up of infrastructure for the application of advance rulings, the WCO stepped up its efforts concerning the accreditation of origin experts by organizing two regional accreditation workshops: one for French speaking trainers in the West and Central Africa (WCA) region, and one for the Asia/Pacific region.

New publication

At the 2015 WTO Ministerial Conference held in Nairobi, Kenya, WTO Members adopted a Ministerial Decision on Preferential Rules of Origin for LDCs, which establishes rules applicable to imports from LDCs under non-reciprocal preferential trade arrangements. To help LDCs benefit to the maximum extent possible from the Decision, the WCO developed the "Practical Guide to the Nairobi Ministerial Decision on Rules of Origin for LDCs," which provides information on how to qualify for preferential treatment as well as detailed explanations of the elements in the Decision.

E-learning

Five e-learning modules – Origin Criteria, Cumulation, Transport Rules, Origin Certification and Origin Verification – have been developed, and the existing e-learning modules – Introduction and Preferential Agreements – have been reviewed.

More information

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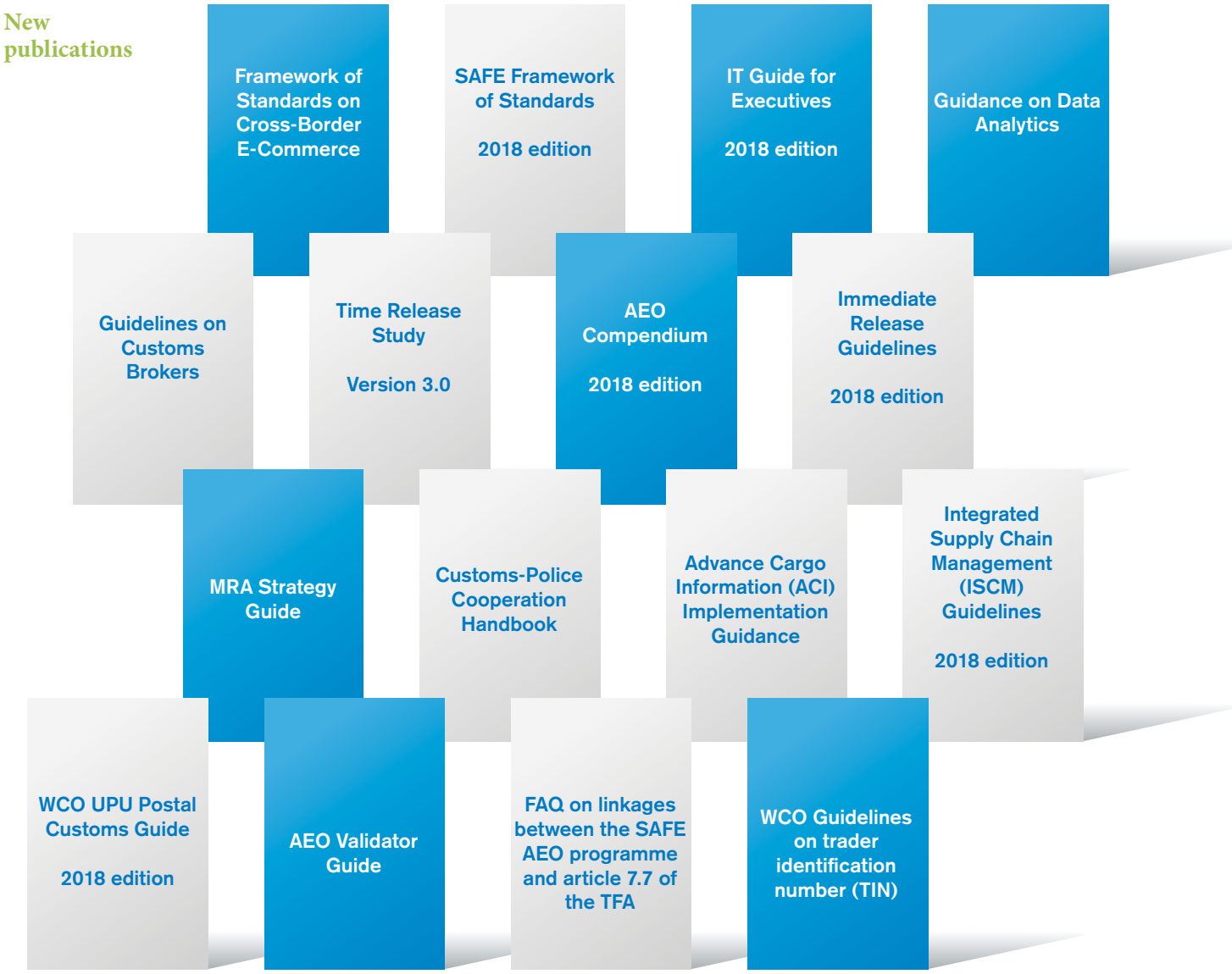
Procedures and Facilitation



WTO Trade Facilitation Agreement (TFA)

The TFA entered into force on 22 February 2017. Since its launch in June 2014, the Mercator Programme has been the WCO's strategic initiative aimed at assisting governments worldwide in implementing the TFA in a uniform manner by applying WCO instruments and tools, as the TFA's provisions relate, to a large extent, to Customs procedures.

During the 2017/2018 financial year, many TFA-related missions have been carried out by the WCO. Many of them consisted of providing countries with the capacity to undertake a Time Release Study (TRS): the Bahamas, Bangladesh, Belize, Burkina Faso, Burundi, Jamaica, Kenya, Malawi, Maldives, Myanmar, Nicaragua, Nigeria, Sudan, Togo, Ukraine, Vanuatu and Zimbabwe. Assistance in drafting a national TRS report was also provided to Burundi, Cameroon and Chile.

WCO experts also:

- supported Burundi in undertaking a gap analysis as part of the country's process towards accession to the Revised Kyoto Convention (RKC);
- facilitated a scoping mission in South Africa aimed at reviewing current legislation to ensure that it met the requirements of the TFA;
- supported Namibian Customs by sponsoring a Workshop on Stakeholder Engagement that was attended by participants from government, trade and the private sector;
- conducted a Workshop on Coordinated Border Management in Samoa;

- undertook an evaluation and diagnostic mission in Angola;
- delivered a national Workshop on Non-intrusive Inspection (NII) Technologies in Guatemala.

Details on activities undertaken in other areas, such as authorized economic operator (AEO) programmes, transit and the Single Window, appear later in this article.

Besides national focused assistance, the WCO held two meetings of the WCO Working Group on the TFA (TFAWG) with various technical topics being discussed, such as the importance of coordinated border management, public-private sector dialogue, and enhanced coordination with other governmental agencies, such as sanitary authorities, for the purposes of TFA implementation as well as the coordination of priorities relating to technical assistance and capacity building.

SAFE Framework of Standards

The 2018 edition augments the objectives of the SAFE Framework with respect to strengthening cooperation between and among Customs administrations, for example through exchange of information, mutual recognition of controls, mutual recognition of AEOs, and mutual administrative assistance.

In addition, the 2018 edition calls for enhanced Customs cooperation with government agencies entrusted with regulatory authority over certain goods (e.g., weapons, hazardous materials, etc.) and passengers, as well as with entities responsible for postal issues. A comprehensive list of AEO benefits with certain minimum assured benefits has also been added.

Authorized Economic Operators (AEOs)

In order to assist WCO Members in gaining a clearer understanding of the similarities and differences between the WCO SAFE AEO Programme and Article 7.7 of the WTO TFA Authorized Operator Scheme, the WCO developed a document in the form of 'Frequently Asked Questions' (FAQ) that clarified some concepts while providing practical guidance to better align the obligations stipulated under both initiatives.

The WCO also supported the implementation of AEO programmes in Azerbaijan, El Salvador, Iran, Nigeria, Paraguay, Papua New Guinea, Samoa, Sri Lanka and Tonga, and provided assistance to Panama and the Former Yugoslav Republic of Macedonia as well as the East African Community (EAC) on how to enhance their AEO validation process.

A practical Workshop on Mutual Recognition Arrangements/Agreements (MRAs), focusing on their preparation as well as the skills necessary to negotiate them, was organized for countries in the WCO Americas and the Caribbean region as well as for the EAC. Another workshop on AEOs and MRAs gathered countries from the WCO Asia/Pacific region.

Trader Identification Number (TIN)

A standardized and globally unique TIN format and associated guidelines and recommendation have been developed. The TIN aims primarily at enabling effective implementation of MRAs by facilitating the identification of MRA partners' AEOs, but could also be applied in the context of any cross-border exchange of an economic operator's data for other business processes, including mutual recognition of controls and authorized operators/trusted traders as well as enforcement related issues.

Transit

Regional workshops on transit were held for the WCO's East and Southern Africa, West and Central Africa, and the Americas and the Caribbean regions, with the objective of promoting the implementation of the WCO Transit Guidelines and collecting national and regional best practices in the area of transit.

Representatives from Customs administrations, industry associations, national guarantors and shippers' councils, other private sector entities, regional economic communities (RECs) and development partners attended the workshops. By the end of the 2018/2019 financial year, all WCO regions would have benefitted from such events.

Assistance was also provided to Belarus to review its existing transit procedure against WCO guidelines. Moreover, in order to enable information technology (IT) systems connectivity when it comes to transit, the WCO is planning to develop a harmonized and standardized transit dataset based on the WCO Data Model.

Advance Passenger Information (API) and Passenger Name Record (PNR)

In collaboration with the International Civil Aviation Organization (ICAO) and the International Air Transport Association (IATA), the WCO continues to develop, maintain and promote the API/PNR Guidelines, including its technical annex that contains, among other things, the API PAXLST and PNRGOV related standards. The latest work in this area includes the release of version 17.1 of the PNRGOV standards, as well as updates to the PNRGOV Principles document and the PNRGOV EDIFACT message. A survey showed that the majority of governments and air carriers implement version 11.1 of the PNRGOV EDIFACT.

A version of the API PAXLST standard in XML format is still under development and will be available soon. It comes as an addition to the existing EDIFACT standard for API, which is the preferred method to transmit API data to governments.

The WCO is also promoting its "Guidance for Customs administrations to use PNR/API," which aims to provide insight on how WCO Members can effectively utilize passenger information for passenger profiling and risk assessment, and its "Guidance on How to Build an API/PNR System." National workshops have been organized in Armenia and Colombia with the aim of providing these countries with know-how on the establishment of API/PNR systems.

WCO Data Model (DM)

Seventy-four countries reported that their information systems conform to the WCO DM, and around 55 countries have active DM implementation projects underway. Version 3.7.0 of the WCO DM has been released. The new version includes an enhancement of the "My Information Package (MIP)" as well as new data elements. A spreadsheet is now being used to publish the new Information Packages in place of the previous Word document, making it more convenient for users in mapping their data requirement to the DM.

Regarding technical assistance, WCO experts delivered national workshops in the Bahamas, Cuba and El Salvador, and a regional workshop for the countries of the Americas and the Caribbean region. They also continued to assist IT experts from Burkina Faso, Côte d'Ivoire, Ghana, Mali, Togo and Senegal in the development of datasets and the electronic message format, based on the WCO DM, as they relate to the transit process, as part of a project to enable the interconnection of computer systems to manage transit operations. In addition, a regional workshop on the WCO Data Model was held in Lima, Peru back to back with the WCO IT Conference and Exhibition, with the objective of raising awareness as well as the sharing of experience on the implementation of the WCO DM in the region.

Single Window (SW)

WCO experts participated in different international forums, supported activities relating to the implementation of SW solutions, and promoted the use of WCO standards and tools, such as the WCO DM and the RKC ICT Guidelines. Their activities included:

- assisting Customs administrations in Argentina, Burundi, Comoros, Kyrgyzstan, Malawi, Oman, Samoa and Uruguay with projects aimed at establishing or enhancing national SW environments;

- participating in or conducting several workshops for countries of the Asia-Pacific Economic Cooperation (APEC) bloc, for members of the Organization of the Black Sea Economic Cooperation, and for countries of the West and Central, and East and Southern Africa regions.

Non-intrusive inspection (NII)

Members of the Technical Experts Group on Non-Intrusive Inspection Equipment (TEG-NII) continued to work on the development of a standard NII data format, called the Unified file format (UFF). The project is currently in Phase 2 with NII suppliers developing the core architecture of the UFF and setting up a testing infrastructure to have the Phase 2 development tested through a pilot project involving several Customs administrations.

eATA Carnet Project

The eATA Carnet Working Group, which comprises WCO Member administrations and International Chamber of Commerce/World Chambers Federation representatives, developed a Globally Networked Customs Utility Block for the eATA, and a pilot project to test the issuance and circulation of the electronic carnet is in preparation.

Digital Customs

The WCO, under its Mercator Programme, is organizing regional workshops on Digital Customs and e-commerce for each of the WCO regions. These Workshops are aimed at improving knowledge and strengthening the capabilities of Customs administrations on issues concerning the use of modern technologies. Two workshops have been held: one for the Americas and the Caribbean region, and the other for the East and Southern Africa region.

In addition, the WCO has carried out an analysis of the potential use of information and communications technology (ICT), and its possible implications for information management with respect to each article of Section I of the TFA. This analysis captures the relevant references, provides additional commentaries for some of the articles, aims at exploring strategic considerations on how Digital Customs can further support the implementation of specific TFA measures, and complements the Guidelines to Chapter 7 of the RKC, i.e. the Kyoto ICT Guidelines.

Postal traffic

The WCO is closely working with the Universal Postal Union (UPU) on a number of issues of mutual concern, which, in particular, include the implementation of advance electronic exchange of data between Posts and Customs, postal supply chain safety and security, e-commerce, and the quality of data in CN 22 and CN 23 declarations.

The two organizations continued to provide support to Armenia Customs and HayPost (Armenia's postal operator) as well as to Indonesia Customs and Indonesia Post on the implementation of the Customs Declaration System (CDS) that was developed by the UPU's Postal Technology Centre. CDS allows customers to enter data about an item online, and enables Posts to supply Customs with advance data about a postal item. It also enables Customs to inform Posts about the action to be taken with respect to any given item.

The WCO and the UPU also organized a workshop for the Caribbean countries in Guyana to strengthen existing cooperative relationships between Customs and postal operators at the national level, and improve the exchange of advance electronic information between the two entities.

In addition, the WCO also participated in one of the "Operational Readiness for E-Commerce Project Workshops" organized by the UPU to discuss logistics enhancement and to examine various ways in which advance electronic exchange of information (pre-loading/pre-arrival) can be implemented between Posts and Customs by using the CDS and/or any other customized solution based on the joint WCO/UPU Customs-Post EDI messaging standards and the WCO DM. The workshop gathered officials from over 20 postal operators and three Customs administrations from the Arab World.

Furthermore, the WCO and the UPU have published the 2018 edition of the joint WCO UPU Postal Customs Guide that is aimed at providing detailed information on relevant WCO and UPU instruments and tools, and lays down a common basis for dialogue and discussion between Customs and postal operators at the national level.

E-commerce

The WCO Council adopted the "Framework of Standards on Cross-Border E-Commerce" together with a Resolution for its harmonized implementation. The Framework sets out baseline global standards on cross-border e-Commerce. It contains 15 Standards that are concise, progressive and focused on the e-commerce environment, with a view to providing pragmatic, fair and innovative solutions, whilst taking into account the diverse expectations and concerns of WCO Members and other stakeholders.

Going forward, the Framework will be further enriched with technical specifications and guidelines for its expeditious and effective implementation in a harmonized manner.

In addition, the WCO Immediate Release Guidelines were recently updated to provide specific guidance to both Customs and the trade community on expediting the release/clearance of increasing volumes of low-value and small e-commerce shipments/parcels.

The WCO will be supporting its Members with the implementation of the E-Commerce Framework and its associated tools through a comprehensive capacity building programme. Five regional workshops have already been planned for the 2018/2019 financial year to promote and support the implementation of the Framework. The first event for WCO Members in the Asia/Pacific region took place from 16 to 17 July 2018.

Role of Customs in natural disaster relief

The Customs for Relief of Epidemic Diseases (C-RED) Project, which is funded by the Dutch Ministry of Foreign Affairs, has been completed. Under the Project, support was provided to Customs administrations in West Africa that were affected by the Ebola epidemic (i.e. Guinea, Liberia, Mali, Nigeria, Senegal and Sierra Leone) to better prepare them in handling future epidemic disease outbreaks and natural disasters. A review of the activities that were undertaken under the C-RED Project was published in the June 2018 edition of the WCO News magazine.

Future of Customs – Study Report on Disruptive Technologies

The Virtual Working Group on the Future of Customs has in the last year been focusing on disruptive technologies. The April 2018 meeting of the WCO Permanent Technical Committee (PTC) devoted a whole day to this topic and strongly welcomed the development of a Study Report, the objective of which is to raise awareness within the Customs community of the latest technologies and their potential, especially the benefits and risks, as well as the pilots, lessons learned and recommendations for the future. The Study Report will be further developed during the inter-session and revisited by the PTC at its meeting in the Spring of 2019.

More information
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Capacity building

Strategic advisory support and delivery

Strategic advisory support and delivery entail needs-assessments through scoping and gap analysis missions, the development of comprehensive strategic plans, the implementation of WCO standards, and the regular monitoring of performance indicators. During the 2017/2018 period, the WCO conducted 31 such missions.

Key WCO capacity building tools to support these missions and actions include the Diagnostic Framework, a Risk Management Diagnostic, a Human Resource Management Diagnostic, an Institutional Assessment (enforcement capability), Trade Facilitation Agreement Scoping, and other specific organizational analysis tools.

WCO Mercator Programme activities

Since its launch in June 2014, the WCO has been promoting the Mercator Programme as a strategic initiative aimed at assisting governments worldwide in implementing the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO) in a uniform manner by applying WCO instruments and tools, as the TFA provisions relate, to a large extent, to Customs procedures.

From July 2017 to June 2018, under the Mercator Programme just over 140 national capacity building, technical assistance, and training activities have been delivered. Further, the WCO attended or hosted 60 global forums, 60 regional and 35 sub-regional forums dealing with TFA implementation. Thirty-six WCO Members are now engaged in the Programme on a medium to long-term basis, and they have received support in the form of a scoping/diagnostic mission and/or strategic and implementation planning.

To manage the implementation of these plans as well as further requests from its Members for TFA-related capacity building support, the WCO created a new pool of strategic advisors – Mercator Programme Advisors (MPAs). New accreditation workshops have been held over the last 12 months, and the WCO now has a total of 58 fully accredited MPAs.

Human resource development (HRD)

WCO e-learning platform: CLiKC!

CLiKC! (Customs Learning and Knowledge Community) continues to

develop the support offered to capacity building activities, with specific areas devoted to enhancing preparation and communication between participants during specific events, such as training workshops or accreditations.

Twenty-five e-learning courses on various Customs topics are now available via the platform. A new Single Window e-learning package has been released in English as well as a revamped course on rules of origin, which includes more detailed modules than the previous one.

Moreover, a mobile application presenting the major changes made to the 2017 version of the Harmonized System (HS) is now available on both Android and Apple mobile devices. This mobile application can be downloaded by any interested party, and provides additional features for Customs officers with a CLiKC! account.

WCO Academy
A brand new WCO e-learning portal aimed at building the Customs skills of trade professionals is now live at https://academy.wcoomd.org. Courses currently address the following topics: HS (five sector-specific courses), WCO Data Model (two courses), and Customs Valuation (two courses). More courses will be added in the coming months. Even though the courses are currently available in English and French only, more languages will be available in the future.

Virtual Customs Orientation Academy (VCOA)
The WCO VCOA initiative, comprising four highly interactive modules supplemented by online tutoring and two optional modules on the CLiKC! Platform, took place in September 2017 and March 2018. The 6th Session of the VCOA in September 2017 had 33 participating Customs officials, representing 27 WCO Member administrations, and the 7th Session in March 2018 had 34 participating Customs officials from 25 Member administrations.

The VCOA's main objective is to provide newly recruited Customs officials with knowledge of core Customs competencies, the concepts of clearance procedures and practices, international standards and conventions, and how to apply them in the workplace. Upon completion of the activities, and after being evaluated, 45 successful Customs officers were awarded certificates.

Fellowship Programme
Three sessions held during the 2017/2018 period, for English, French and Spanish speakers respectively, brought together 38 officers over a six week period. The Fellowship Programme is associated with the WCO Leadership and Management Development Programme, and aims to develop middle managers' abilities, skills and knowledge to ensure that they can actively participate in the reform and modernization processes of their home administrations.

Scholarship Programme
Ten officers participated in the Public Finance Programme at the National Graduate Institute for Policy Studies (GRIPS) in Tokyo, Japan, and 10 officers participated in the Strategic Management and Intellectual Property Rights (IPR) Programme at Aoyama Gakuin University (AGU), which is also located in Tokyo.

