

## **PROCEEDINGS**

### **SEMINAR ON RISK MANAGEMENT SYSTEM AND POST-ENTRY AUDIT 7-10 June 2005, Shenzhen, P.R. China**

#### **I. INTRODUCTION**

1. Co-sponsored by the General Administration of Customs of the PRC (PRC Customs) and the Asian Development Bank (ADB), the four-day Seminar aimed to promote risk management-based modern customs practices among the member countries participating in the trade facilitation initiatives of the Central Asia Regional Economic Cooperation (CAREC) Program. The Seminar brought together 21 Customs officials from the member countries, including customs deputy-heads from Azerbaijan, Kyrgyz Republic, Mongolia, PRC, Tajikistan, and Uzbekistan. The list of participants is in Appendix 1. Vice-Minister Sun Songpu of the PRC Customs and Director-General Zou Zhiwu of the Shenzhen Customs attended the Opening Session and gave the opening remarks together with Ms. Noy Siackhachanh, Director, Governance, Finance, and Trade Division of the ADB's East and Central Asia Department. Messrs. Steve Holloway from University of Canberra, Kazunari Igarashi from World Customs Organization, and Tan Sian Lip from CrimsonLogic, joined the Seminar as resource persons.

#### **II. PROGRAM**

2. The Seminar Program was a combination of (i) presentations by resource persons and country delegates and (ii) field visits to the Shenzhen Customs Headquarters and customs border-crossing points with Hong Kong, China. (See Appendix 2 for the Program, and Appendix 3 for summary of country reports.) The resource persons made their presentations with references to the experiences of selected industrialized countries which greatly enhanced the impact and relevance of the lectures. The field visits added another practical angle demonstrating how an effective customs administration could facilitate outward-orientation of an economy and accelerate economic development.

3. The Seminar was chaired by Mr. Wang Donghong, Deputy Director General of China Customs' International Cooperation. His effort to encourage discussions and comments in light of country circumstances greatly improved the quality of deliberations and presentation.

4. The Program also included a one-day working group meeting to address issues related to data exchange and application of ICT to automate customs processes. The Uzbekistan Customs presented an ICT proposal for data exchange among the member countries and a draft agreement to provide the legal basis for its adoption and pilot-testing. The presentation by Mr. Tan Sian Lip provided a broad framework for using ICT for customs automation. Business process reengineering as a first step to automation was emphasized and is particularly relevant to the ongoing needs assessment and design process being carried out by Azerbaijan, Kyrgyz Republic, Mongolia and Tajikistan supported by ADB. Highlights of the discussion and its major recommendations are set out in the following paragraphs.

### III. DISCUSSIONS AND RECOMMENDATIONS

5. **A Tool for Balancing Control Functions with Trade Facilitation.** Development of customs control practices based on risk management has become a priority area for customs modernization efforts worldwide, and is a key objective of CAREC's trade facilitation program. With the rapid rise in the volume of trade and limited resources of customs administrations, the traditional method of inspecting every consignment upon arrival at customs borders has become a barrier to trade and is no longer practical. Risk management offers a solution, enabling customs administrations to move from an approach that targets consignments to an audit-based control, and therefore effectively utilizes limited resources and balances control with trade facilitation. Post-transaction audit is part of this process and speakers highlighted some best practice in this area including the importance of planning and using a structured approach to generate programs for post-transaction audit activities over a defined period (usually 12 months).

6. **Compliance is the Key for Risk Management.** Introduction of risk management-based customs control reflects a fundamental change in the role of government in economic development and its relationship with the private sector. Increasingly, government is becoming a catalyst for private sector development. Customs administrations are adopting a role as facilitators of compliance with customs laws and regulations by traders and their representatives such as brokers. Therefore a change in the corporate culture of customs administrations from a "control-mindset" to "compliance facilitation" or "informed-compliance" is essential for introduction of risk management. Informed-compliance can be promoted through a combination of audit, training and communication with traders, their representatives and other government agencies. Therefore, training, change management, and effective communication should be key elements of a phased approach to risk management.

