Risk Management Theory and Concepts

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Risk Management

- Risk to what?
- Risk to the achievement of objectives
- Risk: *"The chance of something happening that will impact on objectives"*

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Risk Management

In the context of International Trade, the key regulatory objectives are:

- To ensure compliance with the law
  - Trade laws, revenue laws, health laws, consumer protection laws, agricultural laws, etc.
- To facilitate trade

Risk Management

World Customs Organization:

A fundamental requirement for contracting parties to the revised Kyoto Convention is to integrate the principles of risk management into all Customs control programs

Facilitation/Control

Change in approach:

- **From "Gatekeeper" strategies**
- **To a balance between trade facilitation and regulatory control**

BALANCE

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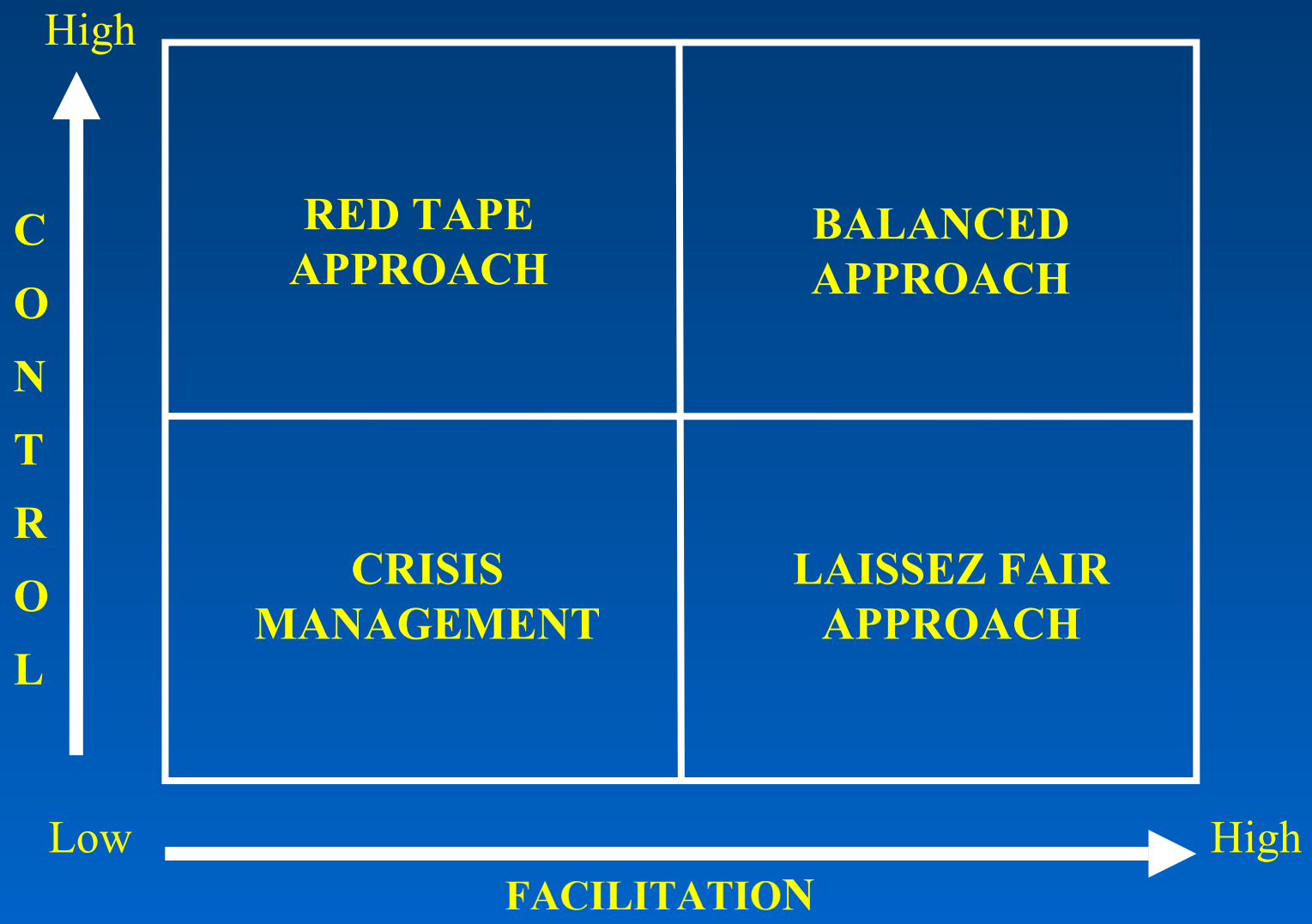
Facilitation/Control Matrix