Career Development Programme (CDP)
The CDP is an initiative supported by Japan Customs that provides an opportunity for selected candidates from developing Member administrations to undertake work at the WCO Secretariat for 10 months as Professional Associates. Within the framework of the 2017/2018 Programme, 10 Customs officials – from Azerbaijan, Bangladesh, Burkina Faso, Cuba, Indonesia, Mexico, Nigeria, Sudan, Thailand, and Timor-Leste – worked at the Secretariat on a number of projects and activities.

Leadership and Management Development Programme (LMDP)
Fifteen LMD workshops were conducted during the 2017/2018 period. An additional five have been delivered as part of the Fellowship and Career Development Programmes. Taken together, these workshops have provided around 360 executive, senior and promising middle-level Customs Managers with a better understanding of modern management approaches and their own personal leadership attitude and behaviour, based on improved self-knowledge and self-awareness. In addition, one Customs administration benefited from a "Top Executive Retreat," which is aimed at strengthening the capacity of senior management to lead and drive reform and modernization agendas.

New tools and instruments

Update of the People Development Diagnostic Tool (PDDT)
The PDDT, which is intended to enable administrations to gauge where they stand in the context of HR standards and best practices, has been updated, especially its section on Gender Equality and Diversity. Diagnostic questions, information on common weaknesses and potential solutions, and improvement options have been added.

Update of the Project Management chapter of the Capacity Building Compendium
Chapter 5 of the Capacity Building Development Compendium was updated to provide a Customs-specific project management context, based on international best practices. The chapter addresses the specific nature of

Customs projects, taking into account the multidisciplinary nature of such projects throughout the initiation, planning, implementation and evaluation phases.

Update of the Donor Coordination chapter of the Capacity Building Compendium

The update of the Donor Coordination chapter has been designed to take into account the entry into force of the TFA and to inform Customs administrations about the international donor and development context after the TFA's entry into force. It provides high-level strategic advice for engaging with the complexities of donor funding, taking into account experiences from other Members. More specifically, the chapter addresses questions of Customs' positioning in the context of the United Nations (UN) Sustainable Development Goals (SDGs), the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, as well as the special and differential treatment (SDT) provisions of the TFA.

Guide to implement a competency-based HR management system

Based on the increasing number of requests in the area of HRM, the WCO, in the framework of the WCO-WACAM Project funded by Sweden, developed the Guide to Implement a Competency-Based HRM System in a Customs Environment. The Guide is aimed at Customs administrations' Top Management, Modernization Units/Teams, and HRM Senior Managers.

Integrity

The WCO held the 17th Session of the Integrity Sub-Committee in Brussels from 1 to 2 March 2018 during the "Capacity Building Week."

Different types of missions were organized during the 2017/2018 period to respond to specific requests made by WCO Members:

- an integrity assessment mission in El Salvador (September 2017);
- a support mission for integrity strategy implementation in Rwanda (September 2017);
- a Workshop on Integrity and Anti-Corruption in Customs in Angola (December 2017);
- a consultation on the WCO Arusha Declaration and the development of a comprehensive integrity programme mission for Afghanistan that was held in New Delhi, India (April 2018);
- an integrity support mission in Uzbekistan to assist in further improving their Integrity Strategy in Customs (May 2018);
- an integrity support mission in Serbia, which focused on integrity testing (June 2018).

In December 2017, at the invitation of the Agency of the Republic of Kazakhstan for Public Service Affairs and Anti-Corruption, the WCO participated in the "Research to Practice Conference: Modern Anti-Corruption Standards and International Cooperation" that was held in Astana. The WCO was also invited by the International Monetary Fund (IMF) to present the Arusha Declaration, the WCO integrity guidelines and current initiatives in countering corruption in Customs at the Regional Seminar AFRITAC West2 that took place in The Gambia.

Moreover, the WCO participated in several meetings organized in Vienna, Austria by the UN Office on Drugs and Crime (UNODC), which focused on the implementation of the UN Convention against Corruption. The WCO also participated in the Global Anti-Corruption and Integrity Forum, organized by the Organisation for Economic Co-operation and Development (OECD) in March 2018, as a panellist on the session on "Integrity & Trade: No Need to Grease the Wheels," providing the WCO's perspective on trade performance, trade facilitation, and integrity.

Gender Equality and Diversity

With the objective to gather examples of good practices and exchange information on Members' respective work in this area, the WCO has established a Virtual Working Group on Gender Equality and Diversity with a dedicated section on the CLiKC! platform. Around 20 countries have participated in the meetings held so far, and various documents, including presentations and gender equality action plans, have been uploaded in a shared folder on CLiKC!.

In addition, the WCO Secretariat has organized bilateral conversations with a number of the Organization's Members to further discuss their work in this area. The ultimate objective of this exchange is to develop a compendium of good practices that can be used as a complement to the WCO Gender Equality Organizational Assessment Tool (GEOAT).

Under the framework of the Finland-ESA Programme II, the WCO has started developing a blended learning package on gender equality and its links to Customs reform and modernization. This package will include two tracks: a one-week training event targeting middle- and senior managers, focusing on HRM and gender mainstreaming; and a broader e-learning module, focusing on raising general awareness on gender equality, targeting all Customs officers. The one-week training has been tested and finalized, while the e-learning module is expected to be available by the end of 2018.

More information

capacity.building@wcoomd.org
www.wcoomd.org/en/topics/capacity-building/resources.aspx

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Compliance and Enforcement

Security Programme

Main streams of work

Under the Strategic Trade Controls Enforcement (STCE) Programme, a curriculum and modules for training purposes have been developed to assist in the evaluation of standard operating procedures (SOPs) and work practices dealing with strategic goods. The STCE training curriculum is being adopted by many Customs administrations across the globe, and to ensure its continued adoption, since July 2017 the WCO has organized the following training events:

- Nine STCE national workshops, gathering 237 attendees from nine different countries as well as representatives from the WCO Regional Intelligence Liaison Office (RILO) Network.
- Three train-the-trainer workshops, gathering a total of 52 experts, aimed at officials interested in being accredited as STCE Expert Trainers.

To date, 12 countries have informed the WCO that their accredited trainers are delivering STCE events in their countries, whilst a further five countries have licensed the STCE training material from the WCO for use in their national training academies or programmes.

In addition, in order to measure the impact of the STCE Programme, the WCO organized Operation COSMO 2 in April 2018 with the participation of 104 countries and many international organizations.

Regarding small arms and light weapons (SALW), the WCO has put together a training curriculum and started developing a pool of trainers in July 2018. The WCO has been working with the United Nations Office for Disarmament Affairs (UNODA), the UN Office on Drugs and Crime (UNODC) and INTERPOL, using the Small Arms Survey to develop training material and participate in joint training in relation to the detection of SALW by Customs.

Under Programme Global Shield (PGS), an initiative aimed at building capacity to counter the illicit trafficking and diversion of explosive precursor chemicals and other components of improvised explosive devices (IEDs), an operation was conducted with 34 countries from the WCO MENA region participating. The operation resulted in the seizure of several tons of IED precursor chemicals and other components. A train-the-trainer workshop was also held in March 2018 for experts from the WCO Asia/Pacific region.

In the area of terrorist financing, during the first quarter of 2018, the WCO conducted workshops in Southern and East Africa and in South East Asia that focused on anti-money laundering, counter-terrorism financing and illicit finance.

Regionally focused security projects

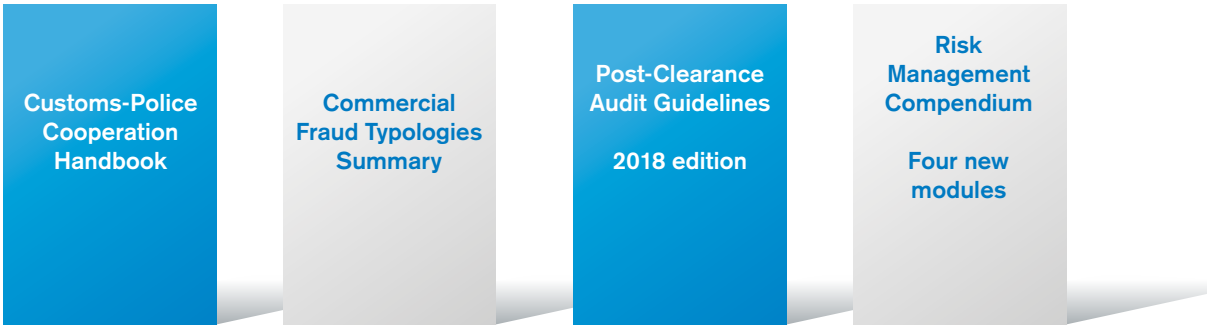
The WCO has two regionally focused security projects financially supported by the Government of Japan: the Asia/Pacific Security Project (APSP) that commenced in March 2017, and the West and Central Africa Security Project (WCA-SP) that began in April 2018. Both projects aim to build the capacity of Customs in the area of border security. An article providing an overview of the activities undertaken in this area in the WCO Asia/Pacific region was published in the June edition of the WCO News magazine.

Revenue Programme

Post-clearance audit (PCA)

The WCO PCA guidelines have been updated and will continue to form the conceptual basis for any PCA-related assistance for the next several years. National workshops were held in Bhutan, Bosnia and Herzegovina, Iran, Malaysia and Sudan to help these countries develop their PCA capacities.

New publications



Diagnostic missions were also delivered in Cameroon, Jordan, Qatar and Palestine.

Additionally, a joint PCA and risk management diagnostic mission was conducted for Armenia, the first of this kind. Based on the successful results from this mission, similar joint activities are being considered in the future. The WCO also participated in a PCA training event organized by the Netherlands Customs for representatives from China Customs.

In order to continue expanding the existing pool of experts capable of delivering capacity building activities, an accreditation workshop for PCA Technical and Operational Advisors from countries in the WCO MENA region was organized. Three experts have been pre-accredited and will now have to participate in a field mission to become fully accredited.

Operations

Operation Leatherback focused on fraud in the petroleum industry, with the goal of identifying the nature and extent of revenue evasion relating to the petroleum trade. The operation resulted in the seizure of 1,198,797 litres of petroleum products and identified cases of mis-described petroleum importations that resulted in the recovery of 935,118 US dollars.

Operation Fox focused on the illicit tobacco trade and, more especially, on the shipment of containers containing cigarettes as they transited through Free Trade Zones (FTZs). More than 100 suspicious containers were monitored during the exercise, resulting in the seizure of 163 million cigarettes and the identification of FTZs that were being exploited by criminals.

Project Shot

In response to the growing danger posed by the illicit trade in alcohol, a global monitoring project for analysing the global trends in alcohol fraud has been established. Initially, the project was foreseen for the first half of 2017 but was later extended to cover the whole of 2017, and will continue to run in 2018.

Entry into force of the WHO Protocol to Eliminate Illicit Trade in Tobacco

During the Council Sessions, the WCO welcomed the imminent entry into force of the WHO Protocol to Eliminate Illicit Trade in Tobacco. The Protocol will enter into force on 25 September 2018 and the WCO stands ready to support the work of Customs in the implementation of this key international instrument.

Drugs and Precursors Programme

Project AIRCOP

Twenty-two Joint Airport Interdiction Task Forces (JAITFs) are currently operational under Project AIRCOP, a project managed in conjunction with the UNODC and INTERPOL, which aims at strengthening the capacities of international airports to detect and intercept drugs and other illicit goods as well as to detect high-risk

passengers, including foreign terrorist fighters.

JAIFTs are located in airports across African, Latin American, Caribbean and Middle Eastern countries. In the framework of the Project, Operation COCAIR VI was organized to bring together the JAITFS and other airport units to test their risk analysis capacity, and to promote the exchange of information using CENcomm, the WCO's secure communication tool.

UNODC-WCO Container Control Programme (CCP)

The CCP is a joint initiative between the UNODC and the WCO. Port Control Units (PCUs) established under the CCP are, at present, fully operational at more than 70 ports (including dry ports) in 50 countries, with 4 new countries having joined the CCP over the past few months. An integral and essential element of the CCP is to facilitate networking among the PCUs at a national, regional and international level.

The WCO ContainerCOMM system provides the necessary infrastructure for the swift and secure exchange of information and intelligence electronically. Currently, the system can be accessed by more than 100 administrations with more than 1,000 individual users, and is moving towards becoming a secure global port-to-port communication platform. WCO Members wishing to join ContainerCOMM are invited to contact the WCO Secretariat.

Given the success of the CCP, a separate joint programme on air cargo control has been established, with specialized units to target suspicious shipments in this transport segment already operating in 11 countries. Six new countries have joined the segment in the past months. A specific "AirCargoComm" communication platform for the exchange of information and intelligence has been established, and is open to all WCO Members. The CCP air cargo segment also benefits from cooperation with the International Civil Aviation Organization (ICAO).

PCU and Air Cargo Control Units (ACCU) are regularly trained to further develop their skills in risk profiling and their knowledge on specific issues relating to global illicit trade. Regular assessments are also made to measure the progress made by these units. Within the scope of the CCP, since 1 July 2017, the WCO has implemented or planned about 170 training activities on different types of techniques to enhance law enforcement agencies' capacities in the maritime and air cargo domains.

IPR, Health and Safety Programme

Capacity building activities in this area have been conducted in 56 countries, taking the form of regional or national seminars and diagnostic missions. WCO experts also provided support to national or international organizations, like the American Patent Office (USPTO) and the Organization for Animal Health (OiE), in their work against counterfeiting, by participating in their workshops or conferences. Two regional operations were coordinated by the WCO:

- Operation ACIM 2 (Action against Counterfeit and Illicit Medicines), which took place over a nine-day period in 18 African countries during June 2017, led to the interception of around 259 million substandard or fake products, the vast majority of which related to pharmaceuticals;
- Operation GOALKEEPER, initiated by the Russian Federal Customs Service and targeting the counterfeiting of Officially Licensed Products for the FIFA World Cup, saw 54 countries participate in the initiative.

In addition, the WCO actively supported the annual global operation against illicit medicines, known as Pangea, which is led by INTERPOL.

Environment Programme

INAMA Project

Launched in October 2014, the INAMA Project, undertaken in conjunction with the WCO Secretariat's Capacity Building Directorate, aims to strengthen the enforcement capacity of targeted Customs administrations in Sub-Saharan Africa, while focusing on the illegal trade in wildlife, particularly endangered species listed in the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

In 2017, two illegal wildlife trade enforcement operations were held in Africa, one for Anglophone countries and one for Francophone countries. The operations were code-named SAVE/SAUVER REP, REP being the initials of the three species targeted:

Rhino, Elephant and Pangolin. As a result, various illegally traded wildlife products, including worked and raw ivory, pangolin scales and live tortoises were seized.

Furthermore, three train-the-trainer workshops were conducted, two in Africa and one in Asia. The objectives were to build the technical skills and knowledge of officials in relation to the CITES, to develop their trainer skills, and to evaluate their administrations' current national training framework, in particular when dealing with the illegal trade in wildlife. Participants identified as potential trainers will continue with the second phase of the accreditation process, and will join the pool of WCO CITES Expert Trainers. These workshops will be followed up by regional enforcement training events, which will be attended by both Customs and police officers and funded by the US Department of State.

Assistance was also provided at a national level to seven Customs administrations in Sub-Saharan Africa identified as priority countries according to the INAMA Project's methodology. Throughout 2017, scoping missions were conducted in Burkina Faso, Cameroon, Kenya, Mozambique, Tanzania and Uganda to assess their enforcement capacity when it comes to species covered by the CITES, based on the WCO Institutional Assessment Tool on CITES Enforcement.

As a result, diagnostic reports with detailed recommendations were developed, along with Work Plans to implement the findings of the diagnostics. The beneficiary administrations also hosted "Subject Matter Experts missions" during which support was provided at various levels. Support activities will continue to be deployed until the end of 2018. These activities are funded by Sweden.

Airport wildlife trafficking assessments

The International Air Transport Association (IATA) and the WCO jointly developed a tool to help airports assess the security measures in place to counter the transport of illicit wildlife products, with support from the Reducing Opportunities for Unlawful Transport of Endangered Species Partnership, which is funded by the U.S. Agency for International Development (USAID). The WCO participated in four assessment missions conducted in Qatar, Kenya, Malaysia and South Africa.

Risk Management and Intelligence Programme

Considering the increasing need to define a common approach that enables Customs administrations across the globe to speak the same language about the methodology they utilize to both identify and treat potential risks, WCO developed the Customs Risk Management Compendium.

New content has been added to the Compendium lately: rail cargo risk indicators and manuals related to the pre-arrival, arrival and post-arrival phases, and Post Seizure Analysis Guidelines.

With regards to capacity building activities, the WCO has supported 20 of its Members to enhance the application of risk management in their respective administrations and has organized train the trainer workshops.

Cultural Heritage Programme

In partnership with various stakeholders, the WCO developed a unique Training Handbook for frontline Customs officers dedicated to countering the illicit trafficking in cultural objects. It includes general analysis of this form of illegal trade, sources of information and access to different databases, risk management and a number of operational techniques as well as case studies. Additional modules covering region-specific threats or areas of work, investigations and inter-agency models are also being developed. The Training Handbook will soon be available in French, and translation into additional languages is also envisaged.

The WCO started conducting training in September 2017, starting with 13 Customs administrations of the WCO MENA region. Training was also delivered in Jordan to members of the Container Control Programme's Port Control Units. In addition, the WCO participated in several inter-agency workshops for Western Balkan and Central Asian countries organized by UNESCO and the OSCE.

Besides developing training modules, the WCO, in conjunction with INTERPOL and with the support of Europol, organized the first global joint Customs/Police enforcement operation codenamed "ATHENA," with more than 80 countries participating. Over 41,000 objects including coins, furniture, paintings, musical instruments, archaeological pieces and sculptures were seized during this operation.

Moreover, the WCO Programme Manager partnered with the WCO Research Unit to conduct a gap analysis workshop for countries in West and Central Africa to discuss national practices and policies regarding security, terrorism, and cultural heritage protection. Based on this analysis, customized training in this area of enforcement will be developed.

WCO tools

The CEN suite

The CEN suite includes three stand-alone applications, namely the Customs Enforcement Network (CEN), the National CEN (nCEN) and the CEN communication platform (CENcomm), which are compatible and complementary in nature – each supporting Customs with the digitalization of operational processes in the enforcement field.

During the 2017/2018 period, the nCEN was deployed in the Republic of the Congo, Sri Lanka, Sudan and Palestine. Besides these four new deployments, the following 25 countries use the nCEN to support their analytical and risk management processes: Angola, Botswana, Burundi, Comoros, Fiji, Georgia, Guinea, Haiti, Kenya, Lesotho, Malawi, Maldives, Mali, Mauritius, Mozambique, Namibia, Philippines, Seychelles, Sierra Leone, Swaziland, Tanzania, Uganda, Ukraine, Vanuatu and Zimbabwe.

CENcomm remains a popular tool. During the 2017/2018 period, the communication platform was used during 80 operations as well as in the framework of several projects. A modernized version of the CENcomm application has been developed and will become available in the coming months to support operational activities.

WCO Cargo Targeting System (CTS)

The WCO CTS enables user countries to capture advance electronic cargo manifest information, and to perform risk assessment, profiling and targeting. To date, the CTS' maritime cargo capability has been deployed in 11 countries: Bahamas, Chile, Georgia, Jamaica, Kenya, Maldives, Panama, Philippines, Singapore, Sri Lanka and Ukraine. In addition, the CTS' air cargo capability has been finalized and deployed in these same countries.

Customs Operational Practices for Enforcement and Seizures (COPES) Programme

COPES has become a full-fledged programme since 1 January 2017 and is intended to be deployed in the six WCO regions. It covers issues of border security, collection of evidence, seizures, investigations, and prosecutions. Although not all customs administrations have judicial investigation powers, they are intended to be beneficiaries of the programme as an integral part of the Customs criminal chain.

The COPES compendium, developed some years ago, is a component of a much broader project that itself has different objectives: raising enforcement policymakers' awareness of security issues and judicial procedures; developing a pool of COPES trainers; and raising the professional standards of border officials in collecting evidence, designing operations, supporting field officers during operations, improving inter-agency cooperation and carrying out assessments.

Over the 2017/2018 period, new training courses have been created: a specific one for the training of trainers, one dedicated to enforcement activities for field agents, another for executives, and one dedicated to investigations. Two regional seminars,

six trainers' training courses and five national workshops, one of which was aimed specifically at preparing an operation, were organized. Brazil benefited from training tailored to the country's needs. The enforcement operation that was organized resulted in many cases, some of which have been judicialized.

The programme works in synergy with other WCO programmes. Under the CCP for example, COPES training was provided to officers assigned to Port Control Units in Malaysia. Under the MADAO Project, COPES experts supported Guinea Customs on operation planning and implementation. Under the INAMA Project, training was provided to participants attending train-the-trainer workshops in Burkina Faso, Malaysia and Zambia.

