

CUSTOMS REFORM IN THE MIDDLE EAST: Experience of the Kingdom of Bahrain

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Abstract

Customs administrations in the Middle East are responding to the challenges of rapidly growing economies with increased reliance on international trade combined with strategic security issues more complex than those experienced by many economies. Under the direction and guidance of the President of Customs, His Excellency, Shaikh Daij bin Salman Al Khalifa, the customs administration of the Kingdom of Bahrain is employing a range of strategies, including the adoption of a number of technology based solutions, to help it meet the challenges of the 21st century customs administration.

Introduction

The Kingdom of Bahrain lies some 26 kilometres off the east coast of Saudi Arabia, in perhaps the most strategically important body of water in the world, the Arabian Gulf. All sea traffic entering the gulf must pass through the Strait of Hormuz, the 54 kilometre wide channel through which 40% of the world's oil supply must pass. This geographic location brings with it a number of border and supply chain security demands not made of many other customs administrations.

Bahrain was an important Middle East trade centre as far back as 4000 BC. While Bahrain's importance as a trading hub declined over the intervening 6,000 years, its future importance was assured in 1932 when it became the first place on the Arabian Peninsula to start commercial production of oil.

Today the level of economic growth in the Gulf is staggering and while traditionally international (non-oil) trade has been a disproportionately low contributor to GDP, that is changing as other economic opportunities are seized. The Middle East is also experiencing close to the highest population growth rates in the world, dramatically increasing the size of domestic and regional markets.

In order for their economies to fully reap the benefits available through the expansion of global trade, regional customs administrations are modernising their procedures to make their economies more attractive to industry and investors. At the same time they are responding to increased border and supply chain security demands being experienced by customs administrations globally, but with an additional geographic complexity.

Bahrain was an early regional leader in trade and logistic services, but recent rapid advances by neighbouring economies have eroded much of this advantage. Against this background Customs Affairs in Bahrain is undertaking a modernisation program that will allow it to deliver the type of services demanded by its Government, the community and international trading partners.

As with most Gulf Cooperation Council (GCC)¹ administrations, Bahrain's customs control environment involves a real-time, 100 per cent physical intervention regime, as specified under the unified customs code. While this has served the country well for many years, it is becoming increasingly evident that such a strategy is unsustainable in the long term and is not capable of delivering the level of border security required in the contemporary global trading environment. Equally, the focus internationally on

customs administrations' role in supply chain security now requires Customs to perform activities and deliver a broader range of services, necessary to 'facilitate' trade, than is possible under the traditional 'gatekeeper' approach.

Drivers for change

Economic growth. By far the biggest force for change is the need to maintain and improve economic growth. Bahrain is attempting to diversify its economy and trade will form an important part of this. While much success has already been achieved in making Bahrain a regional hub for banking and financial services, the Government of Bahrain realises that trade is one of the keys to economic growth and that a modern, efficient and effective customs service is crucial to encourage trade.

King Fahad Causeway. Completed in 1986, this 26 kilometre long causeway links Bahrain with the east coast of Saudi Arabia. Traffic movements can exceed 13,000 vehicles daily and this can include upwards of 600 trucks. A great number of these trucks carry sand, rock and cement, the necessary ingredients to fuel Bahrain's ever expanding coastline and associated construction industry. It allows Bahrain to act as a gateway logistics hub for the Western Gulf, the Caucasian (CIS), Central Asian and even Eastern European states.

The actual customs and immigration control point is located on a man-made island, midway between the two countries. Because of the need to maintain adequate levels of border security, the volume of traffic at peak times can place extreme demands on Customs resulting in significant delays. Recently, construction of a second, even longer, causeway linking Bahrain with Qatar has been announced. While Bahrain is notionally an island nation, such 'land borders' create new and demanding challenges for Customs.

Success. While success can bring its own rewards, it can also be a problem. An interesting phenomenon in Bahrain is the 'pull effect' of successful trade facilitation strategies. While Bahrain would be the first to admit that it still has a long way to go to achieve the desired reforms, the fact is that regionally, international trade through Bahrain is already more attractive than other options. This demonstrates the 'relativity' of the success of reforms. It is also an interesting example of market forces at work, something that is often hard to demonstrate in the context of customs modernisation. While this is desirable, it means Customs has to be able to deal with a larger volume of transactions than its small population of around 600,000 would suggest.

One obvious example of this is the global express carrier DHL which has established a regional hub in Bahrain. From here, consignments destined for the Western Gulf are distributed by road, across the King Fahad Causeway through Saudi Arabia. The recent announcement of a GCC 'Common market' is likely to further compound this issue, with customs borders truly disappearing within the GCC and business freer to choose where commodities are imported and exported.

Shaikh Khalifa bin Salman Super Port. The new Shaikh Khalifa bin Salman Port (KBSP) at Hidd is scheduled to open in late 2008. The contract to operate this state-of-the-art port has been awarded to APM Terminals. KBSP is capable of processing 10,000 TEU at any one time. It is a purpose-built 800 hectare facility, built on reclaimed land, connected to the mainland and the existing port by a series of causeways. The development also includes free zones and industrial areas. KBSP is designed to be what is known in logistics terms as a 'multi modal' transshipment hub, allowing easy and quick access between land, air and sea transport. This concept allows traders to choose between combinations of multiple transport options to achieve the best balance of cost and speed.

