SEAMLESS ELECTRONIC DATA AND LOGISTICS PIPELINES SHIFT FOCUS FROM IMPORT DECLARATIONS TO START OF COMMERCIAL TRANSACTION

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Abstract

Changes in the business and technology environment within which Customs operate means we have to re-assess our business model. Despite modern risk management techniques, commercial business systems and Electronic Data Interchange (EDI), we, in Customs, still base our ways of operating on traditional concepts such as declarations and 'regimes' with the emphasis on imports and, for many countries in the world, on revenue. We need to return to basics and re-assess why we are in business. In the United Kingdom (UK) we have re-confirmed that we collect revenue, facilitate trade, protect society and collect trade statistics. But we are throwing away the old Customs textbooks on how we do that and looking to see if we can make best use of electronic data which is part of businesses' everyday operations to assess revenue, compliance, admissibility and security risks. This means working in partnership to drive up compliance and bear down on non-compliance using IT systems and intelligence-led risk management. But even more radical is the idea of shifting our emphasis from the point of importation to as far upstream in the supply chain as possible and considering the role of the consignor in feeding accurate information into an electronic data pipeline. After all, who packed the bag?

Automated data management to facilitate trade

International trade is a key driver for United Kingdom (UK) economic growth and development. On the one hand trade is governed by the rules of the regional and multilateral trading systems, preferential trade arrangements, national governments and the European Union (EU) and on the other hand, it relies on an efficient door-to-door, commerce and logistics chain made up of a combination of private and public sector players and interests.[1]

In the face of globalisation, Government has a role to play to facilitate trade and to ensure that the UK maintains and strengthens its appeal as a business environment to attract and retain high-value businesses. Our skills infrastructure, legal environment and regulatory framework are all crucial to the UK's attractiveness and the business voice must be heard as policy is developed.[2]

In the UK, Customs facilitate the movement of £600 billion worth of goods, process around 22 million import declarations and 5 million export declarations, and analyse 40 million lines of trade data which informs the UK balance of payments. The 37 largest seaports deal with over 400 million tonnes of freight. But although the UK's 48 largest ports, 30 major airports and the Channel Tunnel together

handle 98% of freight movements, there is a range of smaller ports and airports which also provide a point of entry to the UK. In terms of threats, controls and risks, 'the border' cannot be seen as a purely geographical entity. Through technology and partnerships our control and monitoring can be far more integrated, virtual, broad and global.[3]

The World Customs Organization (WCO) recognises the modern role of Customs in the 21st century to include certainty, predictability and security of the international movement of goods, eliminating duplication and delays, ensuring fair and equal treatment for businesses, strengthening cooperation between customs administrations, businesses and other government agencies and promoting regulatory compliance in a manner that facilitates legitimate trade.

Together, we see the need for globally networked Customs, integrated border management, intelligence-driven risk management, supply chain visibility, partnerships between Customs and trade and, internally, modern working methods, procedures and techniques including better use of technology underpinned by a professional, knowledge-based customer service culture.

The challenges of the 21st century demand a new concept of Customs-to-Customs and Customs-to-Business cooperation in order to integrate the effective management of the international trade supply chain and even redefine the Customs business model. Critical and central to these issues is automated data management.

Electronic customs business approach

The long term cargo management strategy for UK Customs (started in 2001 and now being updated) remains the development of a harmonised, simplified process which facilitates the movement of goods internationally and assists in the enforcement of Customs laws. The 2001 strategy laid down some of the initial foundations for an electronic customs business approach such as paperless transactions and unique consignment identification. It recognised the strategic value of assessing and certifying the credibility and compliance levels of the trader and the information relating to the goods in focusing on admissibility and risk.

It also built on the WCO's Revised Kyoto Convention in describing the need for simplified and harmonised, integrated governmental border management processes and procedures. Implicit in this strategy for the future of Customs in the UK was the recognition that to make decisions about admissibility, risk, compliance and logistics management, both Customs and the commercial traders need information, to varying degrees, and that information comes from the commercial sector itself. Reducing the burdens on business and helping them with their statutory obligation to provide that information and comply with the increasingly complex regulatory demands became a cornerstone of cross-border trading.

Much of this direction was reflected in the European Commission strategy for EU Customs published over the following years. In particular the modernisation of the Community Customs Code and emphasis on paperless customs and integrated border management served to shape the future of European Customs to 2013.

Then came the attacks of September 2001. Some of the initial reactions were to put to one side the valuable work already achieved in trade facilitation and risk management and move towards greater restriction at the border. More emphasis was placed on the security of the international trade supply chain based on the perceived risk of its disruption from an attack and the resultant economic instability and downturn in confidence. The role of Customs was said to have changed.

In some places the role of or priorities for Customs did change. The emphasis became more on security and border protection. In other places the integration of Customs, tax and border management agencies gathered pace. The WCO, responding to global drivers, produced the SAFE Framework of Standards, the

EU introduced security amendments to its customs legislation and the world recognised that globalisation meant much more than just trade and economics.