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Key Benefits

Key Benefits of Risk Management include:

- **Improved levels of regulatory control**
- **Improved levels of trade facilitation**
- **Improved management practices**
- **More effective and efficient use of resources**

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Key Benefits

Key Benefits of Risk Management include:

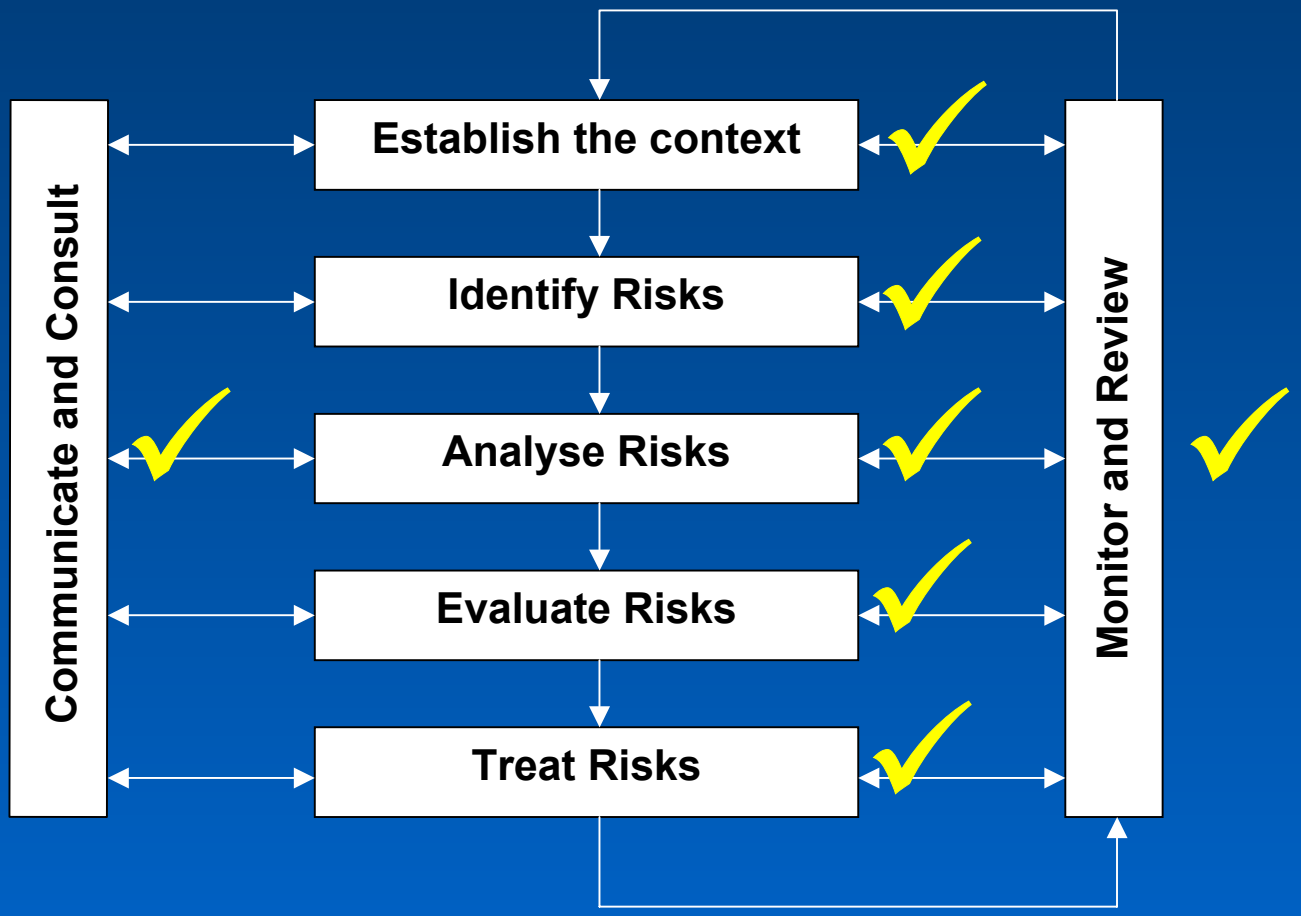
- **Reduced costs to Government**
- **Enhanced strategic and operational planning**
- **Improved information and analysis to support decision making**
- **Improved accountability and governance**