More information

enforcement@wcoomd.org

Council Chairperson and Secretary General re-elected for new terms

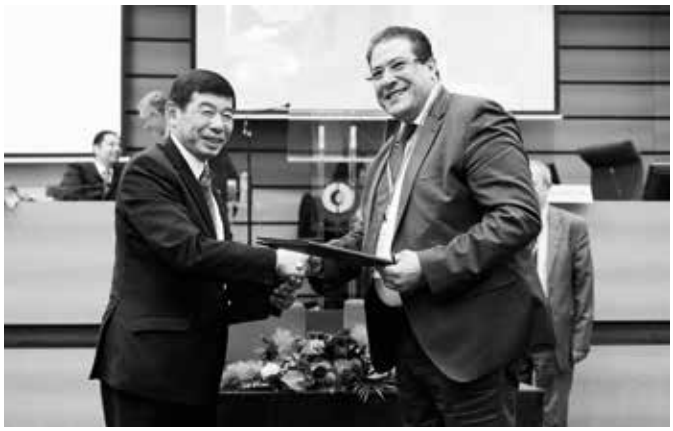
Election highs of the sessions included the re-election of Enrique Canon, the Director General of Uruguay Customs, as Chairperson of the Council, and the re-election of Kunio Mikuriya, the incumbent Secretary General of the WCO, for a further five-year term at the helm of the Organization, effective 1 January 2019.

Mr. Canon expressed his gratitude for the ongoing confidence placed in him by the Council, and Dr. Mikuriya said that he was deeply honoured by the confidence that the Council has in his ability to lead the Secretariat and that he will continue working to achieve the Organization's goals and realize its vision of modernization and connectivity.

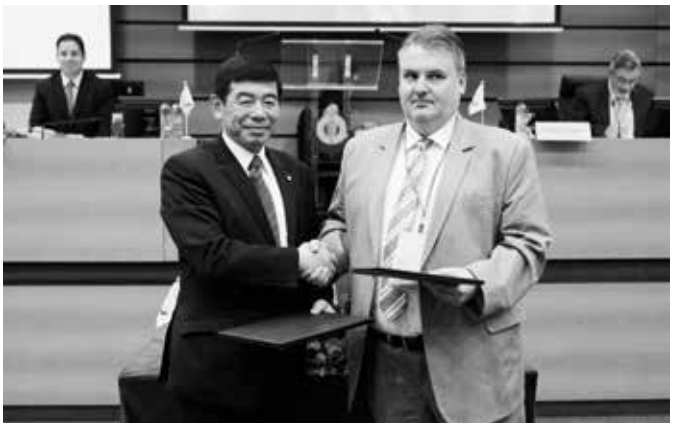
Signing ceremonies

The WCO signed several Memoranda of Understanding (MoU):

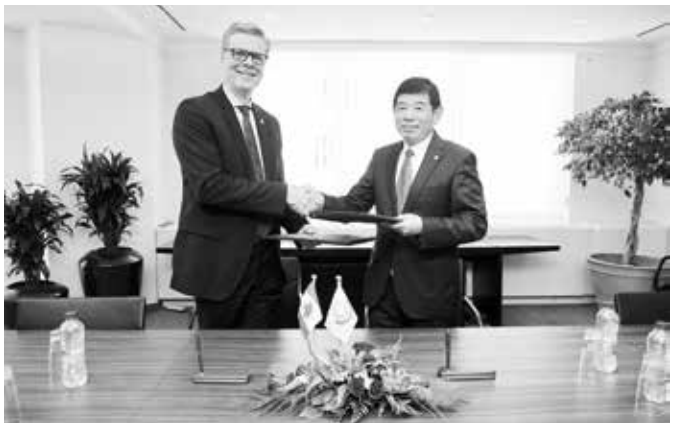
- with Korea Customs on the establishment of a WCO Regional Customs Laboratory;



- with Tunisia Customs on the establishment of a WCO Regional Training Centre (RTC);



- with Hungary Customs on the setting up of a WCO Regional Dog Training Centre (RDTC);



- with Canada Customs on the creation of a WCO Regional Dog Training Centre (RDTC).

More information

www.wcoomd.org/en/about-us/partners/mou-new.aspx

2018 WCO Photo Competition

"FACILITATING TRADE, PROTECTING our people, building our country" is the caption of this year's winning entry from Jamaica Customs. The photo shows officers getting on with different jobs in an efficient and friendly way. It illustrates the core values of Customer Service, Accountability, Professionalism, Integrity and Transparency (CAPIT), and the Agency's motto "Country Above Self."

Reviewing the OECD method to assess trade facilitation policies

By Xiaoping Jiang,
DIRECTOR,
and Zhuojian Zhou,
PROJECT MANAGER, RE-CODE TRADE SECURITY AND FACILITATION RESEARCH CENTER, CHINA

Re-code, an independent Chinese research institute focusing on issues related to Customs and trade, shares its thoughts in this article on the OECD method to assess trade facilitation policies, explains why it decided to evaluate the performance of China using the indicators constructed by the OECD, but not the same scoring methodology, and what the exercise revealed.

SEVERAL INTERNATIONAL ORGANIZATIONS have developed methods to assess the efficiency of countries in facilitating trade flows. Among them are the World Bank with the *Doing Business* project and the *Logistics Performance Index*, the World Economic Forum who publishes the *Global Trade Enabling Report* and the *Global Competitiveness Report*, and the Organisation for Economic Co-operation and Development (OECD) with its set of *Trade Facilitation Indicators*. This last method forms the focus of this article.

OECD assessment method

The OECD developed indicators to assess the extent to which countries have introduced and implemented trade facilitation measures as well as their performance relative to others. The measures that were selected are specific or "narrow," focusing on public prerogatives, and drawn from the World Trade Organization's (WTO) Trade Facilitation Agreement.

There are 11 first-level indicators related to the import/export

procedure, each of which is subdivided into further indicators: 115 in total. The methodology is by no means complicated: the score for each first-level indicator is the average of the scores obtained for each of the second-level indicators (i.e. the subdivisions), while global trade facilitation performance is the average of the scores of the first-level indicators.

There are two methods to calculate the score of the second-level indicators:

- "Direct scoring" – Indicators are scored from 0 to 2 (0 for poor performance, 1 for average performance, and 2 for good performance) on the basis of the results of an investigation. Investigators may rely on publicly available sources of information (Customs websites, official publications such as Customs codes, etc.), and on questionnaires replied to by the relevant administrations and by carriers with a worldwide presence.

- "Indirect scoring" – Data is extracted from existing international reports, databases or other sources, and is translated into corresponding scores based on specific rules.

For more details about each indicator, the data sources and the method of calculation, see the online tool "Trade Facilitation Indicators Simulator" (https://sim.oecd.org/Simulator.ashx?lang=En&ds=TFI).

China's trade facilitation policies

The OECD conducted assessments on China's trade facilitation policies in 2012, 2015 and 2017. The results are shown in table 1.

Experts agreed that, in general, the above evaluation results fairly reflected the level of trade facilitation in China. However, a great many trade experts also thought that several of the indicators were not assessed well enough and, therefore, deviated from the reality on the ground.

An example is the assessment done in 2017, in particular the indicator referring to the pre-entry advance ruling programme, which allows China Customs to provide decisions on the classification, origin and valuation of commodities prior to their importation or exportation. Re-code believes that the performance of China in this respect is not deemed to be as good as the OECD's estimate indicates. The score obtained seemed too high for two reasons:

- provisions regulating advance rulings in classification, valuation and origin of commodities are not well harmonized with other relevant regulations;

- the procedures and the requirements to issue a ruling are not standardized or unified across the country.

Another example is the score attributed to the three indicators falling under "Formalities," which seemed to be undervalued. It is widely recognized that China has made tremendous progress when it comes to formalities: documentation requirements and Customs procedures have been simplified to a great extent and information technology (IT) systems have been improved, allowing for far more automation. While this progress has been recognized by the trade community in China, it is not reflected in the assessment conducted by the OECD.

The scores of the two indicators related to "Border Agency Cooperation" also do not seem to conform to reality. Over the past few years, China Customs has spared no efforts to promote cooperation with staff of the Chinese General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)[1]. In addition, an "inter-agency licence verification network" has been developed with other authorities. Cooperation with foreign counterparts has also improved, with Chinese agencies being very proactive in this domain. For example, China Customs has initiated a number of joint control programmes with the Customs administrations of several neighbouring countries. These efforts are not properly reflected in the OECD assessment.

Table 1: TFIs in China

Indicator	Year		
	2012	2015	2017
Information Availability	1.56	1.80	1.52
Involvement of the Trade Community	1.50	1.75	1.43
Advance Rulings	1.50	1.43	1.67
Appeal Procedures	1.71	1.13	1.33
Fees and Charges	2.00	1.75	1.69
Formalities - documents	1.17	0.83	1.33
Formalities - automation	1.75	1.75	1.15
Formalities - procedures	1.29	1.50	1.32
Border Agency Cooperation (internal)	1.00	1.00	1.00
Border Agency Cooperation (external)		1.00	0.80
Governance and Impartiality	1.86	1.57	1.67

Causes of deviation

Re-code believes that there are three major reasons for the deviations observed on some indicators.

The first has to do with data sources. Many second-level indicators are calculated using the indirect scoring method, i.e. data from reports or databases of other parties. The problem is that this data is sometimes defective. Let's take the figure related to "Clearance Time," a subcategory indicator under "Formalities - Procedures," as an example. The OECD uses a clearance

1 In March 2018, the AQSIQ was dismantled under a government restructuring programme, and its entry-exit inspection and quarantine duties and work-force have been integrated into China Customs.

time without physical inspection and the clearance time with physical inspection published in the World Bank's Logistics Performance Index (LPI) to determine the value of this indicator. The figures obtained from the 2014 and 2016 reports show no real progress in this regard. Average clearance times are 2.07 and 2.10 days respectively.

However, China has taken many measures to optimize clearance formalities, with trade-related border agencies working together to expedite procedures and inspections. Progress was reflected in several Time Release Studies that Re-code conducted in China since 2014 (see the report on the study undertaken in 2015 published at the end of this article in the digital edition of the magazine). In addition, the figures on clearance times, extracted from the Customs clearance management system to which Re-code had access in 2016, are much lower than those reported in the LPI.

Thus, there are reasons to doubt that the data in the LPI reflected clearance time properly in 2014 and 2016. Since the OECD published its latest TFIs in 2017, the World Bank released its 2018 LPI which does reflect great improvement in the clearance time.

The evolution of the clearance time as reported in the LPI over the years is shown in Figure 1.

Another issue is that the scoring method does not sometimes allow progress made to be appreciated. Let's once again take the clearance time as an example which is scored following a binary methodology, with a range of 0 to 2, with thresholds based on the above/below average method. The indicator is scored 0 when the country's "average clearance time" in the LPI ranks among the lowest scores obtained by 30% of the assessed economies, 1 when it ranks among the scores obtained by 40% of the following economies, and 2 when it falls under the highest scores obtained by the remaining 30% of economies. If the ranking of an economy stays in the same demarcated range, even though there is a big jump in ranking compared with the previous report, its OECD's score will remain unchanged.

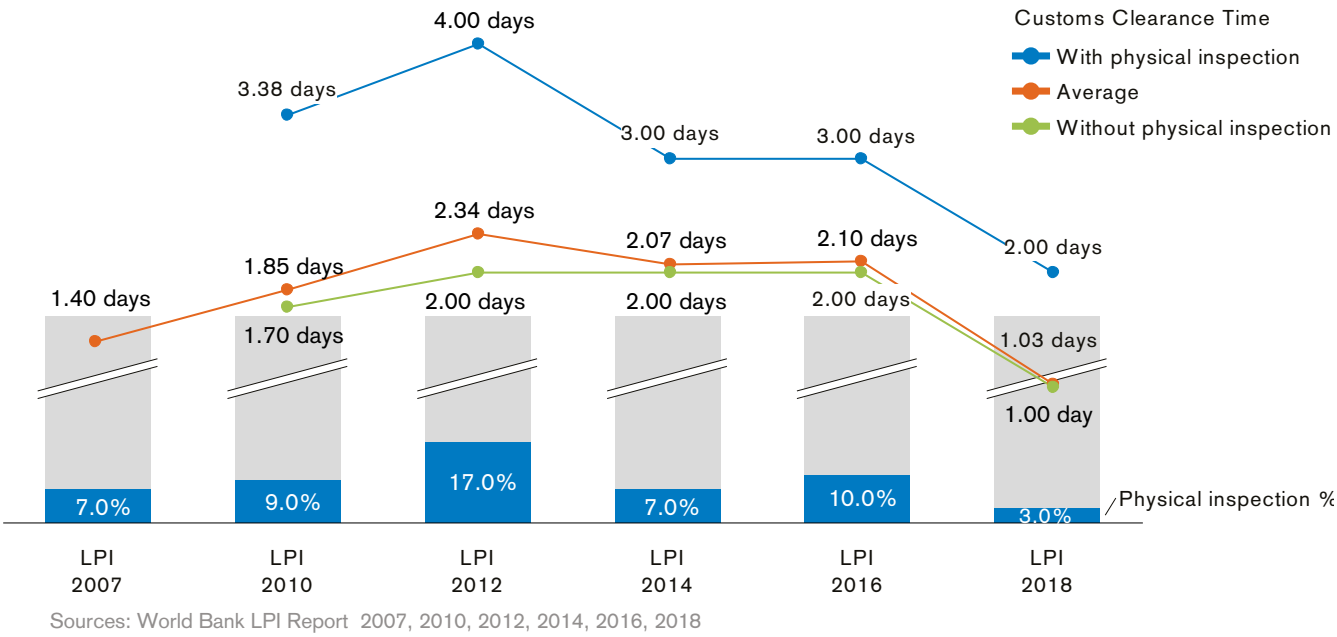
Finally, the OECD uses unweighted formulas to calculate the scores of the 11 first-level indicators. In this respect, Re-code believes that conducting the assessment simply by calculating an average without setting weights and taking into account the difference in importance of the indicators as well as their possible correlations (correlation between variables could be interpreted as double counting) is not optimal.

Reviewing the OECD methodology

Re-code has made relevant adjustments and improvements to tackle the deficiencies mentioned above. Instead of relying on publicly available data as well as reports and databases developed by other international organizations, the Research Center decided to set up a pool of experts, and asked them to score each second-level indicator. To ensure the impartiality of the results, Re-code set some conditions when hiring the experts. They had to be engaged in the business of trade, had to have more than five years of trade-related experience, and had to be interested in trade facilitation in China as well as willing to take part in the assessment.

In 2017, 21 experienced experts from governmental agencies (including China Customs and the Chinese General Administration of Quality Supervision, Inspection and Quarantine), from the trade community, and from independent research institutes were invited to participate in the survey.

Figure 1: China's Customs clearance time in LPI reports

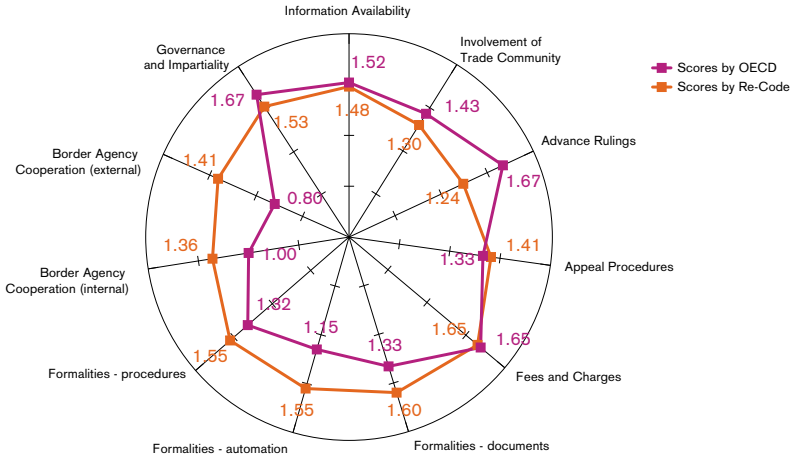


Sources: World Bank LPI Report 2007, 2010, 2012, 2014, 2016, 2018

Table 2: Weights of the 11 first-level indicators

Indicator	Weight	Indicator	Weight
Information Availability	**0.11**	**Formalities - automation**	**0.08**
Involvement of the Trade Community	0.11	Formalities - procedures	0.09
Advance Rulings	0.09	Border Agency Cooperation (internal)	0.09
Appeal Procedures	0.10	Border Agency Cooperation (external)	0.07
Fees and Charges	0.09	Governance and Impartiality	0.08
Formalities - documents	0.09		

Figure 2: Comparing the scores obtained by the OECD and by Re-code



Weights were assigned to indicators during the aggregation process in order to reflect the specific importance of some indicators and to reduce the impact of the potential correlations among some of them. Re-code asked the three most senior experts to evaluate the importance of each first-level and second-level indicator and to then set a corresponding weight according to the results of their evaluations. The weights of the first-level indicators are listed in Table 2.

With the above adjustments and improvements, a new set of scores on the 11 first-level indicators was developed, which are compared with the conclusions of the 2017 TFIs assessment by the OECD in Figure 2.

Research results

The results of the research were published in Re-code's "Annual Report on Trade Facilitation of China 2017," with readers being encouraged to send their feedback on the research findings.

On the positive side, some found that Re-code's research provided a more accurate assessment of the actual trade facilitation performance of China than the one done by the OECD, and that the progress made in China when it comes to formalities and international/national cooperation was better reflected.

On the other hand, some deficiencies of the Chinese government were also exposed, especially in relation to the management of advance rulings and consultations involving the trade community when introducing or amending trade related laws, regulations and administrative rulings of general application.

More information

Recode reports can be downloaded at https://pan.baidu.com/s/14Urcz5vKDhSp7S9lRBs4CQ

This CBP beagle

IMAGINE BEING LESS than two feet tall and having to navigate the luggage carousel at one of the busiest airports in America. This could be a daunting and intimidating task, but every day a non-intimidating canine battles through the large crowds sniffing backpacks and luggage looking for food.

Frodo, a beagle, is a U.S. Customs and Border Protection (CBP) agricultural products detection dog. He has been working at Chicago's O'Hare International Airport since 2011, and according to Jessica Anderson, a CBP Agricultural Specialist, Frodo loves his job. "This is a beagle's dream job. They are very food driven. If they know where food is, they will find it."

When people think of law enforcement canines, beagles are probably one of the last breeds someone would envision. Anderson believes the programme to start using beagles began in the 80s. "We wanted to create public awareness of the agricultural programme. Beagles are cute and cuddly and not intimidating, even though Frodo has scared some people."

Frodo's specialty is finding apples, citrus, mangoes, beef and pork. As the luggage carousel turns, Frodo is hard at work, standing on his hind legs to sniff the backpacks people are wearing and walking among the lines of people collecting their bags.

Frodo is trained to provide a passive response to target odours. If he finds something, he will sit down, alerting Anderson that he is on to an odour. As soon as this happens, Anderson intervenes and asks the passenger if they have any food items in their bag. "This is usually the time the passenger remembers they do have something," Anderson explained.

While Frodo looks like a dog you want to pet and snuggle up with, when he is working, petting him can be a distraction and is not allowed. Most

isn't your typical canine

of the agricultural canines are rescue dogs, sourced from a shelter. Rescue beagles are usually between one and three years old when procured by the academy for this programme. "The retirement age for beagles is usually nine years, but because they are rescue dogs we don't know their exact age," said Anderson.

"As long as the beagle has a high food drive, wants food more than anything else in the world, and is between the ages of one and three, we may rescue and train them. The age requirement is in place because we want the most productive years from the dog during service," stated Anderson.

Beagles are one of the healthiest breeds, with an average lifespan of 15 years. Additionally, they are smaller dogs that eat less than larger breeds, and because they are rescue dogs, CBP does not have to rely on breeders.

Each beagle goes through a training period of 10 weeks with the paired handler. During the training, handlers become familiar with the dog before they are put to work at their respective port of entry. Each pup can find various plants, meats, fruits and vegetables, in addition to the training odours of apples, citrus, mangoes, beef and pork.

"I believe there was a survey and these training odours were the five most commonly found items," Anderson said. "This data allowed us to hone in and train the dogs in what to search for." The training doesn't stop once they are certified. These canines and their handlers have to recertify every year.

Frodo isn't just looking for his five main food groups. He has found a commercial shipment of dog bones, packed in suitcases, elephant hair bracelets, bird's nest soup from Vietnam, and other extravagant items. To date, Frodo is responsible for seizures amounting to almost 100,000 US dollars.

Just some of the many agricultural products sniffed out by Frodo (Photo: CBP Chicago)

Frodo hard at work as his handler Jessica Anderson looks on (Photo: CBP Chicago)

Though Frodo doesn't work a 9-5 job, he works an hour-on/hour-off schedule, and sometimes that may vary given operational volumes. This is because "dogs aren't machines," as Anderson remarked. Frodo is between seven and nine years old, so he probably has about one more year on the job; after that, he will be retired.