7. **Management Leadership Is Essential.** Implementation of risk management involves not only a change in culture but also organizational restructuring and investment in ICT Infrastructure. New Divisions in charge of intelligence, risk management and compliance (i.e., audit, training and communication with traders) needs to be established, and the ICT function needs to be strengthened. Both would not happen without the leadership of management and its full support. In countries like Australia, the compliance functions are separated from risk management and intelligence, while in others, audit and risk management are combined. There is no single organizational structure of risk management practices.

8. **A Structured Approach for Data Review.** Risk management involves systematic collection and analysis of customs data and intelligence information in order to separate high-risk cargos/consignment from low-risk ones. A structured approach to data review is essential in order for the risk management system to adapt to the evolving and country-specific nature of risks. Risk management profiles need to be regularly updated to ensure the effectiveness of the system. In both Japan and PRC, a committee or centre reporting directly to Management is established to coordinate and supervise the review and update of data.

9. **Regional Cooperation for Information Exchange Is Another Key.** Regional cooperation is crucial to effectively manage region-specific risks. Since most of the member countries are "land-locked" countries and rely on each other for transit trade, it is essential for the member countries to establish the legal basis and set up a mechanism for information exchange. There is a need to manage the specific risks that flow from a reliance on transit countries for the smooth and efficient transportation of goods to international markets. In this regard, the importance of Agreements on Mutual Administrative Assistance was emphasized and accession to the WCO's Johannesburg Convention was discussed and encouraged. The

member countries were also encouraged to pilot-test the WCO's Common Data Model as a tool to harmonize export and import declarations and data requirements. A background paper regarding the WCO's Data Model was prepared by ADB and circulated during the Seminar.

10. **Where to Start at the Initial Stage?** Discussions were centered on the initial steps that should be taken to implement a risk management system. A suggested approach was to start with identification of a "baseline of compliance" in relation to traders and industries to be examined. This "baseline compliance" enables the determination of a level of non-compliance which is the target of a risk management system. Incentives should be provided to traders with good compliance such as less government intervention and fast-track clearance. An understanding of the nature of non-compliance will determine the compliance measures; for example, if the non-compliance relates to a lack of knowledge about newly introduced customs laws and regulations, the treatment is more likely to be a question of training and effective communication with traders and their representatives, rather than the imposition of severe penalties. Monitoring and review of compliance should be regularly conducted. This provides key performance indicators in relation to compliance management programs by allowing a comparison against the original baseline over a defined period of time.

#### **IV. CONCLUSIONS AND FOLLOW-UP ACTIVITIES**

11. The seminar was a huge success because of Shenzhen Customs' hospitality and efforts to share its modernization efforts. Shenzhen's automation efforts and introduction of risk management are particularly relevant to the modernization efforts by other CAREC's member countries. Automation and risk management enable the Shenzhen Customs to clear each container truck within few seconds and allow up to ninety-eight percent of goods to pass through border-crossings without physical examination. The Shenzhen Customs also responded positively to cooperation proposals suggested by the country delegates including establishment of "sister-customs" between Almaty and Shenzhen.

12. The majority of the country delegates prepared quality country reports and presented the reports at the Seminar. However, the effectiveness of the presentation could be enhanced if they were organized along few key issues as highlighted in Section III. This would also reduce the duration of each presentation.

13. In conclusion, risk management will be a priority of the customs cooperation program. A major task will be the dissemination of the outcomes of risk seminars and general risk management practices to customs colleagues back home, particularly those working at the border-crossing points. In this regard, the ADB as the Secretariat (i) suggested to develop a Guideline on risk management and post-entry audit and (ii) responded positively to the Kyrgyz's suggestion to conduct in-country assessment and training. On many occasions, the country delegates expressed their deep appreciation to the Shenzhen Customs for hosting the Seminar. They also thanked the PRC Customs for suggesting to host another regional seminar in Shanghai in the near future. Shanghai is another city that is spearheading PRC Customs' modernization effort.