

**Working Paper No. 5**

**Risk Management**

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## **I. BACKGROUND**

1. The Customs Cooperation Committee recognized, in its initial meeting in Urumqi on 20-21 August 2002, the need for customs clearance, border crossing operations in the region to conform to international standards and best practices, such as those outlined in the revised Kyoto Convention. A fundamental best practice of the revised Kyoto Convention is a system of customs border controls based upon risk management. During this meeting, a seven-point action plan was adopted, with one point being "development of risk management and post-entry audit.
2. At a subsequent Working Group Meeting held in Almaty on 21-25 April 2003, a work program was discussed that included "raising awareness about modern customs concepts such as risk management". Further discussed was the need for customs administrations to have ICT Systems that gave them the capability to practice risk management techniques (risk assessment, profiling, targeting), and to support a national intelligence system.
3. At the Regional Workshop on Risk Management and Post-entry Audit held in Urumqi on 9-12 September 2003, participants discussed issues relevant to risk management and post-entry audit. It was also recognized as a result of discussions that participating administrations have made considerable progress in the applications of the provisions of the revised Kyoto Convention, but that a differing application of these provisions could lead to a lack of harmonization within the region.
4. Participants at the Workshop also stated that they currently utilized risk management practices in their operations, but that the systems could be improved through exchanging information with other customs administrations.

## **II. GENERAL PRINCIPLES OF RISK MANAGEMENT IN CUSTOMS CONTROLS**

5. The Urumqi Workshop and Risk Management and Post-entry Audit, the ADB consultants introduced participants to the methods used in implementing a program of risk assessment, profiling and selectivity, which is an important aspect of a risk management program. The Workshop focused on the role of Risk Management in customs controls at the pre-clearance, clearance, and post-clearance stages.
6. The general concept of risk assessment, profiling and selectivity is to select high risk consignments, travelers or importers for closer scrutiny, while facilitating the clearance of those that are low risk. In order to do this, customs must first determine what constitutes a "high risk". Risks are determined by first identifying the priorities of a customs administration: collection of revenue, protection from contraband entering the country, or other priorities). Customs must then determine where a priority is at risk and the likelihood of the risk occurring. For example, a risk of an importer submitting a false declaration in order to avoid payment of duty may be much greater with goods that are subject to a high rate of duty than on goods with a low or no rate of duty.
7. Once risks have been identified, profiling is used to identify the common traits or methods associated with an attempt to circumvent customs controls. The most effective

source of information for determining profiles are standardized seizure reports that detail standard information related to past customs enforcement activity.

8. While profiling identifies consignments, travelers or importers who have characteristics common to past attempts to circumvent customs controls, it is likely that their number will still be too great to subject them to intensive examination. Therefore, selectivity is used to identify additional risk indicators that are useful in selecting those that are of the highest risk. For example, an importation of commercial goods may fit a profile because of its country of origin and method of shipment, but additional risk indicators could be the declared value of the goods or the history of the importer.

9. Risk assessment, profiling and selectivity can be used at the pre-clearance, clearance and post-clearance stages of customs controls. At the pre-clearance stage, passenger and cargo manifests can be reviewed to identify those that match a profile and have other risk indicators. Risk indicators could include the country of origin or the method of shipment.

10. At the clearance stage, reviews of bills of lading, the importer and physical observation of a commercial shipment may be used to identify those that match a profile and have other risk indicators. Risk indicators could include the declared value or quantity of the goods, method of shipment or importer history.

11. The primary post-clearance customs control is post-entry audit. For this, risk assessment, profiling and selectivity can be used to select those high risk importers for audit. Risk indicators for a specific importer could include the type or value of the goods imported, rate of duty on the goods imported or the past compliance history of the importer. The process of risk assessment, profiling and selectivity can also be used to select high the type of audit that will be performed, such as an audit on a specific import transaction or on multiple import transactions. For this, risk indicators could include the value or type of goods imported.

### **III. INFRASTRUCTURE REQUIRED IN ORDER TO IMPLEMENT A RISK MANAGEMENT PROGRAM FOR CUSTOMS CONTROLS**

12. A basic requirement is that the customs administration has a common seizure reporting form that contains standard fields of information from which profiles can be developed and risk indicators can be identified. This document must be completed for all enforcement activity that results in a seizure or related enforcement action. The document should then be sent to a central collection point (intelligence office) where the information contained within it can be stored, analyzed and distributed to ports of entry. For example, a seizure report should contain standard information that can be used to develop a profile (age, sex, country of origin or a passenger) and the specific risk indicators that led to the passenger being searched (questionable reason for travel, acting nervous).

13. The customs administration will have a national and/or regional intelligence office(s) whose task it is to develop profiles and risk indicators from analyzing seizure reports and through proactive intelligence work, such as identifying the risks associated with raising the duty on a type of good.

14. An established IT infrastructure is also crucial for exchanging information, storing and researching data. This will include the development of computerized models to analyze consignments/cargo shipments for risk profiling with a feedback mechanism, and maintenance of a comprehensive database

15. The customs administration should also have procedures in place to receive manifests or bills of lading in advance of the arrival of a vessel or aircraft, an importer history database and a database of the normal declared value for various types of goods. A team of officers designated as a manifest review unit is very useful in identifying high risk commercial consignments

16. In order to facilitate trade through the rapid clearance of commercial shipments, many customs administrations are emphasizing the importance of post-clearance stage controls, primarily post-entry audit. In order to effectively utilize this control, the customs administration should have trained personnel to conduct these audits as well as effective supporting legislation concerning the requirement for importers to maintain records on importations and customs access to these records.

17. Risk management from a customs perspective is most often looked at in terms of risk assessment, profiling and targeting associated with customs controls. However, risk management can be an important factor in all phases of customs activity, therefore, the establishment of a risk management unit should be considered.

18. The establishment of a successful risk management program can lead to further facilitating trade through the use of a compliance management program. In this program, various considerations are used in order to identify those importers who have an excellent history of complying with customs controls in order to further facilitate the movement of their commercial shipments. In turn, importers practice informed compliance and self-regulation.

19. In order to ensure that participating administrations have the necessary assets to institute an effective risk management program, the ADB consultant will conduct a capacity study of each customs administration. The purpose of this study will be to identify training, equipment and technical assistance requirement that will best serve each administration to achieve maximum effectiveness in its risk management program.