Facilitation by Customs is the key to making this concept attractive to traders by ensuring maximum efficiency.

Modernisation strategies

To allow it to respond to all of these demands, Customs Affairs in Bahrain has, under the direction of the President of Customs, developed a comprehensive modernisation strategy. As a result of this strategy, Bahrain will continue to invest heavily in new technology (IT systems, non-intrusive scanners, electronic monitoring systems), the use of detector dogs, staff development and, where necessary, the engagement of technical experts and consultants. Participation in the WCO Columbus program is also seen as a key element of the modernisation strategy.

Some of the important lessons that have resulted through this program are detailed below.

Speed of reforms. As many observers on customs modernisation have already noted, reforms need to happen quickly enough to maintain momentum and overcome possible resistance (De Wulf 2005, p. 13), but not too quickly so as to leave parts of the organisation (or supporting stakeholders) behind. The appropriate 'pace' for reforms has to be assessed on a case-by-case basis and will undoubtedly be different in every instance. There is also a need to constantly reassess this pace so as to match the prevailing circumstances.

Walk before you can run. One important factor that will determine the pace of a reform program is an administration's capacity to absorb the necessary reforms. Bahrain is a relatively small customs administration of some 600 staff. It is important to acknowledge that there is only so much reform any organisation can absorb at any one time and still deliver the statutory services required by it. While the business sector would undoubtedly like to see instant reforms, not only is this not possible, it is also undesirable. Industry and Customs need time to adapt to and accept change.

Integrated compliance strategy. A risk managed approach to compliance cannot be adopted without a raft of supporting strategies to help improve levels of voluntary compliance. The 'gatekeeper' or a transactional, real time intervention approach to compliance reinforces a culture of non-compliance with clients. In such an environment the adoption of risk management would initially result in risk profiles covering most transactions. Greater levels of voluntary compliance, encouraged by the standard formula of likelihood and consequence of detection on one hand and ability to comply on the other, are necessary to allow any meaningful profiling to occur and risk management to be successful. Without these supporting initiatives the 'problems' that are resulting in low levels of compliance are still present (Sparrow 2000, pp. 194-203).

And then what? It's not just knowing what needs to be done, but how to go about doing it. While technical advisers and consultants can tell you what is wrong and what needs to be done, the administration has to have the capacity to do something with this advice, and translate it into actions.

It appears to be this 'lost in translation' aspect that limits the effectiveness of many modernisation programs. Organisational and managerial capability, including change and project management skills are, in the early stages of a reform program, perhaps even more important than 'technical' assistance in areas such as targeting or auditing. While, as an example, a WCO 'Columbus' diagnostic study can result in a wealth of valuable and useful information to help frame a reform program, without the capacity to do something with this advice its value cannot be fully realised.

Need for reforms to be visible. Shaikh Daij himself has acknowledged that it is not enough for an organisation to modernise; it also needs to look and feel modernised. An important aspect of Bahrain's reform strategy is to ensure that the organisation can demonstrate to the rest of the world what it has done. While investment in technology will of itself often deliver this, Bahrain is also focusing on areas like office accommodation, equipment and corporate image as a whole.

This makes good commercial sense. Investors in Bahrain will be able to easily see it has a modern and well equipped customs administration. For officers, it will help them to have pride and help build a more

positive culture; a professional image often translates into a more professional attitude to work and performance. From an operational perspective, it is hoped this will result in a more positive compliance culture among clients who will be presented with a physical change in Customs, helping to identify it as a new and modernised organisation. It also helps maintain support at a political level. As has often been said, actions speak louder than words.

Conclusions

The reform program in Bahrain is only in its early stages but already significant progress is being experienced. The difficulties of reforming an individual administration that is part of a broader Customs Union, with a common customs code, have also been identified. It is also apparent that even with political will and adequate resources and funding, customs reform cannot be ‘imposed’; it needs to be an organic process and cannot be rushed. To do so would put at risk the sustainability of any reforms.

The specific challenges for smaller administrations, particularly in relation to organisational capacity should not be overlooked. This can result in it actually being more difficult to achieve reform. Finally, particularly with regard to their impact on global supply chains and management of strategic security threats, the experience of smaller administrations can be equally relevant when developing customs reform strategies.

References

De Wulf, L 2005, ‘Strategy for customs modernization’, in L De Wulf & JB Sokol (eds), *Customs modernization handbook*, World Bank, Washington, DC.

Sparrow, MK 2000, *The regulatory craft: controlling risks, solving problems and managing compliance*, Brookings Institution Press, Washington, DC, pp. 194-203.

Endnote

1 The GCC is a customs union established in 1981 by the states of Bahrain, Kuwait, Qatar, Saudi Arabia, the UAE and Oman.

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