More information
www.cbp.gov

Brazil's unique export declaration: modernization inspired by international standards

By Eliza Helena Delgado de Oliveira, Hermano Felipe Campos Ferro and Debora Teles Toscano,
CUSTOMS OFFICERS, FEDERAL REVENUE SERVICE, BRAZIL

THE BRAZILIAN GOVERNMENT has recently centralized its export procedures and developed a new online platform to process export operations in order to make them more efficient and, ultimately, boost the economy. The new "unified export system" is the first application developed as part of Brazil's Single Window project that started in 2014 and which aims to integrate all existing information technology (IT) processes currently used by border agencies to manage trade flows, thus enabling enhanced coordination and better controls while facilitating data reporting for traders.

Old model

In order to export, a company had to register with the Department of Federal Revenue (RFB). The registration provided access to the Foreign Trade Integrated System (Siscomex), an IT platform that was developed in the 90's as part of the RFB's effort to implement computer-based procedures and controls.

Under the old system, the exporter, or the Customs broker, had to initially submit, via Siscomex, an "export register." This document enabled the relevant government control agencies to each evaluate compliance with regulations which they were specifically responsible for enforcing, such as those relating to sanitary issues, security, fauna and flora, nuclear matters and tariff quotas.

When necessary, a licence or certificate also had to be obtained and added to the export documentation. These documents were issued either as paper forms or via independent electronic systems. This meant that the concerned agency had to first issue the documents requested by the trader on the basis of the supplied information, and later check whether the documents they had issued adequately supported the export request.

Once this step had been completed, only then could the exporter actually submit an export declaration together with any other necessary documents to the RFB to initiate the Customs clearance. Among the documents to be presented were the commercial invoice (containing information about the actual business transaction), the packing list (containing the number of packages and their contents), and the bill of lading (the transportation contract issued by a carrier).

According to the Doing Business study conducted by the World Bank, an export of containerized goods in Brazil took, on average, 13 days to complete, with average costs in the order of 2,200 US dollars per container. These figures placed Brazil 124th in the Doing Business trading across borders ranking.

Although Brazil's "old model" was an innovation at the time when it was created, this export model was clearly no longer able to efficiently meet the needs of the country's private actors and government agencies, especially in light of increasing globalization, which has led to a more intense flow of modern world trade.

Single Window for exports

To solve many of the problems identified and to rationalize the procedures, a "Single Window" platform (www.siscomex.gov.br) was designed in line with the approach advocated by the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT), which considers the Single Window environment as a key facilitation measure, as well as with the WCO guidelines and its recommendation on dematerialization of supporting documents. The objectives of Brazil's Single Window export portal are to:

- eliminate redundancy in information and ensure data integrity (for example, data submitted during the registration

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Prior to implementing the new system, an exporter had to report 88 pieces of data. Under the new process, the number of pieces of export data has fallen by around 60% and the exporter now needs to provide only 36 pieces of data.

of the commercial invoice can be used to complete the export declaration);

- centralize procedures for all kinds of exports and modal transport;
- rationalize and coordinate the actions of all stakeholders involved in the export logistics process, including all national agencies which regulate exports;
- reduce or eliminate parallel controls;
- improve tax collection by automatically notifying the revenue authority every time an export declaration is received;
- facilitate exports by allowing the national postal operator and courier companies to act as export agents.

Besides building the platform per se, the export procedures have been streamlined to bring real benefits to exporters, meet the needs of stakeholders, and reduce the times and processes of such operations. At the core of the new system is the Declaração Única de Exportação (DU-E), or Unique Export Declaration.

The DU-E is essentially an online document for the registration of an export declaration to which additional documents may be added. It is based on the WCO Data Model and must be completed by the exporter or by the person responsible for submitting the declaration, based on information contained in the commercial invoice that also has to be uploaded onto the system.

The commercial invoice in Brazil is a document for internal tax purposes, which establishes the transfer of ownership of a property. The centralization of these two documents on the same platform enables better controls, especially when it comes to fiscal evasion as it allows access to information on goods actually exported and the internal taxes related to the process.

Obtaining licences, authorizations, certificates and other documents that must support an export also occurs in a different way in the new system. They can be requested directly through the portal, and issuing agencies can control their use and the conformity of an export without interfering with the continuity of the logistics flow.

The export procedure can be initiated without the above documents and the exporter may obtain them over time, as long as they are ready before shipping. This has enabled the exportation of regulated products to be facilitated. A relevant feature here is that the system has a validation module that allows the exporter to train himself/herself on the new export process before actually exporting, thereby minimizing errors when registering the real declaration.

Prior to implementing the new system, an exporter had to report 88 pieces of data (50 on the export register and 38 on the Customs export declaration). Under the new process, the number of pieces of export data has fallen by around 60% and the exporter now needs to provide only 36 pieces of data.

The Portal also aims to increase transparency by allowing companies to monitor the progress of their operations in detail over the Internet. In addition, the analysis of the operations processed through the DU-E until now shows that the average time between the registration of the declaration and the shipment of the goods has been reduced by 54%, exceeding the initial target set early in the project. The reduction in time taken to export goods has a direct impact on transaction costs, and increases the competitiveness of Brazilian companies in the global market.

Moreover, during the whole process, most goods awaiting export would be held in port or terminal premises. The fact that export clearances now take

less time means that ports can process shipments quicker and increase the flow of goods they process. In a country where a lack of port infrastructure is regularly pointed out, such increases in port operations, without any expenditure on the actual infrastructure itself, is great news.

Risk analysis

From a Customs point of view, the process reengineering aimed especially at enabling transaction based risk analysis 24/7, following international best practices. Previously, declarations were analysed in batches, only on working days, creating gaps that further increased the time needed to process export operations.

Under the new system, each declaration is analysed separately, periodically, and, as a result, more rapidly. The control process is improved, and the time required to manage the flow of exports considerably reduced.

The system still gives every export transaction a "Unique Consignment Reference," or UCR, which allows for the aggregation of several invoices into a single cargo consignment, and will be used to track shipments through all stages of the export process. The UCR is made up of a number and characters, indicating in a coded format the following information:

- <year> = the year in which the UCR is allocated by Siscomex to a given export through the DU-E (for example, "7" if allocated in 2017, "8" if allocated in 2018, etc.);
- <country> = the country where the UCR was assigned ("BR" in the case of Brazil);
- <exporter> = the exporter's identification, which may contain 8 or 11 digits;
- <decade> = the decade of the year in which the UCR is assigned by Siscomex to a given export through the DU-E (for example, "1" if allocated in 2017, "2" if allocated in 2020, etc.);
- <reference> = a unique string of characters that can be assigned by the exporter/declarant or, if he does not do so, by the system.

The use of the UCR in foreign trade operations meets the WCO Recommendation. In addition, the fact that the different data forms used in the system were developed according to the WCO Data Model will make the exchange of information with other Customs administrations also using the Model much easier.

Last but not least, the system allows for the insertion of additional details about the nature of products being exported. This feature aims at fixing a common problem, i.e. requests for more detailed specifications by Customs in the country of import. Since information about products was dispersed among several documents, it was common to see merchandise identified by its NCM (Nomenclatura Comun do MERCOSUL) code, by a written description, and by some other code used internally by the Brazilian Customs or tax authorities. The system has been designed to coordinate and centralize all descriptions in a single place.

Consultation

Although the project was led by the RFB and the Foreign Trade Secretariat (SECEX), private sector participation in the construction of the new and improved export process was essential and effective in all phases of the project, from the mapping of the old processes, the identification of the main problems, critical points, redundancies and bottlenecks in the flow to the recognition of stakeholders' needs.

Way ahead

The implementation of the DU-E began in March 2017 and progressed gradually until reaching completion in July 2018. Initially, only the basic functionalities for cargo requiring Customs supervision and sent by air became operational, followed by the later incorporation of sea and land operations. Thereafter, operations supported by the Special Drawback Regime were added, and, finally, operations subject to other governmental controls, in all modalities. The idea was to allow the various players to migrate to new concepts and functionalities with tranquility as well as legal and operational security.

The perception of the benefits generated by the implementation of the new export process is gradual and growing, with the actors becoming more and more familiar with the system and perfecting their own processes. Moreover, given the efforts made to simplify procedures, reduce duplication in reporting, make control transparent, reduce costs associated with exportation and increase the predictability of commercial operations, Brazil hopes to increase the country's trading performance and see itself better placed in the ranking made by the World Bank or the Organisation for Economic Co-operation and Development (OECD).

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Dubai Customs launches iDeclare

DUBAI CUSTOMS LAUNCHED a smart mobile app enabling passengers arriving in Dubai to securely submit Customs declarations electronically, thus bypassing the current traditional paper forms. The online application, called iDeclare, simplifies the Customs clearance process for passengers by enabling self-declaration of their must-declare commercial goods, personal effects or cash either pre or post arrival at the airport, saving them both time and effort.

With the launch of iDeclare, Dubai Customs becomes the first Customs administration in the Middle East to implement smart mobile declarations for passengers. Through this smart app, the administration aims to further streamline passenger traffic into Dubai International Airport, which received 88.2 million passengers in 2017, topping all airports worldwide for the 4th year in a row. Clearance waiting time will be reduced by more than 60% from 45 minutes to only 5 minutes. Inspectors just have to scan the "bar code" generated by the app on the passenger's smartphone.

Moreover, iDeclare enables travellers to be better informed of the regulations applying to goods, and Customs inspectors no longer have to waste time filling in declarations on behalf of passengers. Dubai Customs' latest tech innovation is designed to enhance the passenger experience and increase customer satisfaction, whilst optimizing border control. These measures will enable better protection of the economy and enhance security.

The new initiative by Dubai Customs further reinforces the administration's progressive adoption of digital transformation and technology-enabled automation of Customs processes and procedures. A smart solution for the smooth and efficient movement of air passengers, iDeclare is geared to make Dubai way ahead in terms of its readiness to host Expo 2020 (www.expo2020dubai.com), which takes place in two years.

More information
www.dubaicustoms.gov.ae

Bahamas Customs takes the Mercator Programme to a new level

By Andrea Hampton,
WCO-BAHAMAS TRAINING PROGRAMME MANAGER

EARLIER THIS YEAR, the WCO and the Bahamas Customs and Excise Department (BCED) embarked on an exciting partnership to employ a new model for Customs capacity building and technical assistance. For the first time, a national multi-year WCO Mercator Programme Implementation Plan has been combined with an intensive training delivery programme aimed at achieving specific results over the course of approximately 18 months.

The initiative is funded from a loan to The Bahamas Government by the Inter-American Development Bank, and benefits from the strong commitment of the Comptroller of Customs, Dr. Geannine Moss. She desires to bring the skills of her staff up to higher standards by implementing modern processes and practices that would contribute to facilitating trade, whilst ensuring compliance with the provisions of the World Trade Organization's (WTO's) Trade Facilitation Agreement (TFA). The Bahamas intends to accede to the WTO, and the BCED has a crucial role in preparing the country to do so.

Implementation plan

The WCO Mercator Programme was designed to assist governments in implementing the Customs trade facilitation measures outlined in the TFA. The Bahamas is the first country to take advantage of the Mercator Programme prior to accession to the WTO. This clearly demonstrates its commitment to adopt the WTO's multilateral trade rules and standards, while recognizing that the benefits generated by the Programme can and do reach beyond WTO membership.

Under the Mercator Programme, capacity building is provided on the basis of a comprehensive needs assessment and development plan. Once gaps related to meeting the commitments under the TFA have been identified, multi-year action plans are developed to serve as roadmaps and mechanisms by which progress can be monitored. A WCO-accredited Mercator Programme Advisor (MPA) is assigned to support the administration throughout this process. In the case of The Bahamas, an MPA from US Customs and Border Protection has been assigned.

After a scoping mission in March 2018, the MPA and other WCO experts worked with the BCED to determine key areas for improvement. The product of this work is intended to assist the administration in better aligning itself with trade facilitation best practices and international standards such as the WCO Revised Kyoto Convention (RKC), which will assist with TFA compliance. In June 2018, these findings were addressed in a detailed Mercator Implementation Plan that:

- explains the specific steps needed to be taken by the BCED in order to align itself with TFA standards;
- identifies strategic links for each set of activities, including desired outputs and overall outcomes;
- specifies indicators that can be used to monitor implementation progress;

- assigns individual responsibilities to BCED executives, thus ensuring accountability and ownership;
- provides a timeline by which actions are to be taken;
- directs the BCED towards relevant WCO resources and tools to support each of the actions, drawing on the WCO's TFA Implementation Guidance.

Training Agreement

As is the case in all countries benefiting from the Mercator Programme, this work was done in parallel with identifying critical areas for training needs within the Customs administration. What makes the approach adopted in The Bahamas unique, is the fact that, thanks to a Training Agreement with the WCO, the scale of technical assistance that will be delivered is unprecedented.

The training programme consists of 26 technical assistance and capacity building missions delivered by WCO experts. All themes covered during the missions support the attainment of specific objectives under the Mercator Programme and are relatable to articles of the TFA. They include core Customs functions such as risk management, valuation, classification, and rules of origin.

Focus is being directed towards measures contributing to a more predictable and transparent trading environment. Initiatives include advance rulings and the review and appeals procedures, as well as arrangements aimed at enhancing coordinated border management.

Assistance in the area of organizational development is also being provided. The aim is to support the BCED's institutional capacity to deliver the necessary changes to meet the demands of traders and capture the full benefits expected from the imminent roll-out of an Electronic Single Window (ESW).

Emphasis has also been placed on sustainability. A number of BCED officers meeting the WCO pre-requisite profile will be trained as instructors so that they can, in turn, teach their peers.

In addition, the WCO's e-learning platform CLiKC! will also be used.

Much has already been achieved in only a few months. The programme of work has been intensive, with over 100 BCED officers having received training and technical assistance from the WCO covering 10 different areas to date. Among other core Customs TFA-related support:

- training on rules of origin was delivered to 25 participants, and a number of potential BCED trainers have been identified;
- risk management, advance rulings, and performance measurement legislation, policies, procedures and capabilities have been evaluated;
- the WCO supported the creation of a Time Release Study framework, plan and working group, which will be responsible for designing benchmarks to compare clearance performance before and after implementation of the ESW;
- 12 Superintendents and 12 Chief Customs Officers have benefited from the WCO's intensive Leadership Management and Development training course;
- BCED staff members benefited from training on the WCO Data Model, and have since started mapping their data requirements to the Model in preparation for ESW implementation.

Conclusion

By pioneering this unique approach, which combines the Mercator Programme's focus on results with intensive delivery of WCO technical assistance and capacity building missions that include the sharing of expertise, The Bahamas has become a showcase for the Caribbean sub-region. Its dynamic partnership with the WCO is a clear demonstration of the efficacy of the WCO's wider Capacity Building Strategy.

More information

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What makes the approach adopted in The Bahamas unique, is the fact that, thanks to a Training Agreement with the WCO, the scale of technical assistance that will be delivered is unprecedented. The training programme consists of 26 technical assistance and capacity building missions delivered by WCO experts.

Building technology-driven organizations: China Customs shares its experience

By Mr. Wang Lingjun,
VICE MINISTER, GENERAL ADMINISTRATION OF CUSTOMS, PEOPLE'S REPUBLIC OF CHINA

A new Customs agency

In March 2018, the Chinese government decided to integrate China's entry-exit inspection and quarantine duties and workforce into China Customs. Since 20 April, the previous entry-exit inspection and quarantine officers in 306 ports nationwide have started to work as Customs officers. This marks the birth of the new China Customs. However, the reform has brought us not only opportunities, but also challenges.

First challenge

How to achieve the full integration of Customs and inspection and quarantine services. Such an endeavour requires developing completely new clearance procedures and information technology (IT) systems. Only by integrating the IT platforms of the two agencies can we stimulate a "chemical reaction" that truly transforms China Customs, and bring about the "1+1=2" result.

Procedures were simplified, international standards adopted, and the IT database structure reconstructed and optimized, according to different business models. The costs associated with preparing documentation incurred by traders, and the costs associated with the administrative supervision borne by Customs have been reduced simultaneously, ending in a "win-win" situation for both traders and Customs.

Second challenge

How to safeguard the national gateway. The new China Customs shoulders greater responsibilities in terms of border security and risk prevention in areas such as revenue collection, public health, bio-security, food safety, illegal items, and goods in general.

Third challenge

How to achieve a comprehensive opening-up and better management of e-commerce transactions. In recent years, the trade volume of cross-border e-commerce in China has been soaring. For example, in 2017, China Customs handled 1.89 billion inward and outward parcels.

© China Customs

On 11 November, the most popular shopping day in China, also known as "Double Eleven," our Customs Clearance System for Cross-Border E-Commerce processed a total of 16.19 million overseas shopping manifests.

New solutions for new challenges

With limited resources, we turned to technology to improve efficiency and save human resources, thus bringing about technology-driven changes. We have already made some progress over the last five years. Some of them are presented below.

Increased non-intrusive inspection capacities

In 2017, we explored the use of Artificial Intelligence (AI) in equipment inspection image systems such as X-ray, Back Scatter and Millimeter-Wave screening technology. Pilot projects were carried out in some Customs districts to test the machines' auto-detection capabilities.

The technology seems promising as we managed to find prohibited and restricted items utilizing an automatic detection application. As a result, the technology will now be deployed to some of the inspection equipment, which will be connected to the Customs information systems as well to a bank of scanned images.

As some passengers enter the country with goods below the quantity and value threshold that could otherwise attract duties and taxes, we used Facial Recognition (FR) technology to build a facial database of frequently incoming and outgoing passengers.

Officers are now able to more easily locate suspects in the passenger inspection channel and conduct a non-intrusive examination using Millimeter-Wave (MMW) body scan equipment. Our efforts in this regard have greatly deterred illegal concealments and smuggling activities.

In addition, robots have been deployed to answer passengers' questions and guide them through the Customs clearance process. We are also exploring how robots could assist our inspection and radiation detection work.

The new Customs information system has been built to integrate and analyse "Big Data" – i.e. data aggregated from various sources and in multiple forms. A Big Data Application Centre and a Big Data Platform have thus been established. We have gradually shaped an operating mechanism, which combines expert risk analysis and machine intelligence assistance in our law enforcement activities.

More accurate targeting

The new Customs information system has been built to integrate and analyse "Big Data" – i.e. data aggregated from various sources and in multiple forms. A Big Data Application Centre and a Big Data Platform have thus been established. We have gradually shaped an operating mechanism, which combines expert risk analysis and machine intelligence assistance in our law enforcement activities.

Through accurate data analysis, we can effectively balance the relatively limited human resources and the growing supervision workload. For example, experts have transformed thousands of successful cases into algorithm models. Hundreds of smuggling cases have been cracked down upon, with a value of over 16 billion renminbi. China Customs has also deployed CCTV to enable real-time monitoring of over 1,900 sites where Customs operations are undertaken.

Digitalization

An integrated platform merges the functionalities of both a Customs information website and a Single Window, providing almost all services related to Customs and port procedures online. In 2017, 50% of trade documents were processed through the Single Window, a figure which is predicted to reach 70% by the end of this year. We also fully opened access to Customs' operational data, which allows enterprises to follow the declaration process via the Internet, mobile applications and even social network systems.

Furthermore, a Customs Targeting Centre and a Supervision Centre for Revenue Collection have been established, each developing its own risk analysis processes separately. Wherever they are located, enterprises can now enjoy a standardized Customs service. With these initiatives, the Customs clearance time of imports and exports in 2017 was reduced by one third compared to 2016.

Going forward

We believe that, to improve control mechanisms, our IT environment must reach international standards and evolve continuously. The exploration and implementation of new technologies is an ongoing process that will never end.

Our resources are now being focused on exploring how Blockchain technology can help us develop trusted, safe and efficient trade chains by collecting and sharing data covering all stages of domestic and overseas production, processing, storage and usage.

Last but not least, we are also looking at Virtual Reality (VR) and the possibility of using it to train officers to handle terrorist attacks, deliver epidemic control or manage vessel inspections. Pilot projects in this regard are currently being promoted at various Customs units.

More information

www.customs.gov.cn

Blockchain: unveiling its potential for Customs and trade

The big advantage of Blockchain technology is that it creates an environment of "trust" between and among unknown parties to transact business and exchange information without an intermediary, whilst ensuring data integrity and providing a full audit trail.

THIS SECTION OF the magazine gathers several articles on the "Blockchain," a term which refers to a type of data structure that identifies and tracks transactions digitally and shares this information across a distributed network of computers. Blockchain is one type of distributed ledger: distributed ledgers use independent computers – referred to as nodes – to record, share and synchronize transactions, instead of keeping data centralized as is the case with a traditional ledger.

The Blockchain organizes data into blocks, which are chained together in an append-only mode. It has the capability to move any kind of data swiftly and securely and, at the same time, make a record of that change, movement, or transaction instantly available, in a trusted and immutable manner, to the participants in a Blockchain network. In addition, the use of "smart contracts," a set of rules that are written down and executed automatically, enables the avoidance of intermediaries, which act as arbiters of money and information.

In terms of governance, Blockchain technology is decentralized. There is, however, an operator function that sets the rules for everyone in the network, along with regulators and government agencies. If the network detects that something "untoward" may be going on, the associated individual participant would be frozen out of the network. However, if the untoward activity was merely an accident, the participant would be re-admitted. In contrast, in the case of a deliberate attempt to commit fraud, the operators would work with the relevant authorities to take appropriate action.