Key Benefits

Key Benefits of Risk Management include:

- **Greater clarity and certainty for the international trading community**
- **Reduced costs for traders**
- **Increased confidence of potential investors**

Formal Framework



[AS/NZS4360:2004]

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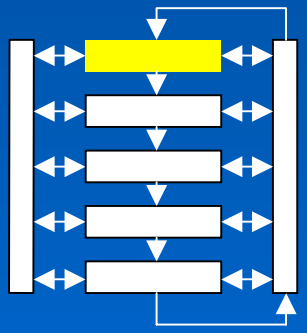
Establish the Context

- Determine and set your objectives
- Define the internal and external environment
- Identify stakeholders



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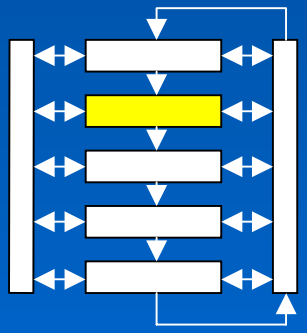
Identify Risks

- What can happen?
- How (and why) can it happen?



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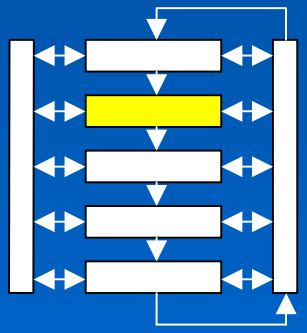
Sources of Risk

- Political
- Technological
- Economic
- External events
- Management activities
- People issues
- Etc.



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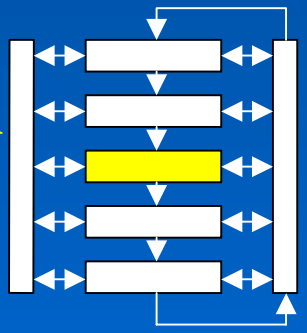
Analyse the Risk

- What's the likelihood of the risk occurring?
- Consider existing controls
- What will be the consequences if it does occur?
- Determine the level of risk



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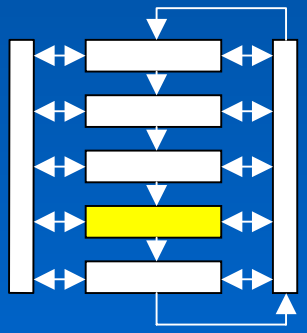
Evaluate the Risk

- Is the risk acceptable?



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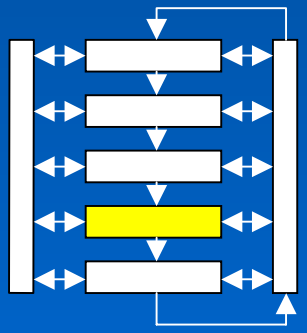
Evaluate the Risk

- **Acceptable?**
  - **Risk not to be treated**
- **Unacceptable?**
  - **Rank in order of priority**



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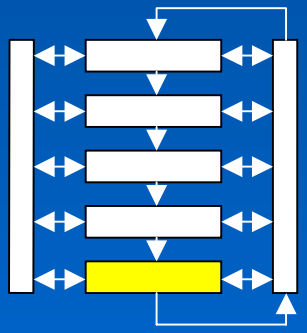
Treat the Risk

- Avoid the risk
- Accept the risk
- Transfer the risk
- Reduce the risk



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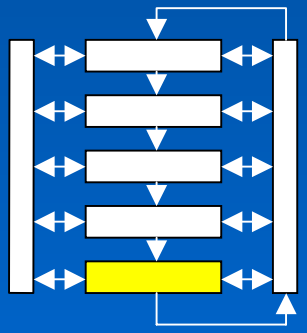
Reduce the Risk

- Reduce the likelihood
- Reduce the consequence
- Reduce both
- Cost effective



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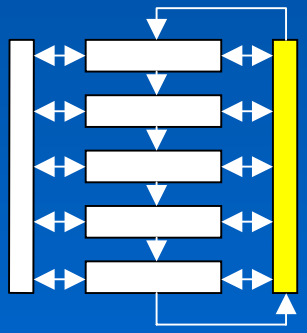
Monitor & Review

