

Behind borders: a high-risk goods tracing system

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Abstract

One of the basic roles of customs authorities is to ensure that goods that are likely to be detrimental to society do not enter the country. Traditionally, Customs has carried out this role at the border, through the interception of high-risk goods. Inevitably, however, some high-risk goods enter the domestic market and, if subsequently discovered, may be seized or recalled by the relevant regulatory authority. This paper examines a Korean initiative whereby the jurisdiction of the Korean Customs Service has been extended to allow it to trace goods that fall into certain high risk categories beyond the point of importation, through a system of reporting by importers and wholesalers. This system facilitates any subsequent recall or seizure action in cases where goods are found to be harmful to the community. The paper concludes that customs authorities should increasingly examine such innovative approaches to their community protection and other roles.

1. Introduction

Customs authorities play three basic roles at borders: collecting revenue, supporting trade, and controlling the flow of goods and passengers. However, different customs agencies have different perspectives on the relative importance of each of these objectives, based on their specific economic and social environment. In many developing countries, the primary objective of customs authorities is said to be revenue collection. Customs authorities of developed countries tend to concentrate less on revenue collection; instead, they focus on the interception of illegitimate trade and travel without hampering the flow of legitimate goods and passengers. The efforts of customs authorities to harmonise roles in trade facilitation and regulatory control converge in the concept of risk management. In this context, international organisations such as the World Customs Organization (WCO) and the World Bank support the idea of collaborative border management, expanding the risk management approach primarily applied by customs authorities to other border agencies to improve the harmonisation of trade facilitation and regulatory control.

However, no matter how much effort customs authorities devote to sophisticated risk management techniques to screen out high-risk goods that may harm the security, health, and property rights of citizens, some illegitimate and high-risk goods continue to enter domestic markets and communities, frequently initiating phobias about imported commodities, including food. Countries that are highly dependent on international trade and rely on other countries to maintain their food supply often have serious concerns about this issue. They cannot expect all imported goods to be thoroughly inspected before being cleared at the border. Inspecting all imported goods at borders might hamper the supply of necessities for citizens and raw materials for corporations, subsequently leading to increased costs, especially in logistics, and ultimately the price of the imported goods. Customs authorities have a number of options for raising the detection rate of illegitimate goods without impacting the flow of legitimate goods, including gathering intelligence and establishing partnerships with the private sector. In many cases, however, these options

do not produce adequate outcomes in detecting high-risk goods. For example, much of the intelligence gathered and analysed by customs authorities is situational information rather than actionable intelligence.

Before the introduction of the Authorised Economic Operator (AEO) program, national customs authorities had adopted similar approaches to the identification of high-risk goods, but with considerable variation. Even so, existing solutions that are familiar to customs officials are not likely to bring innovative changes in the harmonisation of trade facilitation and regulatory control. The Korea Customs Service (KCS) took a groundbreaking step in risk management by introducing a system to trace high-risk goods following customs clearance. The system does not gather information on cargoes before they depart from exporting countries, but it does follow goods to domestic markets after clearance.

2. Benefits of tracing imported goods

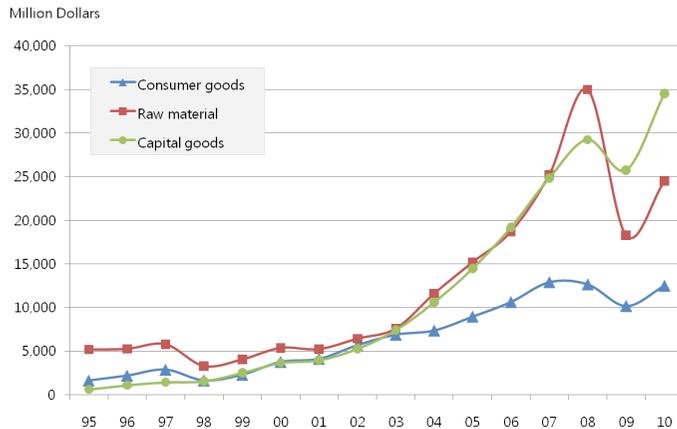
In most cases, customs authorities do not trace declared goods post-clearance due to the jurisdictional constraints of customs administration. For this reason, customs authorities focus on intercepting high-risk goods before they pass through Customs. However, KCS changed its paradigm of risk management by tracing high-risk goods beyond the stage of customs clearance. This dramatic change in risk management resulted from incidents in Korea in 2008.