End-to-end supply chain integrity

In the UK we are now refreshing the 2001 Customs Strategy. Things have changed and the world, including the international trade supply chain, is different. Trading, manufacturing and consumption patterns are different. The recognition of threats is different and the way we conduct business is different – for all of us.

However, the strategic nature and direction of both the UK's 2001 Customs Strategy and the EU's customs strategy are still sound and on track. The electronic customs business approach, driven through the Multi Annual Strategic Plan (MASP) still provides one of the cornerstones to the transformation of European and UK Customs and the Modernised Customs Code provides another. Many complimentary developments contribute to that forward motion, conceptually described in 2001, such as advance information, authorised trading entities and the simplification of procedures and regimes.

In response to feedback from its trade representative groups, the WCO recommends pushing the cargo control to the exporting country rather than performing these checks at the late stage of arriving in the import country as performed today. Optimal clearance procedures could start with the consignment identification (Unique Consignment Reference), container stuffing, eSeal or Container Security Device, use of Authorised Economic Operator (AEO) schemes along the chain and harmonised procedures between the various customs authorities. This can lead to certainty and predictability for the commercial sector.[4]

Developing end-to-end supply chain integrity requires us to develop the relationships with national, regional and international customers and stakeholders in order to identify their requirements, formulate responses and measure the impact. In addition to developing and managing these relationships, we must focus our efforts on:

• gathering electronic information relating to the international movement of goods as far upstream as possible and provided only once
• continually assessing risk, starting early in the supply chain in order to allow a timely and better-placed response
• having proactive, upfront compliance capability in order to provide support or enforcement where necessary.

Much of the information required for regulatory cross-border processes originates from private-sector stakeholders in the supply chain, mainly exporters, even though the primary player in most customs declarations is currently the importer. Other vital data comes from third party logistics, transport, shipping and port management companies. In today's supply chains, traders re-enter this data in the formats required by the different trade and regulatory bodies in different countries. This re-entering of data is inefficient and fails to meet new security requirements.

Like others, UK Customs is working towards the concept of a Single Window which allows trade and transport parties to lodge standardised, electronic information into a single point to fulfil all import, export and transit regulatory requirements.[5] However, there are two major Single Window models currently being implemented. The first is the regulatory convergence model, driven by Customs, which focuses on the harmonisation of procedures, electronic messages and data for submission and sharing by all government agencies. The second model revolves around the processes and procedures and data related to logistics, port management and securing the international trade supply chain. In both models the ability to handle data efficiently, swiftly and securely is key and they both offer the possibility of

creating seamless, electronic data pipelines to feed the processes between trade and government. The term 'Single Window' does not accurately reflect the need for several 'windows' in different countries along a global, seamless, integrated data pipeline driven by trade demands together with national, regulatory requirements.

The primary aim is to increase the efficiency and security of international trade using parallel logistics and data pipelines that are secure, credible and well managed. The objective is to eliminate redundancies and duplication in the submission of data, provide real-time supply chain visibility and create a simplified process with a standard set of data and messages that traders will use to meet government, financial and commercial requirements for the admissibility and control of trade and conveyances.[6]

By gathering more accurate and dynamic information further upstream we will aim to reduce burdens on business, increase compliance and facilitate legitimate trade. We will also aim to squeeze out and tackle non-compliant traders and illegal trade (such as counterfeit goods), reduce costs and provide more timely and accurate information reflecting the requirements for data exchange across the entire Global Supply Chain.

Do we need a declaration?

For many years Customs have concentrated mainly on goods arriving into the UK from which we have collected import duty, ensured the protection of society by stopping illegal goods and ensured the fair treatment of UK businesses. Traditionally, we have used the ship or aircraft manifest as the basis for control and the assessment of risk, and the customs declaration as the basis for admissibility and the collection of revenue. In the UK we receive this information in advance of the arrival of the goods and adopt simplified declaration procedures with limited information, supported later with greater detail and the possibility of audit at the trader's premises to verify transactions. But export procedures have not held the same level of attention unless linked with specific controls or revenue accounting.

However, our aim is to recognise that an international shipment is both an export and an import and, by using international standard data and automated electronic processing, allow traders to supply information once in a seamless integrated process utilising commercial systems and data streams thereby minimising the impact of Customs' information requirements on business. The conceptual shift will be for the data relating to the international movement of the goods to start with the input into the data pipeline by the consignor when the consignment starts its journey, then built upon as the goods move along the chain to the point of export then import. Within the EU we are exploring, with our trade partners, the possibility of a VAT-style self-assessment procedure which could replace, for some, the need for a customs declaration.