The big advantage of Blockchain technology is that it creates an environment of "trust" between and among unknown parties to transact business and exchange information without an intermediary, whilst ensuring data integrity and providing a full audit trail. Although the technology was initially developed from a financial services perspective, it can serve as a basis for many other useful applications, including information management, far beyond monetary transactions.

This technology could equally be applied within the Customs and trade environments, where participants in a transaction need to exchange information. Use of the Blockchain enables the same copy of a ledger to be instantly available to all parties at different nodes in an updated, trusted, secure, and immutable manner. It also obviates the need for each party to maintain separate ledgers, as is currently the case.

The articles that follow this introduction present some of the different platforms that have been developed to enhance the logistics chain based on Blockchain technology:

- The interface project built as part of Mercury II, the system used in the context of the dematerialization of the ATA carnet, which reproduces the paper procedures of the carnet.
- Tradelens, jointly launched by MAERSK and IBM, which allows all organizations involved in an international shipment to exchange information about events and transport documents in real time.
- Cadena, which enables information-sharing on authorized economic operators (AEOs) among the Customs administrations in Costa Rica, Mexico and Peru, to ensure the efficient implementation of Mutual Recognition Arrangements/ Agreements (MRAs).
- Global Trade Connectivity Network (GTCN), a global information highway with a global vocation, but limited for the moment to the exchange of information on trade finance between the Singapore Monetary Authority and its Hong Kong counterpart.

Readers are also invited to consult the documents developed by the WCO on this technology, such as the Study Report on Disruptive Technologies and the WCO Research Paper No. 45 entitled "Unveiling the Potential of Blockchain for Customs."

Blockchain: mapping new trade routes to trust

By Jorien Kerstens and James Canham,
ACCENTURE

THE BORDER IS a national asset. To boost national competitiveness, facilitating legitimate cross-border trade must be high on every government's agenda. The World Trade Organization (WTO) estimates that ratification of the Trade Facilitation Agreement could boost global trade by up to 1 trillion US dollars and reduce total trade costs by 13% for upper-middle income countries. Put simply, making cross-border trade more efficient offers a sizeable pay-off for governments and citizens.

International trade is complex and typically plagued by inefficiency. Despite digital advances, most cross-border trade procedures remain largely paper-based and involve a multitude of stakeholders. The majority of trade transactions involve intermediaries: recent research indicates that 90% of declarations involve a broker and 75% of traders use third-party logistics providers.

Governments have a key role to play in reducing cross-border trade friction, yet government-to-government initiatives experience similar complexity. Bilateral and multilateral agreements take considerable time to negotiate. For example, the Comprehensive Economic and Trade Agreement between the European Union (EU) and Canada took almost 10 years. Adding to this complexity is the various government agencies with interests at the border. Today, clearing a single shipment across a border can involve on average 15 agencies and sometimes as many as 40!

It all boils down to trust

At the heart of this complexity is an inherent lack of trust between buyers, sellers, supply chain participants, agencies and governments. That's where blockchain comes in as a potential 'game changer' for international trade. The technology's three key characteristics – distributed (shared dataset), consensus-based and secure – all build trust.

In short, if stakeholders can collectively use blockchain to overcome the fundamental lack of trust, the trade ecosystem will become more efficient, secure and adaptable for the future. That will be good news for traders, governments and citizens as it will drive revenue and boost trade.

Blockchain: a new perspective for cross-border trade

Two years ago, blockchain was still largely a buzzword. Today, it's high on the agenda of most leading Customs and trade organizations. Rather than asking whether blockchain should be applied, the question is when and where. With so

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much buzz about potential applications of blockchain technology, it's easy to see how Customs agencies may feel overwhelmed. The temptation is to lead with blockchain as the solution, and then go in search of a suitable problem.

The reality is that the opposite approach generates better outcomes. By creating a framework comprising four key areas affecting trade activities – proof of identity, asset transfer, pathfinder and border collaboration, Accenture is providing a new way to assess blockchain's potential based on the challenges that Customs agencies and traders need to foster greater trust, reduce complexity, and secure economic growth. Essentially, this is about using the right technology in the right way to solve the inherent problem and create flexibility for the future. It is not about the widespread information technology (IT)-driven implementation of a single technology that will provide all the answers.

Proof of identity – what you see is what you get

The era of e-commerce has exposed many people to buying something from a person they have never met, nor are likely to meet. How can you trust that the person on the other end of the transaction is who they say they are? Once a purchase is made, goods may not arrive, they may not be as specified, or may be otherwise deficient in quality or safety standards. The seller looks legitimate, but there's no way of confirming this – trust is based on faith rather than any hard evidence. A digital identity based on blockchain technology could eradicate such misgivings for both large trading companies and individual consumers.

Such digital identities would be beneficial for traders, goods, containers or even documents as their 'identity' would need to be proven at various points along the supply chain. By using blockchain, relevant entities in a trade supply chain would have a secure and verifiable identity, parts of which could be shared where required, based upon the traditional handshake principle – ultimately guaranteeing veracity.

Blockchain technology can also help to bridge the trust gap that often arises between trading countries, and help to revolutionize multilateral trading agreements. A benefit of blockchain is that trading related documentation does not need to physically travel with the goods or be exchanged between parties, which decreases the paper-trail, reduces the opportunity for trade fraud, and ultimately helps ease cross-border trade friction.

Blockchain can also play an important role in proving where goods have originated from. Establishing the origin of imported diamonds, for example, is essential to ensure that they are ethically sourced. In Dubai, an initiative named "Operation Kimberley" is using blockchain technology to enhance the verification process of diamond sources.

Tracing the origins or provenance of goods is also critical to addressing global health, disease and contamination challenges in a timely way. It took more than two months to identify the original farm source of contaminated papayas which caused a salmonella outbreak in the United States (US) during 2017.

Asset transfer

In essence, a cross-border trade transaction is the same as a simple transaction, such as buying a loaf of bread, which involves the seller handing over the bread and the buyer the currency – a change of ownership and risk is effected. But distance, time and a lack of trust make international trade far more complex. Goods change hands physically, but there's also a transfer of accountability and responsibility between multiple stakeholders. In the best-case scenario, the seller is paid immediately after the goods reach their destination. But it often takes much longer, and naturally trust plays an important role.

The key to solving this issue is to identify the 'triggers' – key events that should prompt follow-up actions. For example, the arrival of goods at their destination should ideally trigger payment. Blockchain enables this business logic to be built into 'smart contracts' that automatically and legitimately trigger the right action. As an illustration, look at the mandatory fines airlines operating in the EU are required to pay when delays exceed a certain number of hours. Building this logic into a blockchain could automatically trigger a payment, rather than requiring the passenger to file an often time-consuming and laborious claim.

Using blockchain to manage asset transfer would also help in combatting cross-border trade finance fraud. Trade finance, financial instruments developed to assist the flow of goods between countries, is required notably to cover the risk and cost associated with goods being damaged, lost or stolen. The WTO estimates that 80 to 90% of global trade is reliant on it. But the risk of trade finance fraud is unfortunately quite significant. Tampering with documents remains the most common type of fraud; either to legitimize a fraudulent transaction or to use bogus information to raise funding.

Blockchain has the potential to tighten the net on trade finance fraud, and potentially result in huge cost-savings for the private sector. Not surprisingly, most commercial banks are exploring the use of blockchain for payments.

Hong Kong and Singapore are working on a cross-border blockchain solution to facilitate trade and combat trade finance fraud. Once up and running, the model can easily be scaled to more countries.

Pathfinder – taking 'track and trace' to a new level

As goods travel from origin to destination, they change hands frequently. This requires considerable processing and exchange of documents and data. A pathfinder ledger built on blockchain could act as a pipeline of goods information throughout their journey, building up an entire record of every supply chain movement of entities, goods, packages or containers. It would ensure accurate information about the condition of goods at every point in time, taking 'track and trace' to a whole new level.

Container integrity could be improved. Maintaining an accurate record of the goods in a container is crucial for addressing theft, which according to estimates from the Federal Bureau of Investigation (FBI) results in annual losses of approximately 30 billion US dollars in the US alone each year. In effect, these costs are passed on to consumers who pay a higher price for their goods. And addressing theft is a significant part of why the United Parcel Service (UPS) is investing in blockchain as a member of the Blockchain in Transport Alliance, a forum for the development of blockchain technology standards and education for the freight sector.

By using blockchain in combination with Internet of Things (IoT) technologies, relevant data such as temperature, location or whether a container has been opened (and even for how long) can be recorded and maintained with complete integrity. For food or perishable goods, keeping track of conditions such as temperature or humidity is critical. Transport companies need to know when and why a container is opened to preserve perishable goods and to ensure truck drivers do not transport illegal goods or people.

A much less explored, but no less important, area for blockchain is its potential to facilitate collaboration between governments or between government agencies. This technology could enable governments to share data and maintain accurate sight of the usage of certificates and licences, without revealing intelligence or sensitive information.

Data submission along the supply chain can be rationalized. For example, goods in transit today require the frequent and voluminous exchange of documents and data. These processes are duplicative and inefficient. By using blockchain, workflows and data can be truthfully and efficiently shared between stakeholders in the ecosystem. A proof-of-concept (PoC) undertaken by Accenture as part of a supply chain industry consortium found that up to 70% of shipping documents can be populated using existing data.

Take, for example, the bill of lading, the document issued by a carrier (or their agent) to acknowledge receipt of cargo for shipment. Today, this document is usually submitted by the carrier, who manually collates the data from others in the supply chain. This is enormously time-consuming, leads to poor data quality, and raises questions about accountability. Another example is the security declaration, provided in advance of the arrival of goods. The Union Customs Code (UCC) – the EU's new Customs legislation – already allows for various stakeholders along the shipping journey to provide a subset of data at different points in time (multiple filing of "Entry Summary Declaration" data), but a supply chain blockchain could facilitate this even more efficiently.

Given access to relevant blockchains, Customs agencies can see exactly what is in each container and whether anything has been added to or removed from it during its journey. This could help officials identify fraud and security threats early, and enable timely risk assessment and planning of controls. Such segmentation allows compliant shipments from trustworthy traders to pass the border smoothly, leaving border agencies to focus their resources, time and attention on questionable packages.

Legitimate traders are usually very willing to share data, especially if doing so reduces friction at the border. For EU trusted traders, the UCC caters for "Entry into Declarant's Records" (EIDR), which means the data of the Customs declaration is at the disposal of Customs authorities in the declarant's IT system. A pathfinder providing government access would offer an effective technical solution – and crucially without governments having to build their own solution.

Cross-border collaboration

A much less explored, but no less important, area for blockchain is its potential to facilitate collaboration between governments or between government agencies. This technology could enable governments to share data and maintain accurate sight of the usage of certificates and licences, without revealing intelligence or sensitive information.

A Customs agency could flag a certain trader or case as malicious via the relevant blockchain, alerting other collaborating countries. Different government agencies perform risk analysis controls based on their own confidential risk rules. Using blockchain to share the control decisions and results would benefit partners and contribute to a more holistic and accurate risk assessment. Various countries already have agreements in place in this area, such as the "Single Declaration" or the WCO's "My Exit, Your Entry."

The "Single Window" has been high on the agendas of border agencies for decades, with various degrees of success. The main obstacles are reluctance to share data, political sensitivities, and the inability of different agencies to agree on a governance model. Here, too, blockchain has a clear role to play. For example, take agricultural licences. These are usually granted by the Ministry of Agriculture and controlled by health authorities or veterinarians at points of entry. The corresponding import declaration is supervised by Customs, and its approval might require writing-off the permitted quantity specified by the certificate. Storing this information on a blockchain provides an integral view of usage, allowing for accurate write-off and avoiding double usage.

To facilitate cross-border trade and combat fraud, countries increasingly need to collaborate, either through bilateral/multilateral agreements, regional trade blocs, the WCO or the WTO. Today's collaboration and data-sharing efforts are often expensive and inefficient. Political sensitivities mean that, in practice, countries deploy their own data and exchange messages via an agreed-upon protocol. One example is the temporary admission of goods, whereby goods, such as paintings for an exhibition, enter countries on a duty free basis regulated by multilateral agreements. Using a blockchain to track their movements and share information would eradicate the need for paper-based processes and costly data exchange.

Conclusion

Rather than taking a technology-first approach to blockchain adoption, Customs agencies and governments should identify specific problems that this technology can help them to solve, such as fraud or inefficiency. For many agencies a first-step may be the undertaking of a pilot project to gauge effectiveness and to better understand the potential costs of rolling-out the technology across their organization. Regardless of project size, by focusing on the four areas already outlined above, agencies can start to build a robust business case for blockchain's use. Ultimately, it all comes down to trust. Blockchain could be the game changer to lower trust barriers for everyone involved in today's complex cross-border trade ecosystem.

More information

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Digitization of ATA Carnets: how the Blockchain could enhance trust

By Zahouani Saadaoui,
ELECTRONIC CUSTOMS HEAD OF SECTOR, DIRECTORATE-GENERAL FOR TAXATION AND CUSTOMS UNION, EUROPEAN COMMISSION

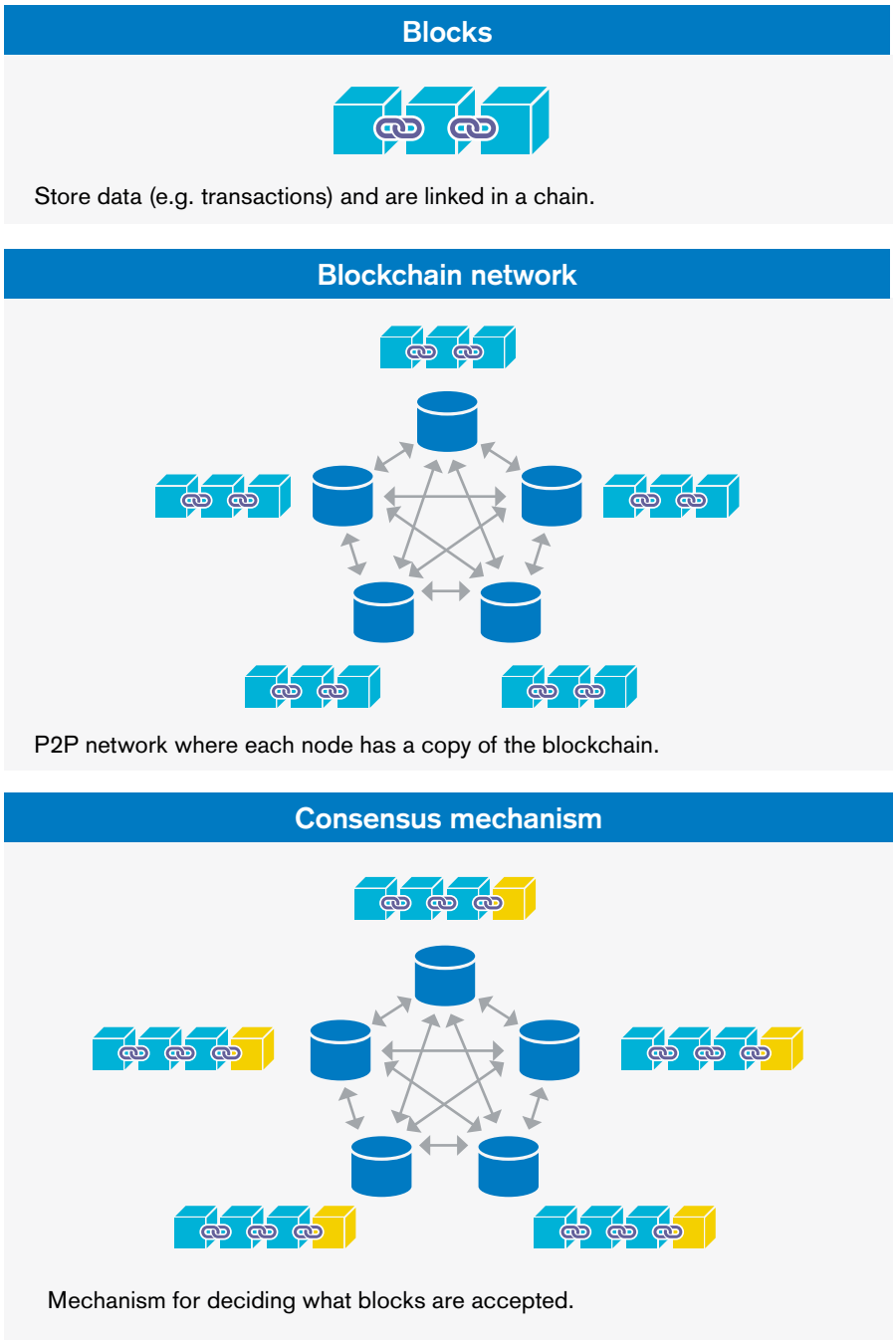
THE MOVEMENT OF goods and means of transport from, across or to, the European Union (EU) involves many actors in the supply chain who must exchange information and comply with several pieces of EU legislation and, in particular, with Customs, transport, environmental protection, safety, and security regulations. This renders the process of cross-border operations highly complex.

Over the past 20 years, digital technologies have reshaped the way industries and governments alike operate. International trade has been no exception, and the efficiency, reliability and cost-effectiveness of operations have been closely linked to the ongoing process of digitization.

At both national and European Community level, several initiatives have been targeting the digitization of reporting procedures in order to facilitate information exchange and foster better cooperation between competent authorities across different sectors. Among available technologies, blockchain technology is seen as especially promising, as it would enable the development of new paradigms for supply chain digitization, and opens up areas of potential change in the way in which citizens, economic operators and public authorities interact.

At its core, the blockchain is a decentralized, distributed ledger that stores information in blocks which are linked in a secure manner and disseminated through peer-to-peer technology to all the nodes, each of which contains a full copy of the information. The blockchain transactions are validated through a mechanism known as a consensus protocol, which is used to determine the blocks of data or transactions that will be successively added to the end of the chain as agreed among the stakeholders concerned.

Figure 1. Blockchain basis: Basic architectural components



Since early 2017, the Directorate-General for Taxation and Customs Union (DG TAXUD), responsible for shaping policies and developing operational systems for the European Customs Union in collaboration with EU Member States, has been engaged in an exploratory activity to study the potential applicability of blockchain technology in both the Customs and taxation domains. In the field of Customs, this exploration has focused on the "notarization service" whereby a blockchain platform could be used as a third party for holding information generated by supply chain stakeholders.

One document of particular interest is the ATA Carnet (ATA is an acronym of the French and English terms "Admission Temporaire/Temporary Admission"), an international Customs document used in 87 countries and territories that mainly permits the duty free temporary admission of most goods for up to one year normally. The ATA Carnet eliminates the need for a Customs declaration at border points and the lodging of a guarantee, bond or cash deposit in the country of temporary importation. It can be used for a trip covering more than one country and include numerous exits and re-entries in the country of origin during the period of validity of the document.

Each country in the system has a single guaranteeing body approved by national Customs authorities and the International Chamber of Commerce World Chambers Federation (ICC WCF). A national guaranteeing association (NGA) is entitled to issue Carnets and to authorize local chambers on the national territory to deliver them on its behalf. Processing fees apply as well as a surety bond which will be returned if the Carnet has been used correctly.

Discussions about the possibility of moving towards a paperless environment for ATA Carnets began several years ago between Customs administrations and ICC WCF, which manages the ATA Carnet system. The eATA project aims to digitize the temporary admission process by providing worldwide electronic data exchange between countries or Customs unions (ATA partners) using the document.

The EU is supporting the project as part of DG TAXUD's electronic Customs multiannual strategic plan. ICC WCF is currently implementing a system which replicates the paper ATA Carnet procedures using a digital solution called "Mercury II." The solution, based on "traditional" technology with a centralized database, is hosted by ICC in Paris, France, and will be mainly used to register the Carnets and their movements as they are certified by Customs offices along the goods' journey. In the second half of 2018, ICC will launch a pilot to test the application.

Steps of the digital process can be described as follows:

1) Using the "National Issuing and Claims Systems" (NICS) or Mercury II, a person orders a Carnet online, or, if a Carnet is already held, additional certificates if more trips are planned than originally anticipated.

2) The "holder" then downloads the Carnet into a safe wallet, stored in a smartphone, and can share it with his/her representative. The Carnet is encrypted and exchanged over secured communication channels.

3) When crossing a border, the holder, or his/her representative, unlocks the wallet and shows the QRcode to a Customs officer.

4) The Customs officer scans the QRcode, examines the general list of goods covered by the Carnet, and then reports whether the goods entered or exited the country under a temporary importation, transit or temporary exportation procedure.

5) The transaction is recorded and the holder or the representative receives a confirmation message through his/her smartphone.

6) Customs can issue claims through the system and manage them with the NGAs.

In June 2017, a partnership between DG TAXUD and ICC WCF was established whereby DG TAXUD launched a proof-of-concept (PoC) project to see whether an application based on the blockchain could interface with ICC's Mercury II solution in order to add an extra layer of trust to the process.

