
THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON CUSTOMS

Prabodh Seth

Abstract

The world financial crisis which started in the United States (US) in July 2007, has already had a spill-over effect on the world economy turning it into a global, synchronised recession. The associated unprecedented collapse in world trade was due to a number of reasons including the fall in aggregate demand, increasing protectionist measures, and withdrawal of trade credits. The recession has concurrently adversely affected all tax revenues including taxes/duties collected by customs agencies. In response to the crisis, the World Customs Organization (WCO) has recommended a number of processes to reduce the negative effects of reduction in trade and to promote best practices in sustaining the global trading system. The impact of the crisis has been particularly severe on export-driven economies such as Mauritius. Beyond an Additional Stimulus Package, the Mauritius Customs Department has been developing and introducing various administrative measures aimed at facilitating trade and managing risk to mitigate the impact of the recession.

1. The global picture

The 'world financial crisis' which started in the United States (US) in July 2007, has already had a spill-over effect on the world economy turning it into a global, synchronised recession. The contraction of all types of demand brought about by tight financial conditions, falling wealth and greater uncertainty has led to an unprecedented collapse in world trade. Global trade volumes fell 14 per cent from December 2008 to February 2009. The projections for the full year 2009 offer little comfort: the World Trade Organization (WTO) has forecast a substantial fall in global export volumes.

What is especially alarming about the current global recession is that no-one can predict how prolonged or deep this recession is going to be. This is due to the following:

- All major regions of the world are experiencing economic decline at the same time.
- US consumers, who account for one-fifth of global consumption, are overburdened by debt and are likely to slash their consumption levels. Elsewhere, as in China, there is likely to be a reduction in demand because of a fall in the value of their assets.
- Huge losses have been incurred by banks, especially in the US and Europe.

If we are fortunate and the fiscal stimulus announced by various countries spurs new demand, we may come out of the recession in late 2009. However, many careful observers believe it is equally likely that the recession will last well into 2010 and that the recovery when it comes, will be weak.

2. Customs response to the crisis

As indicated earlier, world trade volumes have been falling for the first time in 25 years. This is due to several factors including a fall in aggregate demand, increasing protectionist pressures and withdrawal of trade credits. In response to this crisis, the World Customs Organization (WCO) has identified the following recommendations.

- **Trade facilitation.** Through simplified customs procedures and minimum physical inspection of cargo, Customs can reduce the cargo dwell time, thereby lowering business costs and thus facilitating trade.
- **Promotion of risk-management.** This is extremely important since better risk-management will lead Customs to focus on high-risk consignments. This would increase the effectiveness of customs administrations and facilitate trade.
- **Customs-to-Customs cooperation.** The exchange of information and intelligence would go a long way to detecting fraud and facilitating trade.
- **Customs-to-Business partnerships.** An important feature of this recommendation is the use of an Authorised Economic Operator (AEO) program in which traders deemed to be low-risk are granted certain benefits while enhancing the overall level of security.
- **Consultation with trade policy ministries.**
- **Coordinated border management (CBM).**
- **Deferred payment.** In order to assist traders facing severe cash shortages, the WCO has recommended deferred payment/post-release payment to assist businesses' cash-flow.
- **Flexibility of guarantee (security).**

To inspire confidence in the international trading system during the global economic crisis, the WCO and other relevant international organisations should monitor the trends in international trade and identify best practices in sustaining the global trading system. In addition, the WCO urges the G20 to promote trade facilitation measures consistent with international customs and other border agency standards, and customs modernisation and capacity building programs particularly by advanced economies and other international donor organisations.

3. The Mauritian case

The impact of the crisis has been particularly severe on export-driven economies like Mauritius, since the volume of world trade is expected to decline by 11 per cent – its sharpest fall in 80 years. There is also the mounting fear that many importing countries may resort to overt protectionism.

The statistics regarding imports into Mauritius reveal the fact that their level is dropping and, since this is inextricably linked with important tax/duty receipts like VAT at importation, and customs and import excise duties, the revenue collections are bound to be adversely affected by the global recession. During the period October-December 2008, the value of imports was Rs 35.4 million, representing a 3.32 per cent fall compared to the same period in 2007. For the quarter January-March 2009, imports amounted to Rs 28.6 million compared to Rs 30.8 million during the corresponding period of the preceding year, a fall of 6.98 per cent.

The 'Additional Stimulus Package' has included a host of measures relating to various taxes/duties in an attempt to restrain the haemorrhage. This is being complemented by various administrative measures implemented in the Customs Department that are aimed at facilitating trade and managing risk. These measures are discussed in the following section.

4. Measures to mitigate the impact of the recession

Some of the measures being undertaken by the Customs Department in Mauritius which may help in mitigating the negative impact of the recession are described below.

4.1 Measures already implemented at Customs

The immediate need is to facilitate trade while at the same time reinforce protection in the face of the innumerable threats both at international and national levels. To achieve these twin objectives of trade facilitation and better risk management, the Customs Department of the Mauritius Revenue Authority has already implemented a series of reforms; some of these are highlighted below.