Upstream, trade-based data

In building and implementing this long term vision, we will establish Customs-to-Business network arrangements to promote the seamless movement of goods from and to the UK through secure international trade supply chains. These network arrangements will result in the exchange of timely and accurate information that will assist all parties in the international trade supply chain. As well, the sending or receiving customs administration(s) will be able to more effectively manage risk, detect high-risk consignments at or before the port or airport of departure, and improve commercial and regulatory controls. Strengthened cooperation and mutual recognition of AEOs between the UK and other customs administrations will enable us to adopt a consistent risk management approach to address regulatory compliance and security threats and allow us to carry out controls more efficiently in the UK or even earlier in the supply chain. This will require the use of advance electronic information, automated targeting tools, harmonised messages and interoperable systems. The WCO Data Model defines the maximum set

of data for import and export formalities along with electronic message formats. In harmonising the data requirements and formats and in adopting the EU Import and Export Control Schemes and Risk Management, we will aim to make the information provided by the consignor and the subsequent logistic chain parties more accurate and efficient and, thereby, work towards the export data becoming the import data along a seamless, integrated data pipeline. The security of the logistics chain through electronic seals, track-and-trace technology and approved entities will be critical in painting the real-time picture of the movement of a consignment along the international logistics chain and will run in parallel to and feed into the data pipeline.

We want to position ourselves in the core of these innovative developments in order to influence and make best use of the systems, procedures and data providing supply chain visibility.[7] The line of sight from the UK along the data pipeline towards the loading of the container by an AEO or other entity and the subsequent movement of the goods towards the UK will allow us to assess compliance and risk considerably in advance of the border. Other customs administrations along the supply chain and data pipeline will also have this facility. The provision of this real-time trade-based data will be applied to the national and international risk parameters within both the regulatory convergence models (government Single Windows) and the trade-based risk management systems (international trade Single Windows).

Conclusions

The rolling long term Freight Strategy for UK Customs, articulated in 2001, was accurate in both its business environment assessment and its vision for 2008 and beyond. The business concepts of recognising the international movement of goods rather than imports and exports and using automated data to international standards are right. Allowing traders to supply information once in a seamless integrated process and minimising the burden on business by utilising commercial systems and data streams must be the right direction. And we must build partnerships with economic operators in order to understand each other's business and work towards driving up compliance and driving out non-compliance. These concepts will continue to form the foundation for UK Customs' future strategy to 2017 while recognising and taking advantage of developments in technology and best business practice.

Key to our decisions as to admissibility of goods, risk and the type of intervention, if necessary, is accurate upstream information received as early as possible along the international trade logistics chain. That information is provided mainly from the consignor who instigates the movement of the goods and it builds as the goods move along the chain on their way to the point of export, the point of import and their ultimate destination. This information resides in the private sector. The European Commission FP7-funded Integrity Project is to provide that platform through the Shared Intermodal Container Information System (SICIS) which uses state-of-the-art technology including track-and-trace and eSeals.[8]

When considering the quantity and complexity of international trade alongside the equally complex and burdensome regulatory requirements as well as the critical need to ensure the security and quality of goods, it is clear to see the need to distinguish between compliant and non-compliant businesses, movements and transactions. The majority of businesses involved in international trade are compliant so we must work to identify those, explain to them the revenue, trade and security requirements then do what we can to help them meet those requirements at the lowest cost and burden to them and us. Underpinning our upfront compliance strategy will be the information which we will use to assess risk as far upstream as possible to allow us to deal early with any risk and to confirm our ongoing non-compliance targeting.

The modern challenges associated with changing trading patterns and threats to public health and security demand a new concept of regulatory and trade partnerships built on Customs-to-Business cooperation and a new customs business model in order to integrate the effective management of the international trade supply chain.

Information technology drives much of what we do. Nowhere is that more relevant than when we re-assess how Customs do business with business and how we need information from as far upstream as possible in the supply chain in order for us to assess risk and facilitate legitimate trade. We need to shift our emphasis away from import data to data captured electronically at the start of the international commercial transaction. That data will grow with carrier, location and scanning details as the movement becomes an export then an import. We need to de-couple the fiscal risk from the admissibility and security risk in order to cater for commercial sensitivities supported by more sophisticated systems and business methodologies in customs and tax administrations. Finally, I suggest that the technological and systems development in these areas must be driven by commercial incentives in the private sector but within effective partnerships between international traders and the governmental sector including health, standards, agriculture and, of course, Customs. The SICIS 'pipeline' currently under construction may well be the first step in this paradigm shift so *'Build it and they will come'*.

Endnotes

1   WCO Customs in the 21st century (adapted specifically for the UK).

2   'Prosperity in a changing world', UK Trade & Investment, July 2006.

3   Customs and International Compliance Strategy 2008.

4   Top priorities for business as identified by AT Kearney and the Aberdeen Group.

5   United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT).

6   United Nations Economic Commission for Europe (UNECE).

7   Reg. (EC) 648/2005.

8   http://incu.org/docs/PICARD2008presentation12.pdf .

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