Key requirements that would justify the use of blockchain technology are met: multiple stakeholders need to have access to the same data, and there is mistrust between those stakeholders in using each other's data.

The PoC project reached a successful conclusion in mid-2018, and has demonstrated that distributed ledger technology (the Ethereum test network in this case) could be used to ensure the integrity and traceability of Carnets and transactions on a private blockchain platform combined with periodic anchoring on a through an anchoring mechanism public blockchain, effectively achieving independent notarization, as shown in Figure 2. The distinction between public and private blockchain is related to who is allowed to participate in the network, execute the "consensus protocol" and maintain the shared ledger.

Hash functions are a fundamental part of blockchain technology. In a blockchain, documents or data are hashed, which means that their content is summarized and represented as a unique 64-character string. The hashed value of the previous block is used to calculate the hashed value of the current block, thus creating a link between the blocks.

Figure 2: Notarisation of carnets and transaction

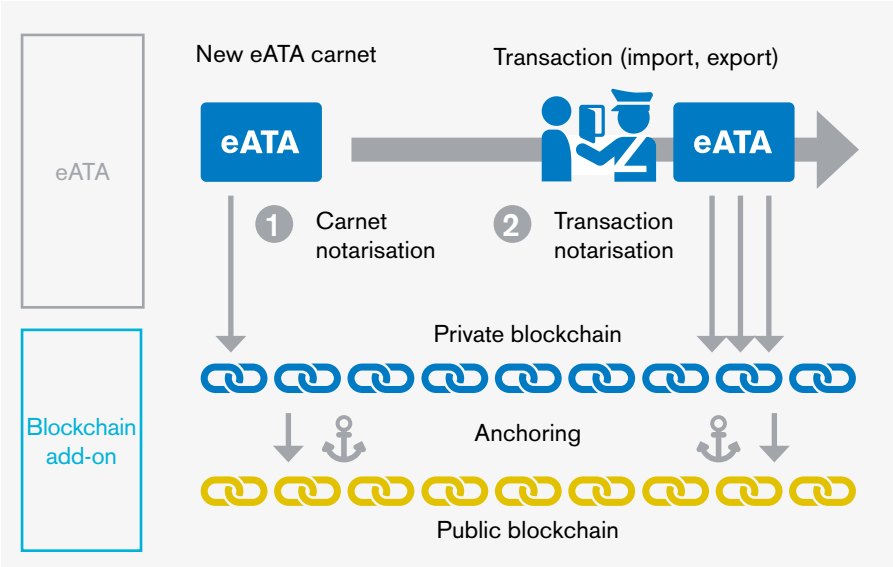


Figure 3: Blockchain basis: Cryptographic hash

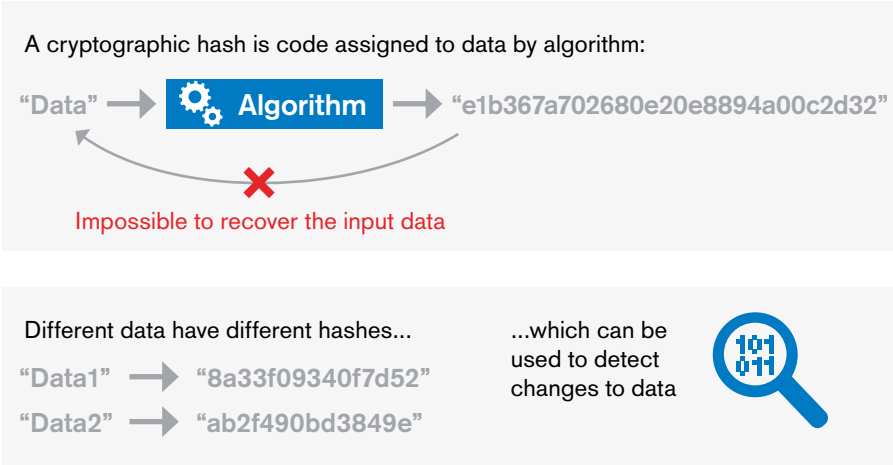
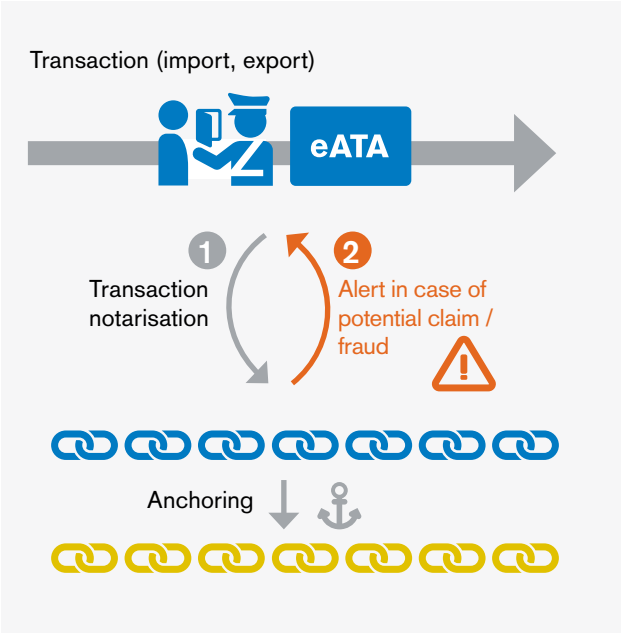


Figure 4: Automation of consistency checks



The combination of private and public blockchains for the notarization process allows the benefit of a private blockchain (in particular to lower the costs of writing information on the blockchain) to be maximized whilst benefitting from the strength of a public blockchain (such as Bitcoin), which has a very large number of nodes.

Under the PoC project, a hash of the actual data related to the Carnet or a transaction is stored on the blockchain, guaranteeing the true version of a document at any given time and providing a digital fingerprint of a document or transaction. Obtained by an algorithm which prevents reverse engineering of the original document from the fingerprint, the hash ensures that even a single comma change in a document would result in a totally different fingerprint.

The blockchain test network that was built as part of the PoC project stores only the hash of the Carnets or transactions plus a few metadata, thus allowing automated consistency checks of ATA Carnet movements to be carried out (as shown in Figure 4). Ethereum smart contract blockchain technology was used to make such checks possible in this business context

The combination of private and public blockchains for the notarization process allows the benefit of a private blockchain (in particular to lower the costs of writing information on the blockchain) to be maximized whilst benefitting from the strength of a public blockchain (such as Bitcoin), which has a very large number of nodes. Writing on the public blockchain has a cost – as a result, during the PoC project only periodic anchoring on the public blockchain of the latest hash stored on the private blockchain took place (only hash of information is stored on the public blockchain, hence there are no data confidentiality issues). This was a win-win scenario with an optimal approach that benefitted from harnessing the public blockchain at a reasonable cost.

Although DG TAXUD does not intend to make the PoC project operational, lessons learned during the project will benefit the stakeholders who are involved in the digitization of the ATA Carnet procedure. Several Customs authorities interested in the digitization of the ATA Carnet procedure expressed a lack of trust in a solution such as Mercury during meetings of the WCO eATA Steering Committee and the project shows that the use of blockchain technology could offer a potential solution, including the strengthening of stakeholders' trust in the system.

More information

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CADENA, a blockchain enabled solution for the implementation of Mutual Recognition Arrangements/Agreements

By Sandra Corcuera Santamaria,
INTER-AMERICAN DEVELOPMENT BANK

The Inter-American Development Bank (IADB) has been supporting the development of a blockchain solution to enable automated, secure and efficient information sharing on Authorized Economic Operators (AEOs) among the Customs administrations of Mexico, Peru and Costa Rica to ensure the efficient implementation of Mutual Recognition Arrangements/Agreements (MRAs).

Almost 80 countries have developed AEO programmes worldwide, and some of them have signed or are in the process of signing MRAs. To date, a record number of 60 MRAs have been signed and up to 40 more are currently being negotiated.

Besides "traditional" bilateral agreements, multilateral or plurilateral agreements have also emerged. The most recent MRA of this nature was concluded in 2018 by the Customs administrations of Colombia, Chile, Mexico and Peru, the four countries which form the Pacific Alliance trade bloc, the most recent regional integration initiative in Latin America.

In the Latin American and Caribbean region, three more multilateral MRAs are being negotiated among Central American countries (Costa Rica, El Salvador, Guatemala and Panama, with Honduras as an observer), the Andean Community countries (Bolivia, Colombia, Ecuador and Peru), and the countries of the Mercosur trade bloc (Argentina, Brazil, Paraguay and Uruguay). In other regions of the world, countries are also actively engaged in AEO regional initiatives (the East African Community, for example) and/or negotiating multilateral MRAs (the Greater Tumen Initiative, in Northeast Asia).

Challenges

The deployment of AEO programmes and the propagation of MRAs around the world are positive developments as they contribute to securing the international trade supply chain, whilst enhancing trade facilitation. However, can MRAs be effectively implemented and offer traders the benefits they were promised?

In theory, when Customs administrations sign an MRA, AEO certified companies receive benefits in all the countries which are parties to the MRA. These benefits are listed in the MRA and can take the form of a reduction in physical and documentary Customs inspections as the Customs risk management system of a Customs administration recognizes the shipment as AEO certified from another Customs administration or that it should be given

CADENA enables Customs administrations, which engage in an MRA, to share a single view of the status of an AEO certificate in real time while ensuring that the highest standards of security, traceability, and confidentiality are applied to the data. It also enables the private sector to access information about its certificate, increasing trust and transparency and, ultimately, the active participation of the private sector.

priority treatment if it is selected for inspection. These measures, which are not exhaustive, have a positive impact on commercial profits as they reduce the time and costs needed to complete a transaction.

In practice, however, implementing such measures in a secure manner is still problematic – a situation which limits the capacity to provide benefits in a secure and timely manner. The MRAs are premised on the principle of seamless exchange of information on AEO certified companies among the countries participating in the MRA, in order for them to be able to identify each other's AEO certified companies and extend mutually agreed benefits.

To inform each other, designated Customs officers in each administration send, by email, an excel file containing the data elements that the countries agreed to exchange on their respective AEOs. Customs administrations engaged in an MRA also determine the period during which data should be exchanged, which is usually monthly. These data elements are incorporated by each of the officers into their risk management system so that import operations associated with a foreign AEO from a country with which an MRA has been signed are graded more trustworthy in the Customs risk management system.

There are, at this time, very few mechanisms enabling the conduct of an automated, secure and real time exchange of data on AEO certificates. Although some initiatives have been undertaken to automate the exchange of AEO master data, many countries still use emails.

This raises several problems:

- The current method to exchange data entails risks. When you send an email, the message leaves your email provider's server and travels across the Internet. You have no idea how many servers the message will pass through between the moment you send it and the moment the recipient actually receives it, and you don't know who has access to those servers. While you can encrypt your email server connection and use encryption protocols to send it, it's not always possible to ensure that the recipient has the same set of security practices in place. In other words, you might have securely sent your documents, but that does not mean they were delivered securely. The AEO programme is all about the security of the supply chain. Records and data related to these companies should be exchanged risk free.

- As data is not exchanged in real time, but monthly or periodically, benefits cannot be granted immediately. Firms can lose profits during a monthly cycle depending on when they are granted AEO certification and when the exchange of data is conducted between Customs administrations participating in the MRA.

- The ability to react to a suspension, cancellation or withdrawal of an AEO status is reduced for the same reason given above. There could be a delay between the actual cancellation of the AEO certificate and the actual communication advising the other Customs administration of the development. In this case, this situation poses a security risk since the firm has ceased to be reliable and trusted, but will still be treated as if it was. This may have a negative effect on trust and security in the supply chain, which is shared by the countries participating in the MRA.

Blockchain as a solution

To solve these issues and set up a secure data exchange mechanism, AEO programme officers and information technology (IT) specialists from Mexico, Peru and Costa Rica Customs have been working together with Microsoft and the IADB to develop the business functionalities and the technological architecture of an application called CADENA, which is based on blockchain technology. Currently, the three Customs administrations are in the validation phase and the solution is being tested before going into production.

A blockchain solution offers concrete advantages for the management of the AEO certification process and the implementation of MRAs, making it possible to record and share transactions, according to an agreed protocol among a group of parties, with each transaction being secured and protected by an immutable audit trail.

CADENA enables Customs administrations, which engage in an MRA, to share a single view of the status of an AEO certificate in real time while ensuring that the highest standards of security, traceability, and confidentiality are applied to the data. CADENA also enables the private sector to access information about its certificate, increasing trust and transparency and,

ultimately, the active participation of the private sector. Further, it facilitates automated validation of AEOs under an MRA, using smart contracts.

The key imperative in an MRA process is to assign a unique number to each AEO that can be used across the supply chain and which is recognized by all the MRA's partners. CADENA makes use of WCO standards and the globally unique Trader Identification Number (TIN) format, and its underlying AEO master data which provides a complete set of information relating to the AEO.

Preliminary results obtained during the validation phase point to important benefits for Customs administrations, which will translate into advantages and/or benefits for the private sector as follows:

- CADENA brings efficiency and effectiveness to MRA management. Customs administrations now have a digitalized, automated, secured, reliable mechanism for sharing information on AEO certificates.
- CADENA guarantees the integrity of the data and enables access to the data to be managed by granting different roles and permissions to users.
- CADENA guarantees traders that they will be able to enjoy MRA benefits from the moment they receive their certification.
- CADENA promotes transparency by allowing firms to access information related to their certificate, as well as the list of other AEO certified companies in the countries which are part of the MRA.
- CADENA strengthens the overall security of supply chains by ensuring that information on suspensions and cancellations executed by a Customs administration and withdrawals by companies is registered and shared in real time.

The road ahead

CADENA was developed thanks to the innovative drive of the Mexico, Peru and Costa Rica Customs administrations, supported by the IADB and Microsoft. It illustrates how a transformative technology can help to improve Customs and border management.

Although it addresses a specific challenge, namely MRA implementation, CADENA demonstrated during the proof of concept phase that is could have many other functionalities which are now being considered for further development.

Among other things, it could be expanded to automate and manage the whole AEO certification process, promoting both efficiency and auditing traceability. It could also be integrated with other Customs systems, such as risk management applications, thereby alleviating a range of inefficiencies while spurring change and modernization within Customs.

CADENA can be scaled for other countries to join and can also interoperate with other blockchains and entities, making it possible to leverage the single version of truth about AEO certified operators for insurance, tax and trade finance purposes, for example.

These are just some of the new and exciting additional functionalities that could be added to the solution. Based on the blockchain technology, CADENA aligns smartly with the principles of the AEO programme. Both were brought to life as innovations in the 21st century, and are addressing the much-needed component of trust in the international trade supply chain.

More information

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IADB and the AEO programme

In the last decade, the Inter-American Development Bank has supported Latin American and Caribbean (LAC) countries in the design and implementation of AEO programmes and has been facilitating the negotiations of a significant number of MRAs in the region.

In addition, the IADB has conducted research studies on the impact of the AEO programme on trade and exports, and has also developed virtual training products, including a "Massive Open Online Course (MOOC)" to strengthen knowledge on AEOs among Customs officials and other government border agencies as well as among the firms and companies interested in being certified as an AEO.

By supporting the development of CADENA and actively promoting the use of an innovative technology to manage AEO programmes, the IADB's AEO related assistance reaches a new dimension.

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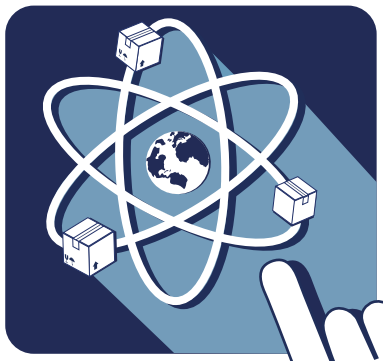

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TradeLens uses blockchain to help Customs authorities facilitate trade and increase compliance

By Stewart Jeacocke,
GLOBAL CUSTOMS EXPERT, IBM,
and Norbert Kouwenhoven,
TRADELENS AUTHORITIES LEAD, IBM

"Did you pack this bag yourself?" It's a question many of us are used to being asked when checking in at an airport. For a shipping container, the situation is more complex. Most organizations never communicate directly with the party that stuffed the container. Underpinned by blockchain technology, the TradeLens platform lays the foundation for global, digital supply chains. It connects all parties in the supply chain to drive true information sharing, foster collaboration and trust, and spur industry-wide innovation. Governments who embrace the opportunities offered by TradeLens place themselves in an ideal position to contribute positively towards a new era of global trade that is both frictionless and compliant.

TradeLens members can connect to the platform using standard approaches such as web application programming interfaces (APIs). Or, they can use the platform's out-of-the-box user interfaces. A Customs authority can establish a connection in a few days, with a small team, rather than requiring its staff to first invest in becoming blockchain experts.

Data inconsistencies are rife in international trade

A buyer cannot be certain what is in the container until it arrives and is unpacked. An ocean carrier never sees the contents of a container and relies on documentation provided by the shipper or forwarder. Customs authorities can struggle to determine the buyer for certain imports. A study found that a single shipment of avocados from Kenya to the Netherlands involved 30 different organizations, over 100 people, and 200 individual information exchanges. Each information exchange risks the introduction of data inconsistencies. TradeLens reduces these uncertainties and inconsistencies by providing authorized parties with access to the original data; in this case, the actual information provided by the organization that stuffed the container in Kenya.

One million shipping events are added to TradeLens every day

TradeLens is a collaboration between Maersk and IBM. It is a global, blockchain powered platform that follows the flow of cargo from source to destination, and connects the various parties involved in a shipment. It is also an open, neutral platform that enables all organizations involved in an international shipment to simply and securely exchange shipment events and documents in real time, increasing the visibility that shippers have about the status, location, and contents of their consignment. In addition, platform participants can create additional apps that leverage the platform's ecosystem and make them available through the TradeLens marketplace.

This year, a 'limited availability' release of the platform was launched; a significant step in its evolution. It has already secured commitments to track approximately 20% of global ocean container traffic. With more than 90 organizations having agreed to participate on the platform, including three shipping lines – Pacific International Lines (PIL), Hamburg Süd and Maersk Line – and the Customs authorities in Australia, the Netherlands, Peru, Saudi Arabia and Singapore, Tradelens' data is growing at a rate of close to one million events per day.

A global data pipeline

TradeLens realizes the 'data pipeline' concept developed by respected career Customs officers, Frank Heijmann and David Hesketh, and others, which was explored in various European Union (EU) research projects, such as ITaide, Cassandra, and Integrity. Collaboration on TradeLens started in June 2016 and was known as Global Trade Digitization (GTD). The platform was used by CORE, an EU funded security project that included the Customs Administration of the Netherlands, US Customs and Border Protection, and the US Department of Homeland Security's Science and Technology Directorate.

Blockchain changes the game

Blockchain enables participants to trust TradeLens' data, safe in the knowledge that it is impossible for any single organization or individual to alter the information on the platform's blockchain network. The blockchain technology used by TradeLens shares some characteristics with the anonymous blockchain that underpins Bitcoin. However, in many important ways, it is different. Six features of the blockchain used by TradeLens are particularly crucial to its success:

- **Shared replicated ledger:** Each organization that participates directly in the blockchain network operates a blockchain node. These nodes each maintain a copy of the blockchain. When data is added to the blockchain each node's copy is automatically updated.

- **Immutability:** The blockchain network is append-only. Once data is published to the blockchain it cannot be changed. If there was an error in the data, then a new version must be added, with both old and new visible in the blockchain.

- **Permissioned:** The parties can be identified and only the parties participating in a specific shipment can view, submit or approve related data. This is very different from the blockchain network that lies at the heart of Bitcoin where all parties are completely anonymous.

- **Channels:** Divides the blockchain network into separate sub-networks. Data in any given channel is only distributed to nodes that are part of that channel.

- **Selective endorsement:** The reason that the TradeLens network will never suffer from the power consumption requirements that plague Bitcoin. Bitcoin must verify transactions whilst maintaining anonymity and uses a proof-of-work

mechanism to do this. It is this proof-of-work mechanism that is the source of Bitcoin's huge power requirements. TradeLens members are not anonymous, so a much more efficient selective endorsement approach can be used to verify transactions.

- **Smart contracts:** Pieces of software code embedded in the blockchain network. They encode the business rules for a particular transaction and can be used to implement automated processes that span national and organizational boundaries.

The benefits of platforms like TradeLens are wide-ranging.