- Risks are not static
- Circumstances and risks will change
- Assess ongoing relevance of risk treatments



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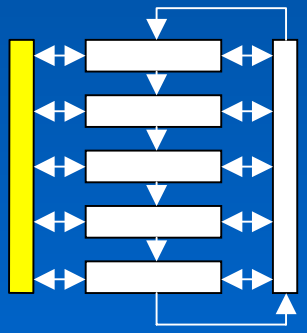
Communication

- Who do you need to consult?
- What form of communication will you use?
- When do you need to communicate?



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Regulatory Agencies

Some special considerations

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Regulatory Agencies

[AS/NZS4360:1999]

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Risk Treatments

- Audit
- Investigations
- Physical checks
- Surveillance activities
- Security bonds/bank guarantees
- Effective sanctions
- Etc.

Risk Treatments

Make sure the treatment is appropriate

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Risk Treatments

- For those who intend to do the right thing
- For those who intend to do the wrong thing

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The Purpose of Audit

- Assess compliance
- Identify compliance or non-compliance
- Identify why non-compliance is occurring
- Identify ways of addressing non-compliance

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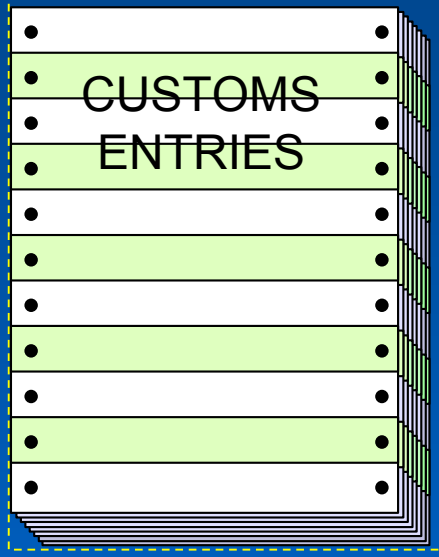
Audit Focus



Systems Based Audit

Strategies

- Education & Advice
- Clarification & Simplification
- Formal Rulings
- Sanctions

Kyoto Convention

Best Practice:

- Risk management
- Audit based controls
- Pre-arrival information
- Information technology
- Coordinated interventions
- Consultation with trade
- Laws, rules and regulations
- Appeals

Kyoto Convention

The conditions to be fulfilled and Customs formalities to be accomplished for procedures and practices in the General Annex and in the Specific Annexes shall be specified in national legislation and shall be as simple as possible (Standard 1.2)

Key Principles

- There should be a clear purpose for inspecting cargo
- Selecting cargo for inspection should be based on the principles of risk management
- Documentation should be the minimum necessary for authorities to carry out their responsibilities

Key Principles

- Documents should only be required to be lodged once
- Traders should be able to lodge clearance documentation at the point of import or export
- Examination of import/export documentation should precede any physical inspection of cargo

Key Principles

- Pre-arrival screening and clearance should become the norm
- Post-clearance audit should be utilized wherever appropriate
- Cargo should be inspected away from the border check point where appropriate
- If there is a need for more than one agency to inspect goods, this should be coordinated

Key Enablers

- Effective legislation
- Effective and efficient business processes
- Automated systems
- Appropriate skills and knowledge
- Supportive infrastructure
- Political will

Risk Management Issues for RTFCCP Members

- Risk Management Context – what are the objectives?
- Generic Issues
- Specific Issues

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Generic Issues

- Balancing control and facilitation
- Simplifying and harmonizing clearance procedures
- Achieving transparency of regulation
- Communication with other government agencies and the private sector
- Resource support for trade facilitation

Specific Issues

- Impact of being “land-locked”
- Reliance on road transport
- Infrastructure
- Multiple customs regimes
- Lack of coordination

Risk Treatments for Transit Issues

- Accession to the TIR Convention
- Regional cooperation
- TRACECA as an example

Compliance Objective

Don't adopt a fragmented approach

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National Compliance Management Plan

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Effectiveness

- ✓ Compliance improvement
- ✓ Determine why non-compliance is occurring
- ✗ Don't just rely on sanctions
- ✓ Consider incentives for compliance

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Questions?

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