- Launching the **Fast-Track cargo initiative** (Blue Channel) – The objective is to reward compliant importers with hassle-free and speedy customs clearances, very low inspection rates for their merchandise and on-premises physical examinations of consignments (if any). This conforms with the WCO Revised Kyoto Convention which advocates improved facilities for compliant importers.
- Installing **X-Ray scanners at the Port and Airport** – Two scanners have been installed at the New Container Terminal of Mauritius (NCTM) at Port Louis and Plaisance Airport Transport Services Ltd Cargo Terminal at the Sir Seewoosagur Ramgoolam International Airport. These scanners allow non-intrusive inspections of high risk containers which assist Customs to determine which containers warrant physical inspection, thereby enabling Customs to more efficiently and effectively detect excess, smuggled and prohibited goods, including drugs and firearms.
- Initiating **e-filing and e-payment of excise declarations** – The Customs Management System (CMS) has been enhanced recently to allow excise operators to submit paperless excise returns as well as use the system's e-payment facility.
- Introducing **excise stamps on Tobacco Products** – The tax stamps (also known as 'Band-Rolls') are designed to allow the Customs Department and consumers to detect smuggled and counterfeit cigarettes. The placement of these highly visible stamps under the cellophane wrapper of all cigarette packets became mandatory on 1 May 2009.
- Acceding to the **WCO Revised Kyoto Convention** – Mauritius became a Contracting Party to the Revised Kyoto Convention on 24 September 2008.
- Preparing a **Standard Operating Procedures (SOP) Manual** for stakeholders and officers – A comprehensive set of approximately 35 SOP manuals has already been completed and is now available on the Customs intranet. SOP manuals ensure transparency, minimise discretion and encourage voluntary compliance.
- Installing **CCTV cameras** at the Airport and Mauritius Container Terminal – Advanced Closed-Circuit Television (CCTV) camera systems are now operational at the Sir Seewoosagur Ramgoolam International Airport arrivals hall and the Plaisance Airport Transport Services Ltd Air Cargo Warehouse. Similarly, Mauritius Port Authority (MPA) is currently installing such a system at strategic locations including the customs cargo inspection shed at the New Container Terminal of Mauritius (NCTM), X-ray scanner complex and port exits.
- Implementing **WCO Advanced Tariff Ruling System** – As recommended by the WCO, the Customs Department has amended the Customs Act to enable implementation of this important trade facilitation measure to allow traders to obtain a classification ruling that will be binding on both Customs and the traders prior to arrival of the goods and for a stipulated period of time.
- Establishing a **K9 Dog Unit** for drug detection – In 2004, Customs launched the 'K9 Unit' (that is, a drug detecting dog unit) with the intention of detecting even minute amounts of illicit drugs hidden in baggage, cargo, vehicles, aircraft and vessels, parcels/letters, and on persons.

- Setting up the **Anti-Money Laundering Unit** – Customs has established an Anti-Money Laundering Unit to implement Section 131A of the Customs Act under which Customs may, on reasonable suspicion, require any person to make a written truthful disclosure of the amount of currency or bearer negotiable instruments in their possession, the origin of that currency or negotiable instrument and its intended use. If the customs officer believes that the disclosure made is false or misleading, and the funds may involve money laundering or the financing of terrorism, the officer will refer the matter to the Police.
- Implementing a second-hand motor vehicles database accessible to all stakeholders.
- Establishing an online link to the Passport and Immigration Office database for tracking of suspected passengers.
- Implementing one-stop-shop registration procedures centralised at Customs Head Office.

4.2 Projects in the pipeline

The projects in the pipeline include:

- Moving into the **New Customs House** – The long-awaited New Customs House is making steady progress and is expected to be fully operational by the end of 2009. This New Customs House will finally bring together under a single roof Customs Department offices presently in several different locations. It will create a professional and customer-orientated work environment which supports the quest of becoming a truly ‘world-class’ Customs Service.
- Setting up **Cargo Community System (CCS)** – This system which is being implemented with the technical expertise of a French firm, SOGET, will enable timely exchange of manifest data between various stakeholders and simplify, streamline and rationalise cargo logistic processes. Once the CCS is operational in Mauritius, Authorised Economic Operators (AEO) certified by Customs and recognised by European Union and US Customs would avail themselves of the benefits of expedited clearance of goods into these markets. This system will be beneficial to both importers and exporters. Changes in customs procedures will also be made to provide for the implementation of the Cargo Community System.
- Extending Fast Track cargo initiative (**Blue Channel**) to more compliant importers
- Extending **excise stamps to alcoholic products**
- Enhancing the existing **Customs Management System (CMS)**
- Promoting further **e-filing** of excise declarations
- Implementing a **Single Window Project** where clearance from other departments is required
- Setting up an **Advance Airport Passenger Tracking System**
- Implementing **e-payment of Customs duty**.

5. Conclusions

There is no doubt that the global recession has adversely affected all tax revenues including revenues from taxes/duties collected by the Customs Department. Not only has the recession had a negative impact on revenue collections, it has also had other undesirable effects, for instance, the shift of traders from air routes to sea routes for routing their cargo with a view to reducing costs. Such a step shifts the workload of the Customs Department asymmetrically towards the seaport area which may have adverse repercussions on cargo dwell-time. The present challenge before the Mauritius Customs Administration is, therefore, to checkmate the fall in customs collections through better risk management while at the same time endeavouring to take every possible measure to facilitate trade.

Prabodh Seth



Dr Prabodh Seth, as Director, Research, Policy and Planning, Mauritius Revenue Authority since March 2006, has contributed to the formulation and implementation of tax and trade policy in Mauritius. He joined the Indian Revenue Service in 1990 and during 2005, worked as Adviser, Ministry of Finance, Government of Mauritius. Prabodh holds a PhD in Economics from India and an MSc (Honours) degree in Public Economic Management and Finance from the UK.