Private sector visibility

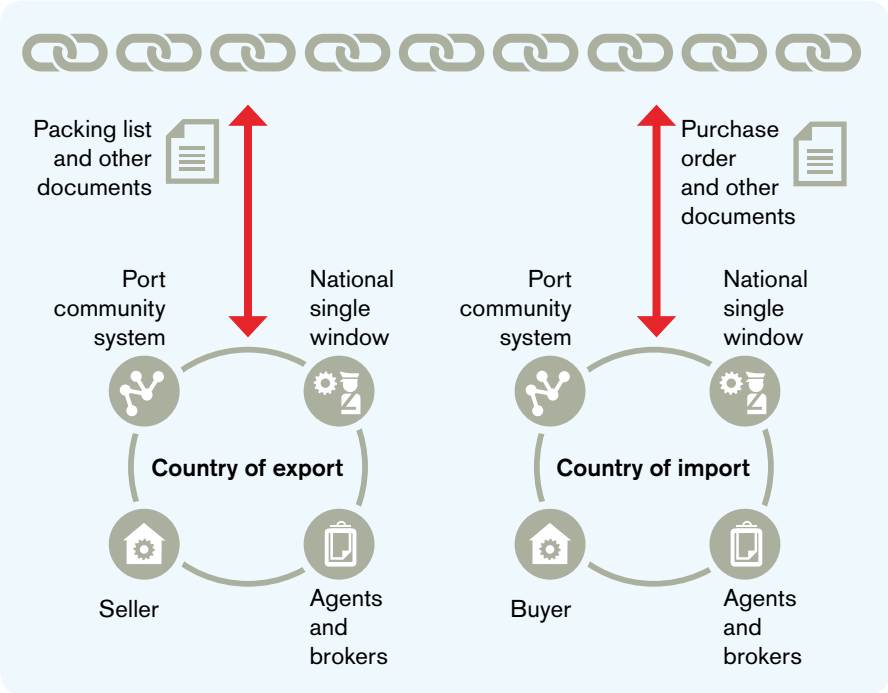
In many countries, it is still difficult for a trader to find a consolidated cross-agency view of the release status of a shipment. By publishing key events and information to TradeLens, Customs and other government agencies can improve the visibility that traders have about the status of their shipments. This helps the private sector to better plan its activities, saving both time and money.

Truth is upstream at the source

Today, the primary player in most Customs procedures is the importer. They, or their agent, are responsible for filing a Customs declaration. They use the information provided by the exporter to do this, but generally have no opportunity to verify the physical contents of a shipment before making the declaration. The party best placed to provide accurate information about a shipment is the exporter. After all, it is generally the exporter who "packed the bag."

Platforms like TradeLens allow Customs and other government agencies to piggyback their supervision processes on top of existing commercial information exchanges. As soon as a container is stuffed in the exporting country, the importing country's Customs agency could pull the purchase order and packing list from TradeLens and use them to perform a risk assessment on the shipment. Access to earlier, more complete, immutable data improves the effectiveness of targeting processes, facilitating legitimate trade, increasing compliance and improving Customs' efficiency.

Tradelens Blockchain Business Network
A secure source of truth



A global network of local communities

In many countries, initiatives such as national electronic Single Windows and port community systems have been successful in improving the efficiency and coordination of border processes. TradeLens can integrate with and complement these initiatives, providing access to its global network of members.

TradeLens can also accelerate the emerging trend of connecting Single Windows or port community systems in order to create regional networks, by enabling these different communities to share data on a global scale.

Towards paperless trade

Since the 1970s, people have been boldly predicting the paperless office. Forty years on, paper documents remain prevalent in international trade. Bills of lading, certificates of origin, phytosanitary certificates… the list goes on. Blockchain platforms like TradeLens provide the ideal mechanism for digitizing these documents. Channels, permissions, and encryption ensure that even the most sensitive information can be kept safe from prying eyes.

Smart contracts allow the creation of automated processes that cross national and organizational boundaries. For example, a paperless end-to-end process for phytosanitary certificates; from issuance in the exporting country through to verification in the importing country. In such a process, the approval of the certificate in the exporting country is visible in real time in the importing country, and the blockchain technology ensures that no one can alter the certificate.

Platforms simplify blockchain adoption

Nodes, channels, smart contracts, consensus… Implementing your first blockchain solution can require the learning of a whole host of new terminology and technology. It doesn't have to be like that. Platforms like TradeLens package the blockchain technology and benefits into an easily consumable form.

TradeLens members can connect to the platform using standard approaches such as web application programming interfaces (APIs). Or, they can use the platform's out-of-the-box user interfaces. A Customs authority can establish a connection in a few days, with a small team, rather than requiring its staff to first invest in becoming blockchain experts.

To further simplify adoption, TradeLens is committed to the promotion of industry standards and interoperability of platforms. It is continuing to align with relevant standards bodies such as UN/CEFACT as well as exploring blockchain specific interoperability mechanisms.

Customs can realize immediate benefits

By joining TradeLens, Customs authorities and other government agencies can immediately access more timely, accurate and verifiable data, and use it to improve their targeting and selection processes. This can facilitate legitimate trade and increase compliance.

The team behind TradeLens looks forward to continuing to work with governments who embrace the opportunities that the platform offers. Together, we are shaping its future and ushering in a new era of global trade that is both frictionless and compliant.

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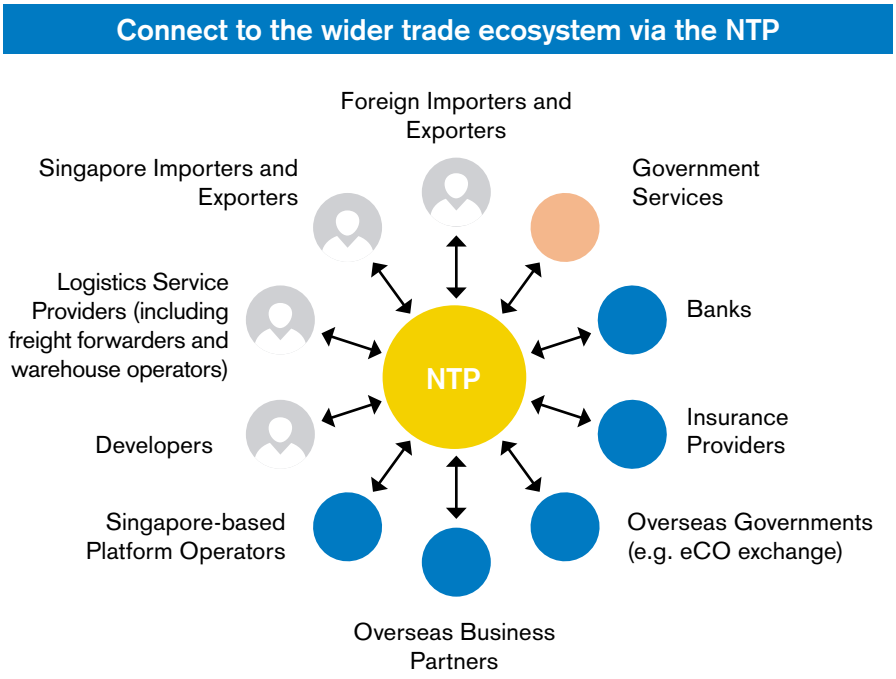
Going beyond the national Single Window

By Singapore Customs

The Monetary Authority of Singapore signed a Memorandum of Understanding with its Hong Kong counterpart in November 2017 to jointly develop a cross-border distributed ledger technology (DLT) based infrastructure that will link up digital trade platforms and the growing number of trade-related DLT platforms and communities around the world. In this article, Singapore Customs presents this new initiative called the 'Global Trade Connectivity Network,' which is expected to be operational in 2019 as well as the new trade information management ecosystem called the 'Networked Trade Platform,' which was officially launched in September 2018, and explains how the two systems play complementary roles in stitching up the global trade ecosystem, empowered by both DLT and non-DLT based technologies.

Figure 1: NTP's inclusive trade ecosystem



In December 2017, Singapore's Networked Trade Platform (NTP) became operational. A new one-stop trade information management platform, the NTP will connect digital islands across the entire trade ecosystem from traders' enterprise resource planning systems and other proprietary systems to freight forwarders and freight management systems, to last mile delivery and tracking services.

The new Platform will incorporate services currently provided through two systems: TradeNet®, Singapore's National Single Window (NSW) that caters for Business-to-Government (B2G) and Government-to-Government (G2G) connectivity, and TradeXchange®, a 10-year old information technology (IT) platform that enables the exchange of both Business-to-Business (B2B) and B2G information.

Services from TradeXchange have since been migrated to the NTP. The new NTP introduced a suite of user friendly features and value-added services to help the trade and logistics communities. Since then, the user base of the NTP has more than doubled compared to TradeXchange. In June 2018, Singapore Customs began the progressive migration of B2G trade services, currently available through TradeNet, onto the NTP.

"If it ain't broke, why fix it?"

TradeNet is almost 30 years old. Launched in 1989, when the Internet was still the domain of academics and researchers, it was well ahead of its time and its successful implementation captured the imagination of many – most aptly in the 1990 Harvard Business Review case study "TradeNet: A Tale of One City." Today, the concept of a NSW is well understood. In 2007, another chapter was written when TradeXchange was launched as part of an effort to unify the B2B trade ecosystem.

Fast forward to 2018 and the NTP. It will enable the exchange of digital trade data from source, across various B2B and B2G transactions along the entire lifecycle of trade: ranging from purchase orders and invoices, permits and shipping instructions to trade finance applications, payments and reconciliation. Today, a single trade can involve over 25 parties, generating 30-40 documents, and about 60-70% of the information is manually re-entered at least once.

The potential value of stitching disparate digital islands together is immense. In addition to productivity, efficiency and accuracy gains, there is a multitude of opportunities for innovation as data becomes connected.

These bold steps have not gone unnoticed – in 2016, International Data Corporation conferred the Smart City Asia/Pacific Award in the economic development category on the NTP, and in 2017 it won the World Summit Information Society (WSIS) Prize in the e-business category. The latter recognizes outstanding digital projects worldwide, which foster socio-economic development.

During the intervening decades, the concept of the Single Window has also evolved – from the Customs automation era, to trade information exchanges, limited Single Windows connecting traders with a single regulator (e.g. Customs, port, etc.), to nation-wide NSWs that allow all parties to submit standardized information only once to fulfil all regulatory requirements [1]

Trade is to a large extent today cross-border. Digital connectivity for the NTP must, therefore, go beyond our little red dot and interoperate with other trade communities and platforms, regardless of geography or technology.

Singapore is not the only country embarking on a trade digitalization journey. All around the world, there have been hives of activity around trade digitalization fuelled by a combination of

1 United Nations Economic Commission for Europe (UNECE) Trade Facilitation Implementation Guide, Single Window Evolution. [Accessed online on 19 Aug 2018, http://tfig.unece.org/contents/single-window-evolution.htm].

pressing business needs and pain points, combined with new possibilities and disruptions from emerging technologies.

There is now a growing willingness among businesses across the globe to digitalize, and like-minded governments and Customs authorities to ensure open and fair trade around the world. With this, Singapore is now taking another bold leap into the digital trade world.

From island to island, locally and across borders: the NTP and the GTCN

In November 2017, one month before the NTP became operational, the Monetary Authority of Singapore (MAS) signed a Memorandum of Understanding with its Hong Kong counterpart to jointly develop a cross-border distributed ledger technology (DLT) based utility infrastructure that will link up digital trade platforms and the growing number of trade-related DLT platforms and communities around the world. The seeds of what was to become the Global Trade Connectivity Network (GTCN) were sown, and the GTCN is expected to be operational in 2019.

The GTCN is envisioned as an industry-neutral, service-agnostic, cross-border utility infrastructure that does not aim to control or dominate partner networks. For a start, it will provide a common view for trade finance applications between Singapore and Hong Kong, empowering participating banks to share immutable and auditable ledger across the border, while maintaining data privacy and confidentiality through a distributed network. This allows the various stakeholders to retain control of their own commercial and financial destinies. However, the GTCN will be larger than Singapore-Hong Kong and will go beyond trade finance, even though the initial minimum viable product (MVP) is funded by monetary authorities.

The GTCN marks the first attempt to integrate digital platforms starting with Singapore and Hong Kong, and aims to address and provide digital solutions to challenges prevalent in international trade, where differing trade regulations and documentation standards predominate.

The GTCN marks the first attempt to integrate digital platforms starting with Singapore and Hong Kong, and aims to address and provide digital solutions to challenges prevalent in international trade, where differing trade regulations and documentation standards predominate. In addition, the GTCN would help lay the foundation for a regional digitalized trade and supply chain platform in Asia. The end outcome is to enhance supply chain transparency, integrity and security.

The power of the whole is always greater than the sum of its parts. Just as the benefits to the economy are far greater than the sum of individual firms' bottom-line and top-line gains. The NTP and the GTCN play complementary roles to stitch up the global trade ecosystem, empowered by both DLT and non-DLT based technologies. The GTCN will technically enable different stakeholders to connect through DLT platforms and automatically exchange information between parties, according to specific protocols, as shown in Figure 2.

As Karl Wust and Arthur Gervais aptly sum it up, "Blockchain is being praised as a technological innovation, which allows (us) to revolutionize how society trades and interacts. This reputation is, in particular, attributable to its properties of allowing mutually mistrusting entities to exchange financial value and interact without relying on a trusted third party."[2]

In the world of cross-border trade, where different regulators such as Customs authorities, central banks and monetary authorities, food and health regulators, and security agencies, interact with a myriad of business (logistics, ocean and air freight, warehousing and trucking, banks, and traders of every imaginable form), one can easily imagine the potential of the technology.

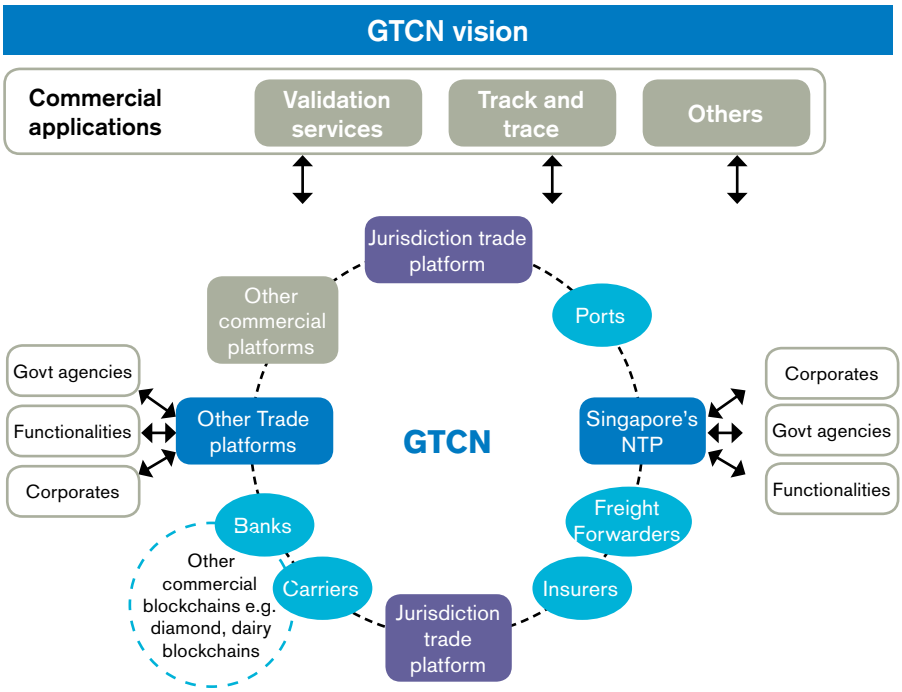
DLT is useful where there is no central authority and the community self-orchestrates and self-organizes. Information is only written into the distributed ledger, timestamped and digitally signed, after consensus has been reached between the parties involved. Any change thereafter is a new entry to the ledger. This feature of DLT provides for protected data storage and provides a sense of transparency, enforcing accountability where there is no central authority.

Kurt and Gervais list three conditions where DLT will make sense. First, where there are multiple mistrusting entities, and there is no agreement on who is an online trusted third party. Second, there are multiple writers of data and there is data to be stored. Finally, the multiple mistrusting entities must want to interact and change the state of a system.

Linking up digital trade ecosystems, like any collaboration, can only succeed when the diverse needs, interests and concerns of all stakeholders are satisfactorily addressed. Because needs and interests are often different and evolve differently for stakeholders over time, all parties find it challenging to entrust the control of any shared platform to any single party.

2 Wust, Karl, Gervais, Arthur, Do you need a Blockchain? International Association of Cryptologic Research (IACR) ePrint Archive, 2017.

Figure 2: Overview of GTCN and its participants



DLT emerges as the technology with features that are a good fit for the GTCN. The 'connect once, connect to all' model of the GTCN allows all participants to quickly scale their own connectivity to a wide spectrum of national Single Windows operated by governments and digital platforms in the B2B space, which cater to a wide spectrum of business and transaction needs.

Here, the need to manage interests not only traverses countries, but also various industries and companies, with each of these interests intersecting and interacting with their own countries' regulators and authorities.

Taken together, the distributed authority and immutable characteristics of DLT has made it possible for the GTCN to address not just the functional needs of integrating digital trade across the trade ecosystem, across borders, but also the underlying challenges of marrying various stakeholders' interests and associated trade-offs that would have to be agreed upon before the possibilities of a shared platform without a single, central authority.

Conclusion

The GTCN's vision to connect different trade platforms without intervening in each platform's rules and processes is ambitious, but probably not new[3]. While the GTCN's success is not dependent on DLT per se, the characteristics of DLT have removed some long standing stumbling blocks when a large number of parties, often unknown to each other, come together to interact and transact.

One critical success factor remains – willing actors. As Adam Green writing for the Financial Times notes, while the technology might be tamper-proof and collaboration-friendly, "the same is not always true of its users."[4] Despite uncertainties with DLT, such as scalability, many acknowledge that, in cross-border trade, at least, participants would benefit from DLT.

Despite the vast potential of DLT to address the stumbling blocks of cross-border digital trade connectivity, there is still a critical role for regulators to play, by, for example, providing data governance and standardization to ensure interoperability. Perhaps it is more important than ever before for regulators to do so.

With the technology capabilities in place with the advent of DLT, it is perhaps timely that regulators get together, step up and lead efforts to harness and harvest the potential that this new technology offers, as well as lead efforts to digitally connect trade end-to-end, across industries and across borders.

More information

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3 Trade Point Portals were envisioned as gateways to global electronic networks with National Trade Points interconnected in a worldwide electronic network. Source: United Nations Economic Commission for Europe, Trade Facilitation Guide, 'Single Window Evolution'. [accessed online on 19 Aug 2018, http://tfig.unece.org/contents/single-window-evolution.htm].

4 Green, Adam, Will blockchain accelerate trade flows? Financial Times, 11 Nov 2017. [Accessed online at https://www.ft.com/content/a36399fa-a927-11e7-ab66-21cc87a2edde].

Why governments and Customs continue to need their own classification system for goods

By Gael Grooby,
DEPUTY DIRECTOR, TARIFF AND TRADE AFFAIRS DIRECTORATE, WCO

THE WCO'S HARMONIZED System, or HS, is a vital element of Customs. But classification systems are common, so what makes a specialized Customs classification system so important that Customs administrations continue to put much work and time into having their own classification system? The HS does not just classify goods based on what they are; it classifies goods to meet the needs of governments and Customs alike.

There are a multitude of classification systems in use: SITC, CPC, CPA, NAPCS, NICE, GPC, GHS, and ATC. Between international, national and private classification systems, any acronym you can think of is likely to be a classification system for goods somewhere. Any particular good may be classified in multiple systems, and will have numerous codes to represent this from part numbers to disposal codes. The multitude of systems are testimony to the usefulness and ubiquity of classification.

Some of these systems are regulatory in nature: they exist in order to apply conditions. Some are commercial: they exist to facilitate marketing, inventory or other aspects of commerce. Others are statistical: their entire purpose is to provide data for analysis. With so many systems, what makes the HS special for Customs administrations? The answer is clear: it is created by, and exists for, Customs.

Purpose and evolution

The purpose of the HS is to be a practical tool for the implementation of governmental policy. While it has been increasingly used by industry and academia due to its role in collecting trade data, it is built and maintained so that governments can know what is crossing borders. That information is used to implement an incredibly wide range of policies. Regardless of whether the policy relates to revenue, trade, security, public health, environment, industry or any other aspect of government, if the import or export of goods is part of it, then the HS comes into play in its implementation. From duties to support revenue or give effect to trade agreements through to identifying imports and exports of restricted or monitored goods, the HS has a direct and intrinsic role in many governmental programmes.

It is also the instrument for most trade agreements, ensuring a common understanding of goods among the parties to an agreement. Through its provision of data for statistical analysis, it has an indirect, but essential role in many more policy areas. Some HS updates are specifically made to assist industry, but again this is in line with the role of governments in developing policy for economic development and industry assistance. Its priority is policy,

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not commerce. In particular, it enables Customs administrations to carry out their functions. If they have to monitor, report, regulate, stop, inspect or collect revenue on any subset of goods, the HS, and the domestic tariff subheading added on to it, are used. Customs controls the update and evolution of the HS so that it continues to serve this purpose.

Scope

Some classification systems do not need to cover all goods, such as those targeting a specific sector (e.g., regulatory classification systems for chemicals or pharmaceuticals), and others are only interested in goods with certain attributes (e.g., dangerous goods or parts). Moreover, some classification systems are linked to another system; being only for goods using that scheme, and are not universal, such as the Global Product Classification system (GPC) for the types of products that are assigned Global Product Identifiers (GTIN).