Because Korea is in geographic proximity to and economically intertwined with China, a number of Chinese products are imported to and consumed in Korea. Korea annually imports Chinese products worth 71.6 billion dollars, which equals 16.8 per cent of Korea's annual import record. Many necessities, including foods, are imported from China because of their low prices. In 2008, a consumer in Korea found a roasted rat head in a bag of snacks imported from China, photographed the incident, and posted it on the internet. The picture was broadcast nationwide and naturally drew considerable attention within Korean society. Soon after the incident, dairy products from China were discovered to contain melamine, which is a chemical usually used in plastics, adhesives, dishware, and whiteboards. At the time, KCS was unaware that the products were illegal imports because the Korean Food and Drug Agency (KFDA) had not realised that the Chinese products in question contained melamine and was thus unable to warn KCS of the problem. The Korean government attempted to recall the cleared products, most of which were selling at retail markets. According to the KFDA, the recall rate of those products that had already been distributed at the retail level was low, about 30 per cent. Neither the KFDA nor the KCS could determine where the products were being sold and were therefore forced to rely on voluntary recall efforts from importers and manufacturers.

Cases of imported goods jeopardising the health of citizens do not always occur simply because customs authorities do not have the capacity to inspect all imported goods. No matter how thoroughly customs officers at borders inspect goods, it is inevitable that a proportion of goods will continue to threaten the security and health of citizens by entering the country undetected. Situations also occur in which customs officers clear goods with certain conditions for use, such as fodder or industrial use, and importers or retailers utilise the goods for other purposes, such as food for human consumption. For example, a certain variety of salt was conditionally imported for industrial use, but some importers were found to have sold the industrial salt into retail markets, claiming the salt was safe for humans.

In addition, importers or wholesalers often manipulate country of origin details to sell their products at higher prices. For example, a set of furniture labelled 'made in China' was cleared but after clearance, the country of origin was changed to 'made in Italy', which is well known as a country that produces more expensive furniture. Beef imported from some less favourable countries, such as the United States, where Bovine Spongiform Encephalopathy (that is, Mad Cow Disease) occurred, was claimed to have been imported from countries safe from Mad Cow Disease or produced in Korea. It is clearly easier to disguise the country of origin of meat than other products particularly when it is cut and wrapped into small pieces for retail sale. Additionally, retailers can manipulate the country of origin of meat in the process of re-wrapping.

Figure 1: Import statistics from China to Korea 1995-2010



Source: National Statistical Office, Republic of Korea.