For Customs however, if a good arrives at a border as part of a legitimate trade transaction, even if it is a brand new invention, never seen before, Customs must be able to classify it so that they can apply proper legal treatment for the good, including, if required, the collection of duty and indirect tax. For this reason, the HS is designed to cover all traded goods, including those not yet known. In addition to how wide the coverage is, the level of granularity is also an important aspect related to the purpose of the nomenclature. For a commercial nomenclature, it may be very important to have different classifications for "branded outerwear aimed at the 18 to 24 year old female market" and "branded outerwear aimed at the 55 to 64 year old female market," but a Customs nomenclature is very unlikely to need such a distinction.

Customs nomenclatures may include some divisions that are not of particular interest to Customs, but are wanted by industry or statisticians. However, the level of detail of many commercial classifications would be beyond the ability of people outside a particular industry to competently and consistently identify and use. So, in deciding whether to make a classification because of its usefulness to industry, or indeed in making any classification, a Customs nomenclature takes into consideration the capability of administrations to apply or enforce a classification.

The other aspect in regard to the scope is the handling of residual provisions. In any classification system, there will be the largely invisible goods, i.e. goods classified as 'other' or 'not elsewhere specified or included.' The number, location and wording of such provisions are important in determining if regulations will be applied to all appropriate products. For example, the requirements for the import or export of non-specified vessels, medical devices, live plants and meats for human consumption are significantly different.

A blanket residual 9999.99 style classification is not appropriate to a regulatory classification system that covers such a broad range of goods. Taking vessels, a single 'other vessels not elsewhere specified or included' is not appropriate for a Customs nomenclature as the import/export requirements around passenger and cargo vessels, for example, are generally different from those for recreational vessels. A Customs nomenclature needs far more time spent considering how to treat unknown or low trade goods than most other nomenclatures.

Stability and predictability

The HS is intended as a legal instrument to be implemented in the individual legal systems of its Contracting Parties. Laws are not optional. Therefore, it is vital that changes to the HS are the result of comprehensive consideration and are known well in advance. A new HS edition is a major event for affected industries. Depending on the range of trade agreements and other measures affected and how many reporting systems need to be changed, assessing the impact and getting ready to implement it may take considerable time. Therefore, it is important that sufficient notice be given to those that may be affected.

From a government and administration viewpoint, this is even more important. In any country, creating legislative amendments is generally a long and complicated process. This is not something done, or taken, lightly. Even with a two year lead cycle from confirmation of HS changes to the required implementation date, some countries struggle to implement on time. Another factor is the body of case law that generally evolves in each jurisdiction applying the HS. So, it is also important that there is as much consistency as possible between new provisions and existing provisions in how they are worded and their underlying principles: this enables established precedents and acquired knowledge to be used as a guide, ensuring correct implementation and reducing disputes.

Robustness

Commercial classification systems are generally only for the benefit of their users. There is little incentive or benefit to misclassifying or trying to construe a classification to mean something other than intended. Unfortunately for regulatory classification systems, they are often linked to measures that users would prefer to avoid. For the HS, these measures may include the application of duties, indirect taxes, dumping and countervailing measures, import or export restrictions, and requirements for examinations or documents. While the majority of traders simply accept that this is part of the legal requirements, there is that minority who will work very hard to confound any intent not in their favour.

In other words, in a commercial classification system, users are usually

quite happy to classify an apple as an apple, but in a regulatory classification system, they may go to great lengths to prove that an apple is classified as a pear. This means that a regulatory classification system like the HS, needs to have classifications that can withstand challenge and misuse, even when translated into different languages and under varied jurisdictions.

As a result, the wording of regulatory classification systems may seem somewhat strange in comparison to the more natural language of some commercial systems. Their structure can look too complex, and the number of rules and conditions can seem ridiculous. Sometimes it can feel as if they are being deliberately difficult. The reality is that this formality, complexity and pedantic wording is just an unfortunate outcome of the litigious nature of classification. It is harder to argue in court that you were legally correct in importing a 'Panthera Tigris Altaica' under a provision for 'Felis Catus' than it is to argue that a Siberian tiger is classified as a cat.

Working together

Given their different roles, multiple classification systems are necessary in the trade world. The HS is not going to give you sufficient information to do something like classifying your parts inventory so that customers can locate the right part, and, as discussed earlier in this article, commercial classification systems are not designed for regulatory purposes. In addition, usually they are far too specific and detailed for officers trying to effect the timely facilitation of cargo. Generally, Customs administrations are not overly concerned if your shovels are round points or square points and they are certainly not in a position, at the wharf side, to make a determination whether butter is 'organic fair-trade.'

However, having system administrators working together creates a better trade environment. Creating correlations between major commercial and regulatory systems is of great benefit: particularly for manufacturers and traders who can increase their understanding of their products' positioning in a system like the HS through their places in the more familiar and industry-specific systems they work with. For a trade regulation system like the HS, one of the largest benefits is increased knowledge of what is important in the industry sectors and how the differences between goods are defined. As one of the goals of governments is to support trade, the goal of the HS, within the practical and regulatory constraints on governments and administrations, is to assist industry in both facilitation and statistical information.

Growing through adversity

Having introduced a few of the issues and problems that the HS faces, it is hoped that readers will appreciate more why the HS is so remarkable, and why it is an absolutely essential tool for Customs administrations to do their work. And yet within the congratulations, a note of caution needs to be sounded. Trade is changing: distributed manufacturing and global value chains, integrated products, faster innovation, and product development time. In many ways trade has outstripped the ability of regulatory systems, including the HS, to keep up.

Furthermore, as a system ages the attacks on its integrity generally grow in sophistication and variety. The number of contradictory legal judgements on the same provisions shows some of the ambiguities in the system that are vulnerable to exploitation. So, just because it has been a good system for many years, this does not mean the HS is immune from the need for improvement and rejuvenation. Rather, the Customs community simply needs to ensure that it keeps the purpose and strengths of the HS in focus during any review.

More information

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Addressing challenges related to Customs controls in free zones

By Mariya Polner,
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TRADE HAS ALWAYS been one of the manifestations of freedom and power. The idea of a "free port" can be traced back to 167 BC, when the Roman Senate made a decision to turn the then Roman island Delos into a free port[1]. City-States in the early Middle Ages, such as Venice, operated in a way that could nowadays be defined as free ports or free zones. The cities of Hamburg and Bremen, being key players in the Hanseatic League in the North and Baltic seas in the 13th century were another manifestation of this phenomenon. However, it is commonly agreed that the oldest free zone in its modern sense dates back to Shannon in Ireland, where the first Free Trade Zone, the most commonly referred to type of free zone, was established in 1959.

What characterizes all these free zones is the incentives they provide to economic operators. Free zones serve as "growth poles" for national and regional economies by encouraging foreign direct investment (FDI), in particular by offering less regulation and governmental "red tape." Today, over 3,000 active free zones exist (in one form or another) in 135 countries[2]. They have become a global phenomenon and an integral part of the global supply and value chains within a timespan of just over 50 years.

Throughout these years, the concept itself has evolved substantially as well. The Organisation for Economic Co-operation and Development (OECD)[3] identifies the following four categories of free zones: free trade zones, focused at pure re-export of traded goods; export processing zones, designed to export goods with a significant value add; special economic zones, which include multi-sectoral approaches to economic activities and focus on both domestic and foreign markets; and industrial zones, which host specific economic activities (e.g., telecommunications or textiles). The International Labour Organization (ILO)[4] offers a more detailed classification that, apart from the aforementioned types, includes free ports, enterprise zones, financial services zones and science zones.

The same characteristics that make free zones attractive to legitimate business also lure fraudsters and criminals. They can forge documents and use free zones to repackage or relabel goods, or manufacture and assemble new goods in these zones. The transit and transshipment of goods pose the highest risk because it is easier for criminals to disguise the origin and final destination of goods. This masking can be done by

1 Zarmakoupi, Mantha (2013), "The City of Late Hellenistic Delos and the Integration of Economic Activities in the Domestic Sphere", CHS Research Bulletin 1, no. 2.
2 Gokhan Akinci and James Crittle (2008), "Special economic zones: performance, lessons learned, and implication for zone development", Foreign Investment Advisory Service (FIAS) occasional paper, Washington, DC: World Bank.
3 OECD (2009), "Free Zones: Benefits and Costs", OECD Observer No. 275, November 2009.
4 International Labour Organization (2003), "Employment and social policy in respect of export processing zones (EPZs)", GB 286/ESP/3, March 2003, Geneva.

switching bills of lading once goods arrive in the free zone, switching containers and their contents, or simply by shipping goods to a different destination than the stated one. Such practices pose risks in terms of revenue collection and public health, as well as security.

So far, evidence has been anecdotal, and no systematic research was conducted up until this year, when the OECD and the European Union Intellectual Property Office (EUIPO) published a study entitled *Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends*[5], which examines the use of free trade zones in the counterfeit goods trade. In 2018, another organization, the Economist Intelligence Unit, issued *The Global Illicit Trade Environment Index*[6], which also focuses on free zone governance. Supported by research and case studies related to five major free zones, the Index, along with the OECD/EUIPO study, fuelled a much needed debate and brought the issue to the attention of policymakers across the globe.

Nowadays, the reputation of industries and countries depends on the way their free zones are managed. And not only the reputation, but the security of the whole supply chain is at stake. In times of increasing transparency and civil responsibility, there is a critical need to ensure that the operational environment of free zones is safe and secure, procedures are efficient and transparent, operators are law abiding, and commodities going through the free zones are legal.

Within the current framework, the adoption and implementation of the Specific Annex D, Chapter 2 of the International Convention on the Simplification and Harmonization of Customs Procedures (as amended), more commonly referred to as the Revised Kyoto Convention[7] (RKC), is the first step to ensure adequate levels of Customs procedures and controls in free zones.

Revised Kyoto Convention

Overall, the RKC, which is a blueprint for modern Customs procedures, is aimed at developing predictable and transparent Customs procedures based on the use of information technologies, risk management, a coordinated approach to controls along with other governmental agencies, and partnerships with trade, among other things. The RKC consists of three parts: the text, a General Annex with ten Chapters, and ten Specific Annexes. The entire General Annex is binding on Contracting Parties and no reservations are possible with respect to its implementation. Specific Annexes of the RKC consist of Standards and Recommended Practices regarding other aspects of Customs procedures. Contracting Parties may accept one or more of the Specific Annexes as well as submit reservations to Recommended Practices to the WCO.

Chapter 2 of Specific Annex D to the RKC lists 21 standards covering a wide range of Customs procedures related to free zone operations. In this Chapter, free zones are defined as "a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory." For Customs purposes, the free zone denomination pertains exclusively to the status of goods, i.e. the tax or duty exemption. A wider implication of this definition is that all non-tariff Customs activities, such as border control functions, including inspections and seizures, should be preserved and enforced. However, different interpretations of this definition exist as some countries interpret it as "being outside the Customs territory" altogether.

Depending on the institutional setup of the free zone, the scope and degree of Customs control over goods introduced and the economic operations carried out in the zones, vary considerably from one country to another. From this perspective, Standard 4 of Specific Annex D is important because it stipulates that Customs "shall have the right to carry out checks at any time on the goods stored in a free zone." Its Recommended Practice stipulates Customs controls on free zone goods and operations on the grounds of public morality, public security, public hygiene or health, and veterinary or phytosanitary considerations. If these controls are exercised by another agency on behalf of Customs, they should not be neglected.

Standard 4 is to be interpreted together with Standard 3, which states that "the Customs shall lay down the arrangements for Customs control, including appropriate requirements as regards the suitability, construction and layout of free zones." The engagement of Customs authorities from the early stages in developing the free zone concept is necessary to ensure safety and security within the zone.

Customs controls in free zones are more flexible than those exercised under, for example, Customs warehousing procedures, and are principally concerned with the relevant documentation in order to check that persons introducing goods into the zone keep proper accounts of the goods (by using either special registers, relevant declarations or electronic systems), so that the circulation of goods in and outside the free zone can be controlled. Nevertheless, Customs has the right to carry out spot checks on goods at any time to ensure that they are being accounted for satisfactorily, are being subjected to authorized operations only, and that no unauthorized goods have been introduced or removed. For efficiency, Customs controls should be based on a risk management system as provided for in the RKC.

5 OECD/EUIPO (2018), Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends, OECD Publishing, Paris/EUIPO, accessed on 17 September, available at http://www.oecd.org/governance/trade-in-counterfeit-goods-and-free-trade-zones-9789264289550-en.htm

6 The Economist Intelligence Unit (2018), The Global Illicit Trade Environment Index, accessed on 17 September, available at https://www.eiuperspectives.economist.com/sites/default/files/Illicit%20Trade%20WHITEPAPER%20(19%20June%202018).pdf

7 WCO (2006), International Convention on the Simplification and Harmonization of Customs Procedures (as amended), accessed on 18 September, available at http://www3.wcoomd.org/Kyoto_New/Content/content.html

Specific Annex D has to be considered together with other provisions of the RKC related to the origin of goods and Customs regimes, such as transit and transshipment, which are frequently used by smugglers and criminal organizations to their advantage. Origin (the RKC's Specific Annex K) is used not only to calculate duty rates and quotas, but also as a risk indicator for Customs authorities. Thus, origin shift, particularly due to the proliferation of bilateral and regional trade agreements and their relation to free zone regimes, becomes another challenge for Customs. In-transit and transshipment regimes (addressed in the RKC's Specific Annex E) pose a high risk, particularly because these procedures can be used to disguise the country of origin or to enter goods into Customs territories where border enforcement for transshipped or transit goods might be weak.

As of today, there are 115 Contracting Parties to the RKC, but very few of them have expressed adherence to Specific Annex D. There are also a small number of countries that have not ratified the Convention, but are compliant with its Standards and Recommended Practices, including, sometimes, those listed in the Specific Annex. There are also countries that deny Customs jurisdiction over goods in free zones, leading to the erosion of Customs procedures and control functions, and opening ways for illegal trade.

Moving forward

As more and more Customs administrations are ready for a constructive dialogue on this difficult topic, it became evident that there was a need to conduct intensive discussion to find the solutions based on WCO Members' practices, and to perhaps review existing WCO instruments or develop new ones. Feedback and best practices from Members will be gathered during discussions in the relevant WCO bodies and workshops, and through an online survey. Additional research will also be undertaken, including fieldwork in the free zones in different regions.

This review process will offer a real opportunity for Customs administrations and other stakeholders to explore modern and efficient Customs procedures and control mechanisms through the deployment of information technology (IT) solutions and inspection technologies to fill existing gaps in free zone control operations. Active participation of Customs administrations and other stakeholders in this process will enable the development of a cooperative and sustainable policy framework that will be supported and implemented by everyone involved in the design, governance and operation of free zones.

More information

enforcement@wcoomd.org

Calendar of Events

November

5 - 8	Permanent Technical Committee, 221st/222nd Sessions
12 - 13	Revised Kyoto Convention Management Committee, 19th Meeting
14 - 16	WCO/UPU Contact Committee
19 - 30	Harmonized System Review Sub-Committee, 55th Session
21 - 23	Working Group on Revenue Compliance and Fraud, 5th Meeting

December

3 - 4	API/PNR Contact Committee, 12th Meeting
5	API/PNR Contact Committee (Members only)
3 - 5	Policy Commission, 80th Session, Mumbai (India)
6 - 7	WCO Counterfeiting and Piracy Group, 15th Meeting
10 - 12	Revised Kyoto Convention Working Group, 2nd Meeting
13 - 14	Technical Experts Group on Non-Intrusive Inspection

January

14 - 18	Data Model Project Team
22 - 25	Scientific Sub-Committee, 34th Session
29 - 30	Global RILO, 25th Meeting
31 - 1 Feb	CEN Management Team, 17th Meeting

February

4 - 5	Technical Committee on Rules of Origin, 37th Session
6 - 8	Revised Kyoto Convention Working Group, 3rd Meeting
11 - 12	Audit Committee, 13th Meeting
18 - 22	Working Group on E-Commerce, 5th Meeting
25 - 26	Administrative Committee for the Customs Convention on Containers, 1972, 17th Meeting
27 - 28	ATA/Istanbul Administrative Committee

It should be noted that WCO meetings are mentioned for information purposes and are not all open to the public. Unless otherwise indicated, all meetings are held in Brussels. Please note that these dates are indicative only and may be subject to change. The WCO meetings schedule is regularly updated on the WCO website.

SOLUTION READY

WESTBLUE CONSULTING

OFFERINGS

- TRADE FACILITATION SOLUTIONS
- ICT CONSULTING
- BUSINESS AUTOMATION
- PORTAL DEVELOPMENT
- KNOWLEDGE TRANSFER
- CAPACITY BUILDING & TRAINING
- MANAGED SERVICES

SOLUTIONS

Trade Hub
Trade Hub Information Portal

PAAR
Pre -Arrival Assessment Report

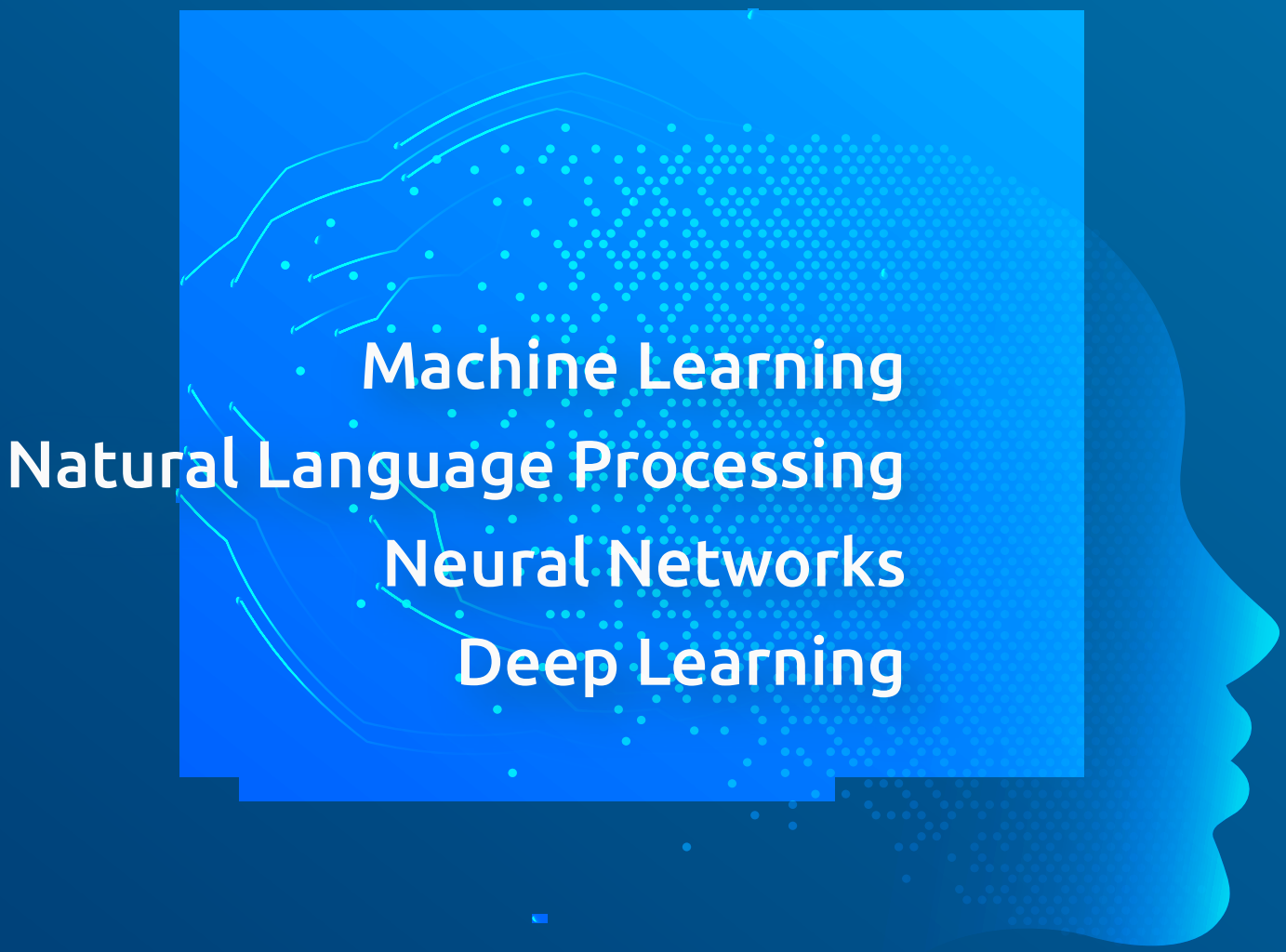
VIEW
Single Window Application Platform

NARP
National Automotive Repository Portal

info@westblueconsulting.com www.westblueconsulting.com

Artificial Intelligence

State-of-the-art technology for Customs



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