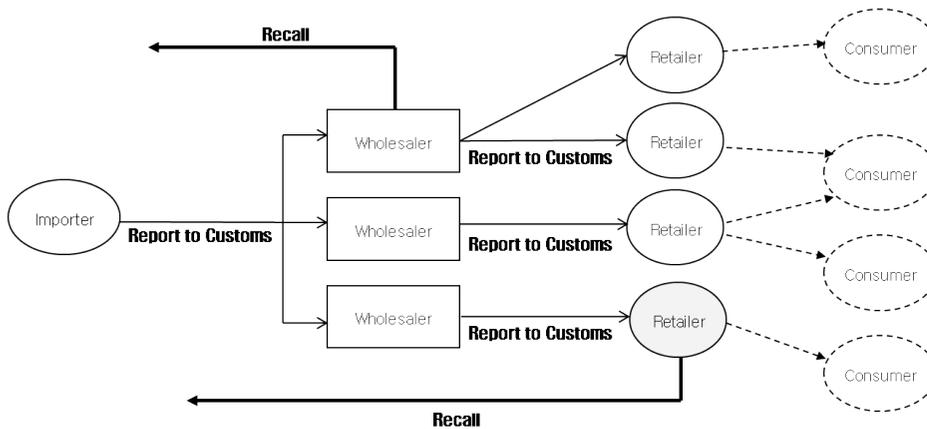
In cases where unqualified and/or deceptive goods have been detected at retail markets, the Korean government has attempted to quickly recall them to minimise the harm caused. However, the detection of certain harmful goods at retail markets has not always led to recalls of the same kinds of goods from elsewhere in the domestic market. Many government institutions have publicised the brands and manufacturers of harmful goods and let citizens voluntarily screen out such goods during the consumption process. On all such occasions, Koreans have criticised the government as incompetent and irresponsible. In this climate, KCS realised that citizens expect Customs to take full responsibility for the safety of goods cleared at the border. Hence, KCS decided to introduce a system of tracing cleared goods to enable quick recall if they are discovered to be harmful. Other government institutions, such as the Ministry of Finance (MOF), the Ministry of Agriculture and Fishery (MAF), and the KFDA, objected to the idea that Customs should trace and recall cleared items, arguing that such an approach is inconsistent with the traditional role of Customs and infringes on their jurisdictions. However, the aforementioned organisations did not present a resolution for the outflow of high-risk imported goods. Many congressional representatives of the Korean Assembly supported the reforms suggested by KCS and worked to enact them.

3. How the system works

The idea of tracing high-risk imported goods after clearance began with the understanding that all imported goods should be declared to Customs, and that KCS is the sole authority in Korea for controlling importers and their declarations. In this respect, KCS was best placed to establish a unified system to trace high-risk imported goods. Although the MAF and the KFDA also maintain information on the imported goods for which they are responsible, such as grains, fish and medicines, they do not have an efficient, centralised system to cover all kinds of imported goods or the workforce to audit and investigate all importers.

Hence, through a revision of the customs law, KCS obtained the power to request importers dealing with high-risk items registered with KCS to report sales transactions when items are sold to wholesalers. In turn, wholesalers who purchase items from importers are required to report transactions to KCS when they sell their items to retailers. This hierarchical structure of information, which tracks what high-risk items are handled and by whom, should assist KCS to quickly and easily trace items for recall. KCS

Figure 2: Mechanism of the high-risk goods tracing system



Source: Korean Customs Service.

developed a computerised system to help importers and wholesalers report sales in connection with its automated declaration system. This system has been evaluated as inexpensive and simple, compared to a system coupled with Radio Frequency Identification tags to trace the logistics of goods, because anyone with a personal computer connected to the internet can report to KCS.

As of March 2011, KCS is using the system to trace 20 high-risk items post-clearance. The MAF and the KFDA, which had strongly objected to the development of the system, have also asked KCS to register high-risk goods of interest to health and sanitation.

4. Conclusions

Customs authorities in each country function as a gate or shield to protect the security and health of citizens and to collect revenue. However, limiting the traditional jurisdiction of Customs to borders and their peripheries has hampered the ability of Customs to meet the expectations of the citizenry. As many experts have pointed out, the concept of borders has been altered due to the changing role of Customs. It is time to abandon traditional roles for customs officials and to adopt more innovative approaches. The system to trace high-risk goods post-clearance, as introduced in Korea, is a new path for Customs and is an example of such an innovative approach.

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Chang-Ryung Han has worked at Korea Customs Service (KCS) since 1999. He was awarded a Masters degree in criminology and criminal justice from Rutgers University, Newark, NJ, has worked at the Brookings Institution, Washington, DC, as a visiting fellow for research on cross-border crime, and is now Director of the Financial Investigation Division of KCS.